The Treasurer

ACT TREASURY EXCELLENCE AS STANDARD

THE MAGAZINE OF
THE ASSOCIATION
OF CORPORATE
TREASURERS
ISSUE 4 2023

TURNAROUNDS 18
How treasurers can help insolvency practitioners

THE YEAR AHEAD 26
Experts set out what they want, and hope, to see in 2024

GENERATIVE AI 32
How the new technology can help make key decisions

Finding the way forward

CRACKING SUSTAINABLE FINANCE

The Treasurer
is the official magazine of
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Published on behalf of the ACT by **CPL One**
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SUBSCRIPTIONS
Europe, incl. UK (per annum)
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Rest of world
1 year £320 | 2 years £495 | 3 years £655
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1 year £142 – UK and Europe (MUKEU)
1 year £185 – rest of world (MRoW)
For information, visit treasurers.org/thetreasurer/subscription

This magazine is printed by **the Manson Group** in St Albans, UK on paper certified to be from sustainable European sources. The Manson Group operates a system to manage and reduce their environmental impact. Find out more: tmgp.uk/enviro and www.mansongroup.co.uk/environment **ISSN:** 0264-0937

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ACT TREASURY EXCELLENCE AS STANDARD

SUSTAINED PRESSURE

> **"There is still strong support for aligning finance with ESG strategies"**

Are there cracks appearing in the sustainability agenda? I ask because, certainly in the UK, there appears to be a gentle back peddling on certain environmental commitments at governmental level. This is leading to fears that the heat is going out of the fight against climate change. This might not be a good position ahead of COP28, the annual UN climate gathering that, this year, is being held in Dubai.

However, I take reassurance from Liz Loxton's review of sustainable finance, our cover article. The value of green bonds, having dipped last year, is now back on the rise again, indicating that, as far as treasurers and their fund-raising activities are concerned, there is still strong support for aligning finance with their companies' ESG strategies.

Some of you may be reading (a paperless version of) this magazine at the ACT's annual ESG conference. If so, I hope you will also be interested in the comments from Helen Slinger, executive director of Accounting for Sustainability (A4S), the organisation set up by King Charles III when he was Prince of Wales. Even if you are not at the conference, I recommend it. Among other things, she sets out how treasurers can develop a sustainable finance framework and, in doing so, help your organisation's support for the UN's Sustainable Development Goals (SDGs).

Unfortunately, there is no doubt that, in many parts of the world, companies are facing a period of economic uncertainty that will stretch into next year. Some companies may not make it through, so we asked Permjit Singh to set out how treasurers and insolvency practitioners can work together to rescue a business – with many companies struggling, it is timely advice.

We also asked treasury experts what they think lies ahead in the new year – optimism with a healthy dose of realism is probably the best way to sum up their views. They range from Asia, to Africa and the UK, and from the ever-increasing use of digital payments to the need for greater diversity, both in the treasury profession and its suppliers.

It wouldn't be a complete issue without mention of artificial intelligence – on this occasion, Deloitte's Ikaros Matsoukas asked ChatGPT to help a (fictional) treasury team design an in-house bank. The results were revealing and are a demonstration of how far the new technology has come in what feels like a relatively short space of time.

Finally, to counter-balance what can appear to be an unrelentingly stressful outlook, we asked the Archbishop of Canterbury, Justin Welby, to look ahead and offer a voice of hope. Welby is, of course, a member of the ACT, and I hope his fellow treasurers are able to draw some comfort from his thoughts.

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THIS ISSUE'S CONTRIBUTORS

Liz Loxton
reviews the outlook for sustainable finance and where the cracks may be appearing

PAGE 8

Helen Slinger
sets out how treasurers can help align finance with their companies' ESG strategy

PAGE 20

Justin Welby
as Archbishop of Canterbury, believes treasurers can draw strength from one another

PAGE 50

ACT

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Contents

What do you think of this issue of *The Treasurer*? Please write to **phil.smith@cplone.co.uk** or tweet **@thetreasurermag**

LONG VIEW

08 CRACKING SUSTAINABLE FINANCE
Sustainable funding can support ESG targets, but an economic slowdown could have a negative impact

13 BALANCING BASEL
As the finishing touches are put in place for bank capital requirements, will you see your cost of credit increase?

18 TURNAROUNDS
Treasurers are well placed to help insolvency practitioners at times of financial distress

20 GREEN FUTURE
Helen Slinger urges treasurers to act now to hit sustainability targets

22 THE 'OLD NORMAL'
With higher inflation and interest rates, Kallum Pickering asks if we are returning to the way economies used to be

23 INFOGRAPHIC
Greenwashing fears over non-alignment of ESG strategies – new survey reveals potential for conflict

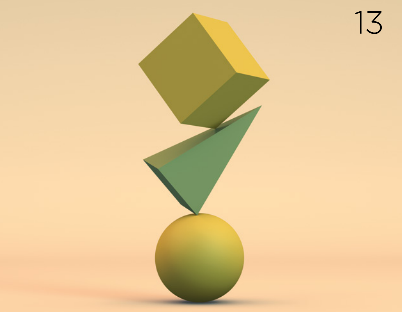
FUTURE TRENDS

26 A TREASURER'S WISHLIST
What's in store for 2024? Three experts share their views on the road ahead

30 VIEW FROM...
Pieter Bierkens speaks to James Leather about the journey to interest rate benchmark reform

32 GENERATIVE AI IN ACTION
Deloitte's Ikaros Matsoukas asks ChatGPT to help design an in-house bank

34 TECH FOCUS
Cyber threats: what are the latest online fraud risks you need to know about?



36 MIDDLE EAST TREASURY SUMMIT
A rundown of the two-day event

38 MIDDLE EAST AWARDS
Find out who impressed the judges

BEST PRACTICE

40 SUSTAINABILITY
Lloyds Bank offers advice for the next year

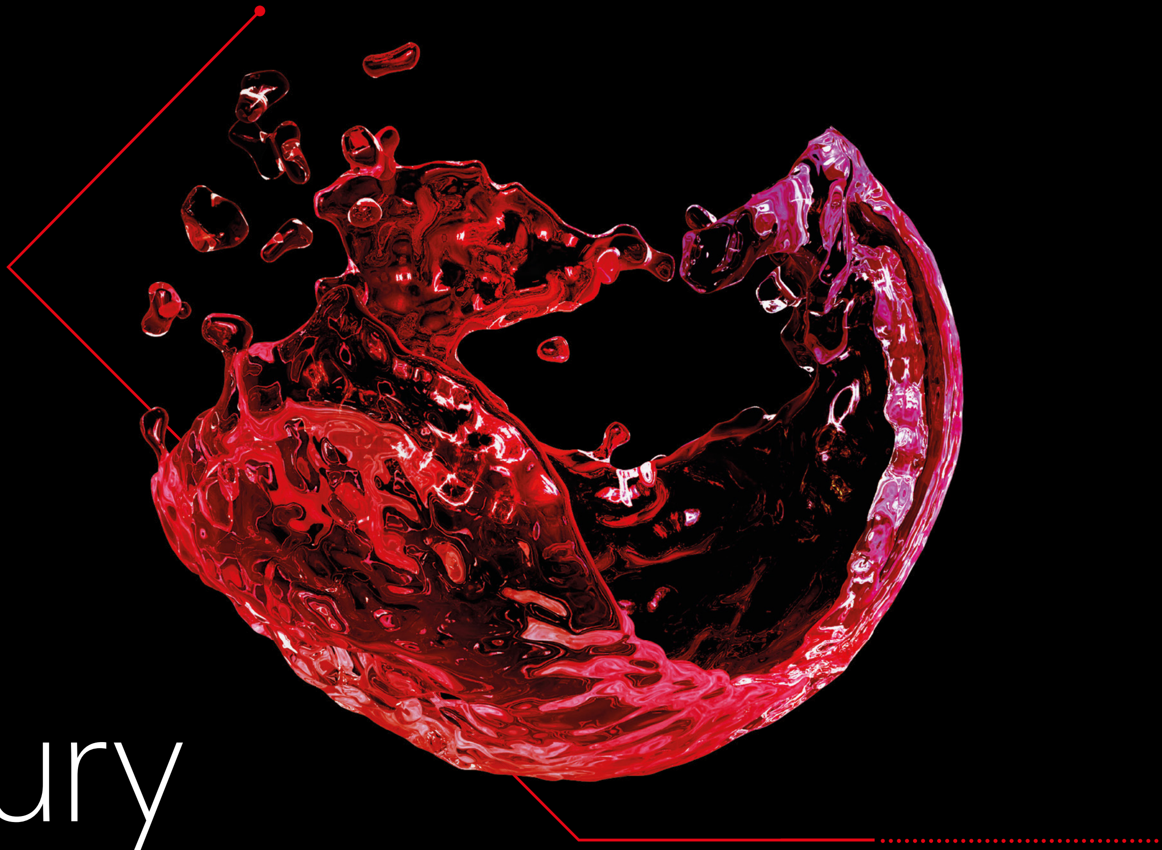
42 RAPID RESPONSE TREASURY
Lessons from Save the Children International

45 CALENDAR
ACT events and course dates

46 ACT PRIZE WINNERS
Meet the stars of 2023

48 A DAY IN THE LIFE
Lightsource bp's treasury team

50 END NOTES
The Archbishop of Canterbury, Justin Welby



LONG VIEW

Analysis of
long-term trends

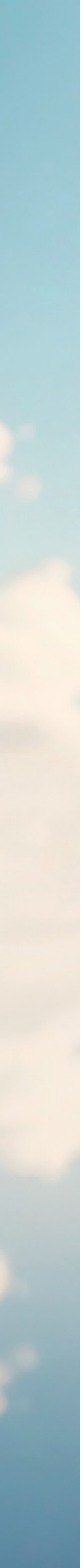
8
CRACKS IN THE GREEN HOUSE
Sustainable funding can support ESG targets, but economic slowdown could have a negative impact

13
BALANCING BASEL
Will the finishing touches to bank capital requirements increase the cost of credit?

20
GREENER FUTURE
Helen Slinger, executive director of A4S, urges treasurers to act now to hit sustainability targets

CRACKS IN THE GREEN HOUSE

Sustainable funding has an important role to play in reducing our collective carbon footprint. It can also support corporate ESG targets. But is the economic slowdown distracting attention? Liz Loxton reports



In the aftermath of pandemic lockdowns, the collective effort to transition away from carbon and to improve social and governance credentials seemed to have a much clearer focus than today. As investors and as issuers, organisations were – and many still are – firmly on board when it came to responding to the environmental, social and governance challenge.

This year, sentiment appears a little different. In September, British Prime Minister Rishi Sunak confirmed he was postponing the ban on new diesel and petrol vehicles from 2030 to 2035. On America's political stage and elsewhere, there is outspoken opposition of the very premise of climate change.

For the real economy, political showboating is rarely helpful, but there is little doubt that concerns around the costs of achieving net zero are coming sharply into focus.

"We are seeing a pushback," says Naresh Aggarwal, policy and technical director at the Association of Corporate Treasurers (ACT). A combination of the economic climate and the pure uncertainty of the path towards decarbonisation is heaping uncertainty onto uncertainty. "We have been hearing louder voices around whether climate change is real and whether sustainable finance is affordable within the context of a cost-of-living crisis. But I also think that the cost of delivering carbon neutrality is both hard and uncertain. When you have a confluence of all those factors, it is not surprising that we're seeing a slowdown."

Sustainability-linked bonds

All that being said, sustainability-linked bonds do continue to attract investment even if they have an as yet small share of the overall market – 14-16% according to S&P Global Research. The ratings agency has projected that GSSSB (green, social, sustainable and sustainability-linked bonds) should reach $900bn to $1tn in 2023, a return to growth compared with a slowdown in 2022, when uncertainty pulled down bond issuance globally.

ESG is undoubtedly hard to grapple with when it comes to establishing a viable and strategic framework. Policy and financial products are still very much works in progress. But climate change as a risk to the world and to businesses is still very much on people's minds.

"Pressure on businesses has never been more intense," says Joanna Bonnett, who until recently was a sustainability specialist at Page Group, after a stint of six years as head of both sustainability and treasury. "Each sector has its own unique challenges, but a common one across all businesses is how to combat the impacts of climate change. For some businesses, this is going to the very fundamentals of their business proposition, whereas, for others, it is about reinventing product lines. As companies grapple with these topics, equity or debt holders are asking similar questions about their investment portfolios. Do they want to be exposed to a particular industry and product going forward? For me, sustainability is the key strategic priority and sets apart business leaders and laggards."

Fund credibility

From an investment perspective, assessing the soundness and likely performance of funds is just one of many hurdles for treasurers, who will be aware that ESG claims made by less credible providers can make for interesting reading. Asserting that your fund manager avoids investing in North Korea on ethical grounds is an eye-catching move. But, as Aggarwal points out, North Korea is subject to the UK's and EU's financial sanctions regime, so it is something of a meaningless promise.

The challenge for investors is understanding what is being presented to them – cutting through the weeds of the ESG language. Treasurers are well versed in assessing the financial sense and soundness of financing. An overlay of ESG criteria will require similar analysis: does the provider have a sound track record; is the product regulated; does the information presented make sense?

As Chris Dibben, VP of corporate finance at GSK, points out, the green and sustainability financing market is served by a plethora of rating specialists. That situation has yet to be resolved and, in the meantime, brings complexity around comparability of funds, as well consistency on communicating a corporate's ESG story to debt investors. Corporates such as GSK will have their own net-zero goals and ESG standards and

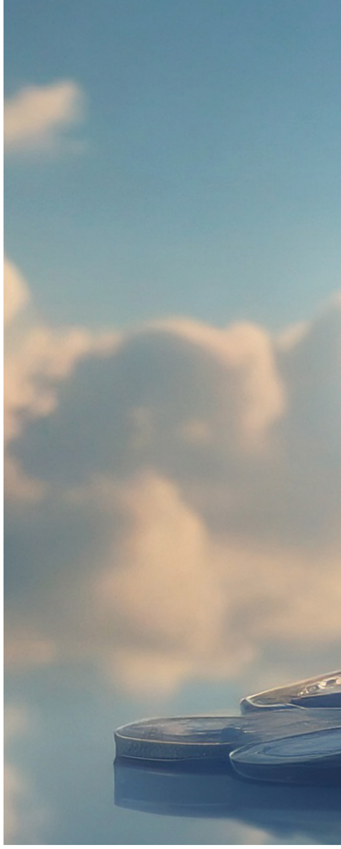
14-16%
market share of sustainability-linked bonds (S&P Global Research)

$1tn
predicted value of GSSS bonds issued in 2023

SFDR AND THE FCA'S SUSTAINABILITY DISCLOSURE REQUIREMENTS

As well as an updated regime in the EU, the UK's disclosure environment is a work in progress. The FCA's Sustainability Disclosure Requirements are not in place yet, but have a similar framework to the European Commission's SFDR.

The UK's regime is focused around basic disclosure – funds have to disclose on sustainability risk management – and has a labelling regime that can be opted into.



> **“Five years ago, a few investors might ask us about climate or ESG matters. Now we don’t wait to be asked”**

parameters as an investor. It is not necessarily the case that those goals are easily matched to MMF funds in the current environment.

“Sustainable finance – in my mind, it’s more about the company’s direction in terms of its strategy around ESG,” Dibben says. “So, setting KPIs on top of those you’ve already set as an organisation is slightly counterintuitive. When we have a clear view of our company’s objective, if it’s not the same or better on the bond, why would we do the bond?

“On the ratings side, there are lots of different ratings companies. If we were to look as a treasury at investing in a green or sustainable finance MMF, for example, it is difficult to assess how a rating compares with others. We know what our various ESG ratings mean for us, but there are lots of other ratings where we’d have to really look at what that rating means and what areas does its methodology target. What does the rating tell us about what a company or a fund is delivering? We have some insight into what debt investors are looking for and, through our banks, we know that having relevant ratings will [eventually] make a more consistent playing field for investors to assess companies. But there is so much variability in what’s available and what companies put out, you can understand if investors struggle to take a company’s view versus a labelled bond.”

Greenwashing

In the EU and in the UK, greenwashing is a huge concern and one that regulators have made their priority. “What needs to be distinguished when looking at greenwashing is there is still a huge range in various products in the market, from products with very low sustainability ambitions or basically no sustainability ambitions up to very sophisticated products,” says Heike Schmitz, partner at Herbert Smith Freehills. “There have been instances where you claim to consider certain criteria, but you only do it for a very small part of your portfolio.”

Even after a tightened disclosure regime from the EU, and the loss of Article 9 status for a significant number of ‘dark green’ funds in 2022 (some of which have been upgraded again), funds remain hard to compare.

Last year, the European Commission brought in a requirement, under its Sustainable Financial Disclosure Regime (SFDR), for Article 9 funds to invest solely in entities that positively and measurably contribute to an environmental or social objective.

Article 8, meanwhile, applies to funds promoting ESG objectives, but without a requirement for 100% of the portfolio to be so invested.

The distinction can cause its own issues, Schmitz points out, with some fund managers underplaying their ESG credentials in the interests of attracting less scrutiny, a practice referred to as ‘greenhushing’ or ‘greenbleaching’.

“[SFDR-renewed focus] has a benefit and a disadvantage. The benefit is the closer scrutiny by the regulator. Some of these less serious or more marketing-focused offerings will decrease. But we also see a tipping over, where people with genuine sustainability-motivated strategies actually fear disclosing that, because they are very much aware of the fear around greenwashing.

“To some extent, it’s part of the regulation. Fund managers have applied ESG criteria in investment selection, but have deliberately chosen not to disclose so that they can claim to be Article 8 or 6 and have fewer disclosure regulations to adhere

USING TECHNOLOGY TO CRACK SUSTAINABLE FINANCE

The Bank for International Settlements joined with the COP28 Presidency and the Central Bank of the United Arab Emirates to launch the COP28 UAE TechSprint, a technology initiative to foster innovation in scaling sustainable finance and combating climate change. It called for technology solutions to address data verification gaps in sustainable finance in three areas:

- AI solutions for sustainable finance reporting, verification and disclosure in the financial services industry.
- Blockchain solutions for auditing and enhancing transparency, traceability and accountability in sustainable finance.
- Internet of things and sensor technology solutions for sustainable finance, to ensure informed assessments of impact, risk, or compliance.

Find out more at **hackolosseum.apixplatform.com/h1/cop28uaetechsprint#preview**

to. This way of handling disclosure is something that the regulators don't like at all. People also refrain from making clear statements about certain impacts created by their investments because they're very scared of being in the public eye."

For the corporate treasurer, the basic starting point is that sustainability and ESG principles should be part and parcel of investment policies, says Schmitz. "Not for morally or politically motivated reasons, but simply because people have learned that this should be considered to make sure the investment keeps it value. It would be difficult for a bigger company to say there is no risk from climate change. I would call it basic hygiene."

Issuers

When it comes to bond issuance, the framework has matured considerably over the past five years, says Alexandra Lewis, group treasurer at National Grid. "Five years ago, a few investors might ask us about climate or ESG matters. Now we don't wait to be asked. ESG is written into our fundraising materials. Investors need to know where we are from an ESG perspective. Green and sustainable finance has developed into something more formalised, with best practice emerging."

From National Grid's perspective, the capital projects intended to support the transition towards more diversified and renewables-based energy sources are still very much the order of the day, with use-of-proceeds bonds being what best suits the energy infrastructure company.

Measuring and reporting on ESG KPIs is now part of the fundraising mix. This may not be as straightforward as the financial KPIs treasurers are used to delivering on and means breaking new ground at times. And some measures, such as 'emissions avoided', are clearer cut than others. Overall, however, planning ahead, being clear with investors and auditors on the methodology used, and discussing in advance any areas that are harder to define or more reliant on estimations will all help bring about a smoother process, from bond issuance to reporting and assurance. "Enabling a really simple story to be told is important," Lewis says.

Green and sustainable finance is not without cost, but agreeing terms and parameters helps the process and aids transparency. "You have to spend time and resource preparing, setting targets and monitoring progress, but more and more companies are being required to disclose on sustainability," Lewis says. "Choosing ESG measures that align with the broader ESG disclosures reduces time and resource, and ensures alignment of green financing with overall strategy."

Green financing for National Grid has become part of the landscape. "The key driver is not to save a few basis points on a bond. It is more about diversifying our investor base and potentially drawing in investors who are 'dark green' and enabling them invest. It also supports our strategy and equity story. We are enabling the energy transition."

In the meantime, there is much still to crack around KPIs and other measures before supporting the board's ESG strategy as an investor becomes an easy task. Treasurers will continue to survey the landscape and scan the horizon for achievable goals that have sufficient ambition to help in the move towards net zero.

Liz Loxton **is a freelance journalist and former editor of** ***The Treasurer***

$361bn
value of green bonds issued in first half of 2023 (Morgan Stanley)

$1.5tn
the amount of sustainable finance that Bank of America says it aims to 'mobilise' by 2030 (Financial Times)

Balancing Basel

As the finishing touches are put in place for bank capital requirements, treasurers will be asking whether they will see their cost of credit increase. Gavin Hinks unpicks the detail

At the end of September 2023, the Bank of England announced that it would delay the introduction of Basel 3.1 – a vast new piece of banking regulation – by six months, to July 2025. Banks breathed a sigh of relief. They now had an extra half a year to crunch through the numbers and fully understand the effect of the new rules on their loan books and business models.

The Bank's decision was, it is understood, largely to ensure the new requirements coincide with those set to be introduced in the US, which are now expected to prompt a significant rise in the capital banks will be forced to hold.

“It still means an increase in capital and, all things being equal, you would expect some of it to feed through to the customer”

NALA WORSFOLD, UK FINANCE

The impact in the UK is anticipated to be more muted. But the question does arise: how will Basel affect the credit supply and its cost to UK corporates? No matter how soft the Basel landing on UK banks, and there is still much detail to be confirmed, capital requirements are expected to rise.

“Overall,” says Nala Worsfold, head of financial and risk policy at UK Finance, the industry body for British banks, “it still means an increase in capital and, all things being equal, you would expect some of it to feed through to the customer. But it is difficult to say exactly what, or where, that would happen.”

Banking crisis

Basel 3.1, as it is known in the UK, is the latest piece of regulatory guidance to come from the Basel Committee on Banking Supervision, and is essentially designed to stop banks falling over in times of economic crisis.

It was in 2010 that the committee issued its third ‘Accord’ in response to the Global Financial Crisis of 2008. After years of developments, the final stage guidance followed in 2017.

A consultation by the UK’s Prudential Regulation Authority (PRA) on how it would implement Basel 3.1 was delayed by the pandemic, but finally launched in November last year with the now notorious (at least in banking circles) document CP16/22. The consultation closed in March 2023 following a wave of responses from industry players, interest groups and think-tanks after chewing over the likely implications of this vast new piece of rule-making.

Observers believe the PRA aims at remaining relatively true to the Basel Committee’s original version. The Bank of England says its version is ‘designed’ according to a UK approach to rule-making and ‘tailored’ for the market based on UK data.

But in a speech in December 2022, Phil Evans, the Bank’s director of prudential policy, said being a ‘global financial centre’ means the UK had ‘great responsibilities’, including “resisting the pressure to unsustainably cut standards in the short term”. UK implementation will have to match that of other markets.

£44bn

the amount the Federation of Small Businesses in UK fears loans could be cut by with introduction of SME Supporting Factor

July 2025

deadline for initial implementation set by Bank of England

“This is because the global firms that the UK seeks to welcome benefit from global standards that are applied in a predictable and stable way across jurisdictions,” Evans said.

Adequate capital

The more immediate aim of Basel is to ensure banks protect themselves by holding an adequate amount of capital against potential losses. Those sums are based on calculating risk weighted assets (RWAs). Capital requirements are worked out as a proportion of RWAs.

Regulators believe the RWA methods used up to, and during, the financial crisis possessed ‘shortcomings’ and “a worrying degree of variability”, so Basel offers new ways of reaching figures that are more sensitive to risk and with more standardisation.

New methods will apply to calculating market and operational risk, but, critically, the new RWA approach applies to the tricky issue of credit risk.

And central to the new calculations is the introduction of the ‘output floor’, a rule which says when banks use both a standardised approach to calculating RWAs and an internal model, whichever produces the result demanding more capital, that’s the one that must be used.

Yet, despite years of debate and much recent speculation, the final form of the Basel regulations for application in the UK is yet to be finalised. Most of the details should be unveiled by the end of this year, according to the Bank of England. However, the rules on managing the more sensitive issue of credit risk, and the final version of the output floor, will remain shuttered until sometime in the first half of 2024, with observers not expecting news until Easter.

That's not all. The work so far is on what Basel calls Pillar 1 – minimum capital requirements. A second consultation on Pillar 2 measures – the risks specific to individual banks on a case-by-case basis – is due to launch next year. This could, when combined with Pillar 1, change the overall capital requirement for some banks.

As such, Basel remains a shifting regulatory landscape, yet to settle its final contours.

Supporting factors

That doesn't mean there aren't observations that can be made based on the proposals. Some have clear ramifications. According to Worsfold, the proposals appear set on removing two provisions in the current rules known as the SME Supporting Factor and Infrastructure Supporting Factor (ISF).

Both discount risk weighting and therefore reduce the capital required to be held against lending to SMEs and infrastructure projects. That, in turn, helps reduce the cost of lending.

The ISF is a niche issue, but is intended to lower risk weighting for lending to infrastructure schemes, a hot-button issue in the UK at the moment.

In Europe, many banks consider the ISF a major contributor behind their backing for big projects. When the European Banking Association questioned 39 banks on the continent, 27 said it has 'incentivised' their support for infrastructure projects, and 28 said it had 'improved' the availability and terms of infrastructure loans.

While that's worth digesting, it is the SME Supporting Factor that looms large over UK banks. The Federation of Small Businesses has complained in a report that its removal could cut loans to smaller businesses by up to £44bn. The government currently estimates there are around 5.5 million SME businesses in the UK.

"The SME Supporting Factor continues to be the biggest issue for banks," says Worsfold. "They've always maintained that if the supporting factor is withdrawn at some point... it will need to feed through into the cost of credit and credit appetite itself."

While these issues might be marginal concerns to most big company treasurers, there is a concern elsewhere about Basel's impact on the kind of products corporates use to hedge risk, such as derivatives, typically sold by investment banks.

Among the many measures included in Basel is the end of 'exemptions' from capitalising counterparty risk on derivative products sold to non-financial corporates and sovereigns.

Trading book review

Basel also includes reforms to FRTB (Fundamental Review of the Trading Book) that make the capital requirements for trading book activities more 'risk sensitive'.

According to Sahir Akbar, deputy head of prudential regulation at the Association for Financial Markets in Europe (AFME), these measures, taken together, will force investment banks to reconsider the cost of hedging products, or even whether they can still be offered at all. It could also see a concentration of the derivatives business into fewer banks, those that can "do the business in a capital-efficient manner".

For treasurers, there are obvious implications from a piece of rule-making that Akbar says will be more 'risk sensitive'. Banks, he adds, will face increased costs and will have to 'refocus' their planning.

"You have to look for the impact on your hedging products, the availability of those products and how you can risk-manage effectively going forward," says Akbar.

"You'll have to make a decision as to whether it remains cost-efficient to hedge risk or take the

> "You'll have to make a decision as to whether it remains cost-efficient to hedge risk or take the risk of leaving some of those positions open"
>
> **SAHIR AKBAR, ASSOCIATION FOR FINANCIAL MARKETS IN EUROPE**

> **"If I had to make a bold statement, I'd say base rates are probably a bigger issue for corporates at the moment than the impact of Basel 3.1"**
>
> **ROD HARDCASTLE, DELOITTE**

risk of leaving some of those positions open."

The biggest influence on the FRTB regulation will be from the use of the output floor. As already noted, its full detail won't be available for months. However, its influence will be extensive once up and running. In a paper for EY Consulting, London partners Jared Chebib and Christopher Woolard crown it one of the "critical and most controversial" features of the final Basel recommendations.

Akbar says treasurers will "need to understand the impacts of the output floor. It's a new piece of the prudential framework that wasn't there before".

Rod Hardcastle, head of credit risk regulation at Deloitte, agrees. The output floor, he says, will constrain the ability of banks to use their own internal models for working out capital requirements and, instead, defer to a more standardised approach. This could, of course, increase their sensitivity to risk and cause them to hold more capital, reducing the availability of capital for lending and/or increasing the cost of credit for corporate clients.

However, banks still have the tricky task of working out just how the output floor will affect their lending because it applies to risk in aggregate – across the entire bank – which will need translating into an 'individual exposure'.

It's also true that some banks – those with riskier asset portfolios – will be hit harder than those with more 'balanced' business models.

"If I were a corporate treasurer," says Hardcastle, "I'd be asking, is the output floor going to bite on you? And what's your approach to incorporating the output floor into capital assessment at the individual borrower level: do you seeing it having an effect?"

Credit availability

Despite these warnings, it is worth saying at this point that, overall, Basel's impact on capital requirements, or the price and availability of credit, are considered to be far from seismic.

In his speech, Evans said the Bank of England does "not expect Basel 3.1 implementation to significantly increase capital requirements". This is largely because it is anticipated that remoulded Pillar 2 measures will offset the effects of newly minted Pillar 1 rules. The 'effective' increase in capital requirement is therefore around 6%. And, Evans pointed out, this is an "upper bound estimate anyway".

Even then, because of the long timeframe for full UK implementation of Basel 3.1 – from 2025 to 2030 – there is time for banks to prepare. That puts Basel 3.1 implications still firmly in the territory of being potentially overshadowed by commercial concerns.

WHAT'S IN A NAME?

The latest, or final, reforms from the Basel Committee are often referred to as Basel 3, Basel 3.1, Basel 4 or even Basel 3 Endgame, depending on which jurisdiction you happen to be in. The difference in the names serves to underline how the different jurisdictions are tackling different areas within banking regulation.

According to KPMG, from a supervisory perspective the European Central Bank (ECB) is addressing shortcomings in credit and funding risk management (including interest rate risks for banking book [IRRBB] and credit spread risk arising from non-trading book activities [CSRBB]), strengthening governance and risk data aggregation and reporting, and stepping up efforts on the management of climate and environment (C&E) risks. Meanwhile, KPMG adds that the UK's Prudential Regulation Authority is focused on non-performing exposures, securitisation, stress testing, model risk management, the internal ratings-based approach/hybrid models, and regulatory reporting.

In the US, a trio of regulators published their proposals in July 2023 – these aim to substantially revise the regulatory capital framework for banking organisations with total assets of $100bn or more and their depository institutions' subsidiaries, as well as banking organisations with 'significant trading activity'. The proposals would not amend the capital requirements applicable to smaller, less complex banking organisations.

For large corporates more used to syndicated loans, experts believe the issue will be less about costs than about whether syndicate leads can persuade other banks to take part. And that, says Hardcastle, is usually dependent on whether participation can be 'parlayed' into non-interest income (for example, foreign exchange) from the client.

Hardcastle points to another unsurprising factor that could mean Basel may just be a blip in the capital cost charts: the current economic landscape. Rising inflation and interest rates have hit economies hard, transforming the cost of borrowing from where it was little more than a couple of years ago.

"If I had to make a bold statement," Hardcastle says, "I'd say base rates are probably a bigger issue for corporates at the moment than the impact of Basel 3.1.

"If you look at corporates that have been used to getting money at a couple of per cent, and now they're looking at it being 6%... actually, if they paid another five or 10 basis points because of Basel 3.1, in the scheme of things, that's not the big issue for them. It's actually what's going to happen to base rates and where they're going to go."

An economic downturn could also lead to some serious questions about credit availability. "If you do see banks have a torrid time with losses over the next 12 to 18 months," adds Hardcastle, "there's a question about whether the supply of credit will be constrained."

There is still much to be clarified in Basel. Banks continue to work through their calculations – vast when the full extent and diversity of some portfolios are taken into account – while important elements of the new rules remain under wraps.

The full impact on treasurers remains to be seen and difficult to gauge. Repercussions rest as much on individual bank portfolios and the general economic terrain as they do on final terms of the regulation. As Worsfold says: "It depends on a broad set of circumstances, including business models and the macro environment. There are many unknowns."

$100bn
all US banks with assets of $100bn or more will have to abide by the new capital rules

6%
the effective increase in capital requirement expected after Pillar 2 'offsets'

Gavin Hinks **is a freelance business and financial journalist**

Time to tackle turnarounds

No-one wants to be in a turnaround situation, but UK treasurers are well placed to help insolvency practitioners at times of financial distress

Treasurers' visibility of both sides of their company's balance sheet, plus their detailed knowledge of its present and future activities, including its life-blood, means they are ideally positioned to provide critical and timely information to the insolvency practitioner (IP).

"Without accurate and timely information, we're making decisions in a vacuum and they're not going to be optimal," says Phil Reynolds, partner at restructuring specialists FRP Advisory. "As treasurers know, cash is king and what I do as an IP is bring an even sharper focus to this."

One of the key focal points when restructuring an ailing company is securing full cash visibility. In a multi-jurisdictional, multi-currency, multi-banked, decentralised company with thousands of bank accounts organised into geographical pools of liquidity, it would take an IP valuable time to untangle the flows and gain visibility without support of the treasury function.

Treasurers have one eye constantly on daily cash flows and the other on future cash flows, so they are ideal contacts for an IP. The treasurer can also explain the systems and plumbing used to move cash in, out, and around the organisation, where the leaks and blockages occur and how they're managed.

From their central vantage point, the treasurer can outline other dynamics of the business that an IP needs to know to evaluate restructuring options, including products, trade creditors and debtors, operating and fixed assets; working capital cycle, banking, asset and liability management, risk management, policies and procedures, and its capital structure.

> "The treasurer can outline other dynamics of the business that an IP needs to know to evaluate restructuring options"

Looking ahead

The treasurer can also describe their business' medium and long-term strategy, and how the balance sheet, profit and loss, and cash flow statements are expected to change over time.

The nature of information disclosed and its timing are key considerations for the treasurer, IP and board of directors, especially companies that are public or regulated.

A forward-looking proactive treasurer can spot the beginnings of financial distress, in which case, external communications with stakeholders will be different from those where the company's distress is acute, publicity is unavoidable, and a precipitous fall in company value is inevitable.

With creditors clamouring for payment and threatening to shut down the company, or supplies, and staff worried about getting paid, time is of the essence to figure out what to do and then to do it. The IP will therefore depend on the treasurer and the wider finance team for quick, concise yet comprehensive information.

A grounding in the business' operations and its future plans will indicate to the IP the general direction to take to turn around the company. But it won't indicate which of many potential restructuring routes will lead to success, the probability and to what extent each will be successful, and the pros and cons of each route.

Questions for the treasurer

Such answers will be the result of the IP undertaking extensive and detailed cash flow modelling and having conversations and negotiations with existing and potential stakeholders.

RESTRUCTURING PLAN

A restructuring plan (RP) is a relatively new twist in the UK on the well-established scheme of arrangement as part of the UK government's response to the COVID-19 pandemic and is increasingly being used to turnaround ailing companies. Its approval or rejection in court primarily hinges on whether the RP will return at least the same to creditors as the most likley relevant alternative (RA), which would typically be the administration sale of the trade and assets of the business.

The IP will need to ensure that the RP will be able withstand intense scrutiny and challenge by both the creditors and the judge. Treasurers will therefore need to make sure the information they provide to the IP and by extension to the court, is robust and thorough to support the process.

Preparation

Treasurers have the ability to present highly technical and complex information clearly and concisely and that is vital to secure creditor support and for the judge to clearly understand the benefits of the proposal.

Similarly, the IP will need to ensure the RP has a high probability of being approved in court, because if it is not, the time and costs of the RP project (around three months and could cost £400,000 through to the low millions) will have been wasted and the business would likely fall into administration.

The IP will ask the treasurer about the nature of each layer of the business' capital structure, including assets pledged, guarantees, covenants, cross-defaults, debt capacity, unutilised funds, and the waterfall of cash payments. They'll also want to know its principal, core, and transactional banks.

The treasurer will be asked about the relative significance and influence of existing capital providers, and how and to what extent they'll exert their influence if a particular restructuring proposal is presented. For example, will the senior secured creditors enforce their security directly and immediately or will they be willing to negotiate and cooperate? Will capital providers pull together, or apart? The treasurer's experience of these parties will be vital insight for the IP.

To predict how a capital provider will react to a restructuring proposal, and prepare a response, the IP will want to know at what level in the capital structure being modelled the value breaks and which provider will be in or out of the money.

If additional funding is needed, the treasurer will need to tell the IP who among the existing capital providers will supply it, on what terms, and how likely is that to happen. With this insight, the treasurer and IP can model the impact on the returns to all capital providers, and see who will benefit relatively more or less.

If current capital providers won't contribute all that is needed for a restructuring proposal, the IP will want to know who else the treasurer can tap for funds, how likely they are to fund, how quickly, how much, and on what terms.

For example, knowing lenders' incentives, attitudes, and quantifying their expected recoveries, all in advance of negotiations, can strengthen the IP's and the treasurer's negotiating position when seeking turnaround funding or changes to existing funding terms.

The treasurer will have informed the IP of how much internal funding will exist at that time and crucially, the probability of it being withheld or trapped. By working as a team, IPs and treasurers can apply their comparative advantages, skills, and insights knowing they have a common goal.

The treasurer can also add value by explaining the derivatives and hedges in place, their market values, and how much cash would be received or paid if they were terminated prematurely.

The IP's comparative advantage is knowing case law, what a judge, a dissenting creditor, or their counsel will spot as weak arguments or unrealistic projections, or what figures need further evidence to support and justify them.

The IP can use their cross-jurisdictional legal and technical knowledge to warn the board of directors periodically that – based on the local jurisdiction and the current information supplied to the IP by, inter alia, the treasurer – the directors will be in breach of their fiduciary duties, the company will be trading while insolvent, or they can no longer allow their company to trade.

Permjit Singh FCT is a director of an invoice finance company and former head of treasury of a mortgage company

Act now to hit sustainability targets

As the effects of climate change become increasingly evident, there are a number of steps that treasurers can take on the path to a more sustainable future, argues Helen Slinger

The climate and nature emergency requires immediate and collective action. Already, we can see businesses prioritising sustainability challenges, including progressing towards net zero. Likewise, lenders, regulators and investors are increasingly incorporating sustainability into decision-making, recognising that environmental and social – as well as economic – issues are integral to risk and returns. So, how can treasury and finance teams support their organisation's sustainability priorities, and how they can influence decision-making and corporate planning?

We don't have time to waste – the most important thing is to start now. The effects of climate change are increasingly apparent: catastrophic weather incidents, the degradation of nature and widespread migration as parts of the planet become inhospitable. Businesses need to adapt and transition to a sustainable economy if they, and the world, are to survive and thrive.

As finance institutions come under increasing pressure to deliver on sustainability ambitions and targets, including net zero, they are hungry for opportunities to invest in products that deliver sustainability. By the end of 2022, the cumulative market issuance of green, social, sustainability, transition and sustainability-linked bonds (GSSSB) was US$3.7tn. The global GSSSB market declined in 2022, along with a contraction of general global bond issuance, because of market conditions. However, S&P estimates that global GSSSB issuance will return to growth in 2023 and the Climate Bonds Initiative is pushing for continued momentum, and a target annual issuance of green bonds more than US$5tn annually by 2025.

The first step is to take stock of where your organisation is and what needs to be done. The A4S Debt Finance Maturity Map (bit.ly/TT4matmaps) can help guide this assessment and the A4S Essential Guide to Debt Finance provides helpful information as well as case studies. Treasurers can start by:

- **Building knowledge and capacity within the treasury function.** Treasury teams need to grow awareness of sustainable finance trends and evolving tools and instruments available for sustainable debt finance. Treasury teams can consider what peers are doing and work with them to develop consistent performance metrics.
- **Understanding your business' strategy and how sustainability is incorporated.** Treasury teams need to have a solid knowledge of the sustainability objectives and targets within the business to assess how they can be supported by sustainable debt finance.
- **Developing a sustainable finance framework, which should cover a range of sustainable financial instruments and asset classes.** You can start by focusing on a limited number of instruments or asset classes and this can be expanded over time. This framework can be used as the basis to raise sustainable financial instruments.
- **Looking at who you work with, including**

ABOUT ACCOUNTING FOR SUSTAINABILITY (A4S)

A4S aims to make sustainable business, business as usual. HM King Charles III established A4S in 2004, when he was the Prince of Wales, with the aim of working with the finance and accounting community to:
- Inspire finance leaders to adopt sustainable and resilient business models
- Transform financial decision-making to reflect the opportunities and risks posed by the climate crisis and other environment and social issues
- Scale up action to transition to a sustainable economy.

A4S has three global networks:
- Chief Financial Officers (CFO) Leadership Network – CFOs from leading organisations seeking to transform finance and accounting
- Accounting Bodies Network (ABN) – members comprise approximately two-thirds of the world's accountants
- Asset Owners Network – pension fund chairs who integrate sustainability into investment decision-making.

Learn more about A4S by visiting www.accountingforsustainability.org

your relationship bankers and investors. Assess whether their sustainability approach is aligned with your own and if not, what action is required, ie., does their policy on fossil fuels mirror yours? Develop and implement a sustainability screening process for selecting new relationship banks and investors.

- **Leading the way through engagement.** Highlight the importance of sustainability in all your communications with debt providers in open dialogue and engage them on your sustainability priorities.
- **Innovating.** Explore and create new debt finance structures to address emerging sustainability challenges.

Raising sustainable debt finance should be a way to align your financing and sustainability objectives as much as possible, rather than as a mechanism to repackage funding of existing projects, or finance targets that you are well on your way to deliver.

Treasurers and finance teams should be ambitious – align your debt raising, sustainable finance framework and engagement with relationship banks and investors to deliver a sustainable future. You must ensure that your targets push your business further and faster. A seven-year bond being negotiated now will end in 2030, the target date for the UN's sustainable development goals (SDGs) and the point at which greenhouse gas emissions need to have been reduced by more than 40%.

Time is running out. Treasurers and finance teams need to act now to address sustainability challenges.

Helen Slinger is executive director at Accounting for Sustainability

DEVELOP A SUSTAINABLE FINANCE FRAMEWORK

A good starting point is to develop a sustainable finance framework that supports one of the following:

- A use-of-proceeds approach – the financing of planned projects that deliver tangible sustainability benefits through issuing financial instruments for green, social or sustainable projects
- A sustainability-linked approach – raising general-purpose financing linked to targets that support the evolution of the business to more sustainable practices
- A combined approach – a framework that covers a use-of-proceeds approach with a sustainability-linked approach.

When developing the framework, make sure it is robust enough and looks to the long term. Be ambitious, look forward and establish targets that will help your organisation support the UN's sustainable development goals (SDGs). Show stakeholders that your strategy and funding are focused on meeting your sustainability targets. The A4S Top Tips for Treasury Teams (bit.ly/TT4a4s) is a useful resource for developing and implementing a sustainable finance framework.

Expand and innovate

Innovation can play a vital role in the development of your organisation's approach to sustainable debt finance and the evolution of the entire market.

Within your business, if you're currently focused on use-of-proceeds financing, consider whether you could also use sustainability-linked and vice versa. Creating a sustainable finance framework that covers most or all your financing activities demonstrates to stakeholders your commitment to fully embedding sustainability in your strategy.

Since the first green bond issued in 2007 and the first sustainability-linked bond in 2019, the sustainable finance market has been developing and expanding rapidly. Treasurers can actively contribute to this evolution by considering emerging instruments, such as transition or blue facilities, and being creative in developing new structures.

2024: returning to the 'old normal'

With higher inflation and interest rates set to continue for some time, Kallum Pickering asks if we are returning to the way economies used to be

Over the past three years, the advanced world has been battered by two historic shocks: the COVID-19 pandemic and the Russian invasion of Ukraine. Together, these seismic events have dramatically reshaped the balance of demand and supply, triggered eye-watering inflation and frustrated economic growth.

The big question for 2024 is whether economic conditions can return to something resembling normal. Short of a fresh, unexpected blow, the answer is probably yes. But that begs another important question: what does normal even mean?

In the decade after the 2008 Global Financial Crisis, the idea of a 'new normal' emerged as advanced economies suffered chronically weak economic growth, low inflation and rock-bottom interest rates.

But that period is over for good following the surge of inflation to 30-year highs in North America and major parts of Europe. Financial markets, central banks and governments have given up on the idea that economies will ever return to the 'new normal' baseline.

Exactly what the future holds is anyone's guess. But, as things look now, three trends seem to be emerging.

First, more inflation. Abstracting from the recent one-off inflation spike caused by unusual shocks, the underlying forces that will shape longer-run price trends have actually been turning more inflationary since the late 2010s.

> "Near-term uncertainties are unusually large"

On the supply side, rising geopolitical challenges around the world increase the costs and frictions to international commerce, while increasing labour shortages as the global population ages constrain employment growth.

On the demand side, fiscal expansions in the US and Europe, together with the end of the post-Lehman balance sheet repair phase, point to faster gains in spending growth compared with the post-Lehman decade.

Weaker supply combined with less restrained demand growth will underpin persistent price pressures and leave economies vulnerable to bouts of excess inflation.

In the decade ahead, we must get used to average annual inflation rates of around 3% in the US and UK, and around 2.5% in the Eurozone.

Second, higher nominal interest rates. To keep inflation at tolerable rates, central banks may need to tighten monetary policy every few years whenever prices show signs of rising too quickly.

For the US Federal Reserve, the Bank of England and the European Central Bank, neutral short-term policy rates will be in the range of 3-4%. Present policy rates of 5.5% in the US, 5.25% in the UK and 4% in the Eurozone suggest that western monetary policies are currently in restrictive territory.

Third, the risk of more business cycle volatility. The end result of central banks periodically tapping the brakes to slow demand and cool inflationary pressures may occasionally be shorter and more volatile economic cycles.

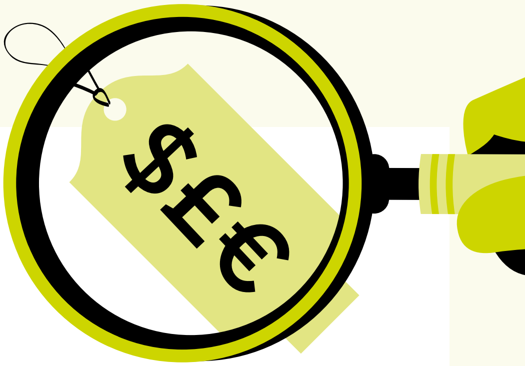
Whether these views will become widely accepted in 2024 already is an open question. Inflation still remains much too high and central banks are not yet ready to make their monetary policies less restrictive. Near-term uncertainties are unusually large. However, 2024 will likely mark the point when the advanced world transitions to this new baseline.

In many respects, this world should look familiar. It closely resembles the situation before the crippling Global Financial Crisis gave way to the 'new normal'. The advanced world has likely returned to something like the 'old normal'.

Of course, the big difference this time around will be that headline growth will probably be somewhat weaker than the pre-2008 trend because of the persistent demographic headwind. But, even if overall growth remains sluggish, an improvement in per-capita GDP growth looks possible.

With more pressure on supply and margins, especially from wage costs, companies face a great deal of pressure to shape up. Over time, expect firms to turn to by now widely-available technologies – such as artificial intelligence, 3D-printing and advanced robotics – to raise productivity, increase productive potential and lift living standards.

Kallum Pickering is senior economist at Berenberg Bank

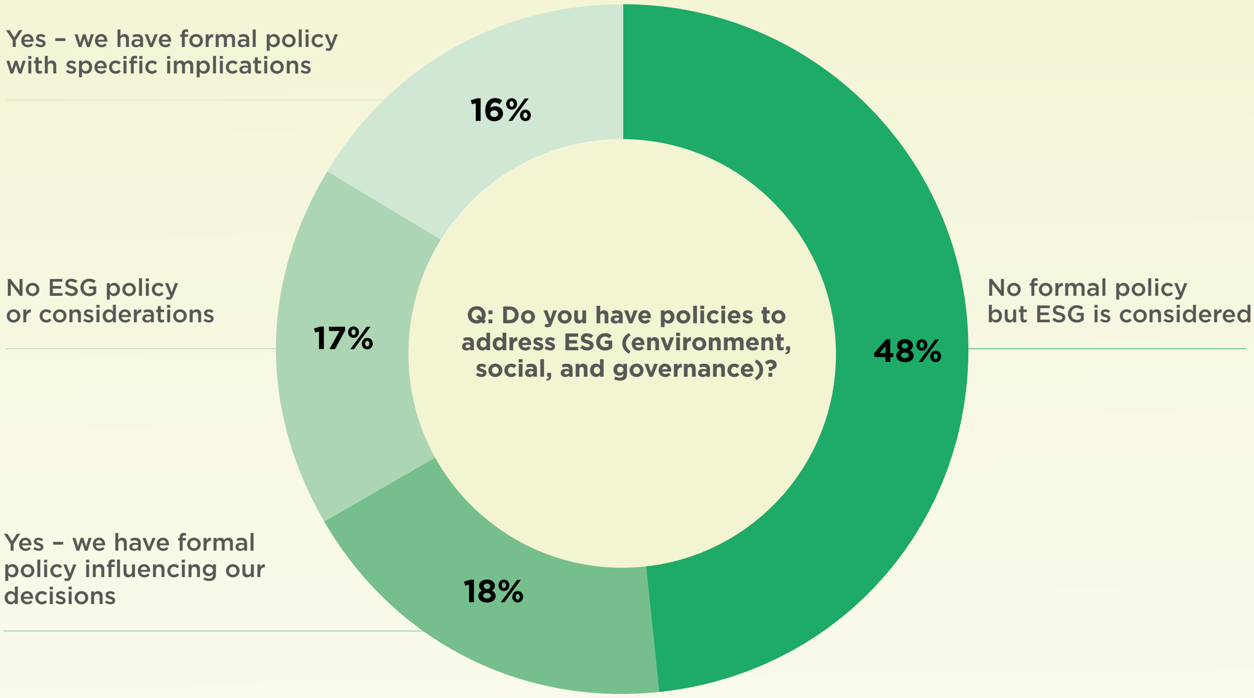


IN DETAIL:

Greenwash fears over non-alignment of ESG strategies

A new survey reveals potential for conflict between treasury and wider organisation over sustainability policies

Sustainability a consideration but not formal policy



Source: PwC, The New Equation: Treasury's role in driving sustainable value

Nearly half of the treasurers polled in a recent survey admit they have no formal ESG policy, instead saying ESG is 'considered' in their overall strategy. That is according to PwC, the Big Four firm, which revealed the finding in its latest global treasury survey.

Only 16% of those treasurers polled by PwC said they have a defined policy to address ESG with formal measurements in place. In the case of very large multinational corporations, that figure rises to 20%, likely reflecting the increased stakeholder pressure being applied to such organisations.

According to PwC, for the respondents who indicated that they did have sustainability policies or considered it as part of decision-making, the focus primarily centred on their investment of excess cash, with 54% indicating counterparty sustainability was a contributing factor to deciding where the cash was placed. In contrast, sustainability factors do not yet seem to garner a lower weighting when considering longer-term commitments, with only 3% indicating it as an important data point when selecting cash management banks.

"Creation of formal sustainability policies that are consistent with and support organisation-wide strategies is key to avoiding treasury activities conflicting with wider narrative and reporting," PwC says. "Such discordance can lead to accusations of greenwashing and other unwelcome publicity."

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FUTURE TRENDS

What lies ahead for the treasury professional

26

2024: A TREASURER'S WISH LIST
What's in store for next year? Three experts share their views on what lies ahead

32

GENERATIVE AI IN ACTION
What happened when Deloitte's Ikaros Matsoukas asked ChatGPT to help design an in-house bank?

34

TECH FOCUS: CYBER THREATS
What are the latest online fraud risks that treasurers need to know about? Rebecca Brace reports

2024

A treasurer's wish list

What is in store for 2024? *The Treasurer* asked three experts to share their views on what lies ahead, with elections, the environment and the need for greater diversity high on next year's agenda

John Tumwine

head of public sector, corporate and investment banking, Stanbic Bank, Uganda, and chair of the ACT's East & Southern Africa Advisory Panel

I see six clear trends that will come to the fore in 2024. These revolve around digital and technological transformation, but we also need to keep an eye on the geopolitical developments, with presidential elections in both Rwanda and South Sudan.

The east and southern region of Africa has been experiencing economic growth, technological innovation, and social transformation, creating new opportunities and challenges for a corporate treasurer.

Some of the trends in technological and big data aspects in the region, which will continue to shape the work of a corporate treasurer in East Africa, include the growth of cashless payment solutions for low-income consumers at the point of purchase.

There is more and more acceptance of transaction settlement through mobile money solutions directly or through merchant codes. The key aspect of this is bringing more notes and coins outside of the banking system into electronic funds (in e-wallets) within the banking system.

Another trend is the rise of electronic money transfers for small amounts, especially through mobile money platforms that offer convenience and security. The providers of electronic wallets have reduced the tariffs significantly, some to zero, for transferring money from one wallet owner to another if they are within the same wallet provider (the same ecosystem). Also, they have reduced the minimum threshold amount one can transfer, which increases the catchment of the last mile funds movements.

A third trend is the digital transformation of businesses, as they shift from manual to automated systems for their internal operations, enhancing their efficiency and productivity. The time taken to generate reports continues to reduce with the digitisation of processes and in many cases the frequency of availing these reports has also increased. Decision-makers, therefore, can have their forecast radar screens/dashboards refreshed early and more regularly.

A fourth trend is the integration of business and banking systems, as companies create interfaces between their internal systems and those of their financial service providers, enabling faster and smoother transactions. More and more entities can initiate straight through processing instructions from their own company accounting system that is integrated with the bank system.

Reducing manual interventions leads to faster processing, as well as enabling transfers within the same bank to be 24 hours while inter-bank transfer timing is also optimised. Additionally, it is more convenient because the payments team and approvers need to log only into their system and not the bank system, and so there are fewer passwords to remember.

A fifth trend is the advancement of data analytics among small businesses in the distribution and supply chains, as they use transaction and client data to move from descriptive to diagnostic and even predictive insights, improving their performance and competitiveness.

A sixth trend is the adoption of artificial intelligence tools in various aspects of business, such as customer service, cash-flow forecasting and decision-making, enhancing their quality and accuracy.

Geopolitical dynamics and regional integration initiatives have created new opportunities and challenges for cross-border trade and investment. The East African region has seen increased intra-regional trade of about $3bn in three years. The East African Community Secretariat highlights the growth in the intra-regional trade at 13% ($7.1bn) in 2019 to 20% ($10.17bn) by September 2022.

These are expected to lead into improved cash management and forecasting, by using data analytics, artificial intelligence, and cloud computing to optimise liquidity and working capital. We will also see enhanced risk management and compliance, by using digital platforms and tools to monitor and mitigate currency, interest rate, credit, and operational risks. Reduced transaction costs and increased access to finance, by using fintech services such as mobile money, and digital banking will facilitate payments, transfers and trade finance.

Finally, the political environment will be active in 2024 with Rwanda and South Sudan holding their presidential elections. We will watch and wait for the outcome of these elections.

> **"Geopolitical dynamics and regional integration initiatives have created new opportunities and challenges for cross-border trade and investment"**

Frances Hinden,

EVP treasury and corporate finance, Shell International

Looking ahead to 2024, it is impossible to imagine that ESG concerns will not continue to be important for treasury. However, the ‘S’ and the ‘G’ are sometimes overlooked in favour of the ‘E’ with so much regulation on climate change and investment coming into force.

One area where I hope to see progress and where we as corporate treasurers can have a direct impact is on diversity and inclusiveness in our own teams, and in banks. It’s not that my own team is perfect, but our relationship banks pay attention to customer requirements so we can have an impact on behaviour. We call consistently to see greater diversity at more junior levels in their organisations, so the challenge is how to build on that success, keep these people in the industry and give them the opportunity to grow their networks.

Diversity of thought and attitude is more important than visible differences such as sex and race, so I am not going to start setting quotas for relationship meetings or projects. That also risks the ‘token woman’ being dragged along to every meeting to sit there and say nothing! Instead, I – together with other corporate treasurers – will be asking banks to bring along more junior members of their teams to meetings, to give them exposure to both bank and corporate leaders. We will do the same with our graduate trainees and analysts. This isn’t a massive change project with a big budget that will change the world in a week, but a change in our approach and a new year’s resolution to make sure all my relationship banks know that this is important to me.

My Christmas list of desires for 2024 would include a slowdown in the amount of new regulation and a quiet year in the markets. I’m fairly certain neither of those – and certainly not both of those – will happen, so instead my focus is to be prepared for whatever comes next. The less complex our systems environment, the easier it is to cope with the unexpected.

We have an ongoing drive for ‘ESSA’: eliminate, simplify, standardise and automate. That has been the mantra for as long as I’ve been in treasury, but the tools available for automation keep getting better. Perhaps next year will be the first that the chatbots are actually helping, rather than being a more irritating way of being kept on hold!

GUIDING PRINCIPLES FOR DIVERSITY AND INCLUSION

The ACT, in conjunction with leading corporates and banks, has launched a new set of guiding principles to promote and improve diversity and inclusion across all participants in financial markets. While many UK banks and corporates are strong in this space with huge steps taken forward in recent years, the aim is to help encourage further positive engagement as a step change to improving accountability and leading to better outcomes.

See: **treasurers.org/guiding-principles-diversity-inclusion**

Veronique Lafon-Vinais

executive director, Hong Kong University of Science and Technology

As the year 2023 ends, I am reminded of a quote taken from last year's review (*The Treasurer*, Issue 4, 2022): "Extreme weather events threaten business interruption and impact supply chains." Natural catastrophes driven by climate change acceleration and El Niño episodes have rocked developed and emerging countries alike, resulting in catastrophic losses both in human and economic terms.

Unfortunately, this trend will not lessen in 2024, but will be compounded by the skyrocketing cost of insurance, should it even be available. Waterfront properties in areas susceptible to sea-level rises find flood insurance unaffordable or non-existent. Many insurers are no longer willing to provide coverage to certain unsustainable risks, such as coal and palm oil. Businesses can no longer ignore this reality and must now decisively integrate climate change and sustainability in their strategy, or face the risk of losing insurance coverage. The urgency was clearly articulated by the speakers during the ACT's Annual Conference in May, with even financial regulators urging business leaders not to wait.

From a financial markets perspective, insiders are bracing for turbulence as we enter the US election year with a highly inverted USD yield curve, warning signals on liquidity in the treasuries market and the prospect of a further downgrade of US debt ratings triggered by a government shutdown. The path of interest rates in 2024 is all but uncertain, with the US Fed's latest decision to keep rates steady rocking markets now expecting 'higher for longer'. While high rates are creating problems for highly leveraged firms, this ongoing volatility is particularly felt in vulnerable emerging markets. Geopolitical tensions only aggravate the growing resentment at the impact of US financial domination.

Geopolitical tensions continue unabated, with China and now India at the centre of heated discussions. If not contained, the rift between Canada and India could have important consequences in international relations with potentially significant trade implications. Most critically, the outcome of the US Presidential elections in 2024 may significantly upend the situation, with everything hanging in the balance from the US participation in the fight against climate change, to de-globalisation and polarisation, and even conflicts.

The race will get more heated and more divisive than ever as we get closer to the polls. A number of elections will also take place in 2024 in Asia, with Australia, Bangladesh, Indonesia, Taiwan among others going to the polls.

Looking further into the future, demographic trends are playing out that can no longer be ignored, creating both challenges and opportunities. In particular, the rapidly ageing populations create a wealth of opportunities in Asia for wellness industries.

However, the dynamic of work relations has shifted, with significant shortages beginning to appear in certain sectors, such as the increasing scarcity of accounting talent. A significant rethink of human capital management may be in the works. This will be amplified and complicated by the emergence and fast adoption of generative AI, which has all the hallmarks of another technology bubble, with potentially devastating impacts.

In such an uncertain environment, treasurers will be once again called upon to identify all risk variables in both probability and severity, strengthen the resilience of their balance sheets and cash flow positions while closely monitoring and managing risks. The polycrisis highlighted by Timon de Jong, the keynote speaker at this year's ACT Annual Conference, has not ended yet. As the theme of Hong Kong's upcoming Global Financial Leaders Investment Summit says, treasurers will have to learn to 'live with complexity'.

> **"From a financial markets perspective, insiders are bracing for turbulence as we enter the US election year…"**

The view from: benchmark reform

Pieter Bierkens has been at the helm of interest rate benchmark reform for the Commonwealth Bank of Australia since August 2018 and served as the chair of Australia's LIBOR reform working group. Here, he speaks to James Leather MCT about the journey to date, the impact on treasurers and what the future might hold

JL: Remind us, what was interest rate benchmark reform all about?

PB: After the Global Financial Crisis (GFC) it became apparent that there was a need for risk-free rates (RFRs) alongside Interbank Offered Rates (IBORs) – which are rates, such as LIBOR and EURIBOR – that encompass a bank credit component. That need reflected the fact that much of the market (e.g, cleared derivatives) had become risk-free as a result of post-GFC reforms and risk-free contracts were best served by risk-free reference rates.

In addition, LIBOR was no longer fit for purpose and would be discontinued.

The upshot was that in LIBOR jurisdictions, the IBOR was replaced by an RFR, while jurisdictions with a viable IBOR (such as EURIBOR or Australia's BBSW) would continue with both an IBOR and an RFR. RFRs are overnight rates and are typically compounded in arrears over the interest period.

JL: What is the main consequence of the change to RFRs for corporate treasurers?

PB: Borrowing costs will no longer be dependent on the creditworthiness of major banks as there is no 'credit' component in the coupon reset. That means that in times of market upheaval, borrowing rates may go down (because overnight rates drop on the back of Central Bank easing) whereas LIBOR rates would probably have gone up, reflecting higher bank borrowing costs. We saw this divergence in the IBOR and RFR rates play out in March 2020, when COVID hit.

There is also no 'reset risk' in RFRs since the interest rate coupon will be reflective of market observations over the entire interest rate period, not just that on the reset date.

JL: What are the some of the other things to be aware of?

PB: In multi-currency borrowing facilities, some of the interest rate legs may still reflect an 'IBOR'. That means that some currency legs of your facility may have rates that react differently to economic developments, and in particular, to changes in credit conditions.

Additionally, RFRs are typically compounded in arrears. That means that the value of the coupon payment is not known until the end of the interest rate period. In the USD loan market, we are seeing widespread adoption of 'Term rates' which are forward-looking RFRs. However, these are not widely used in the derivatives market, which means that hedging such Term exposures may be more costly than it would be for RFR exposures compounded in arrears.

Pieter Bierkens

JL: Is the transition away from LIBOR now complete, or could there still be issues lurking?

PB: The LIBOR transition is now virtually complete and once synthetic LIBOR ceases (at the end of September 2024) the few contracts that still reference this rate will have transitioned as well. At that point, the benchmark rate that was once the most widely used reference in financial markets, will have vanished from the screens completely.

So, to answer your question, I don't see anything lurking in the dark. The focus is now on the gradual transition of at least some IBORs to RFRs. While still important, that won't be as monumental a change as LIBOR was though.

JL: What may then be next in interest benchmark reform?

PB: As mentioned, some jurisdictions reference an IBOR that is continuing. But some of those are now moving from IBOR to RFR. An example is Canada, which is transitioning from CDOR to CORRA. Others maintain an IBOR and an RFR: Australia and Europe are examples.

However, over the longer term we are likely to see increased adoption of RFRs in those jurisdictions, particularly in contracts such as multi-currency borrowing facilities, and cross-currency

swaps: contracts that have both IBORs and RFRs reflected in them are likely to move towards the adoption of RFRs across the entire contract eventually.

JL: What was involved in the transition at CBA?

PB: What made this transition in many ways unique, was the fact that it was guided by regulatory milestones; it was very much a market-driven transition. In that regard, it is probably not unlike the market-wide transition toward net zero.

The key elements of the transition were the calibration of internal systems (accounting, risk and others) for the adoption of new rates, and the re-documentation of legacy contracts to reflect the new rates. Critical for banks and other customer-facing entities was then to make sure the customers were suitably informed throughout the process and received fair outcomes of their contractual transition.

Over the course of the programme we, like the rest of the world, had to deal with COVID and the transition to lengthy periods of working from home. Then, given the length of the programme, we had some changes in staffing, but thankfully the newcomers were able to pick up the baton without too much trouble. As with any other programme, there were plenty of challenges along the way. It was critical to understand interdependencies with the deliverables of other programmes and whenever needed, to escalate roadblocks quickly.

JL: Was the implementation of the transition successful?

PB: Very much so; there were no systemic failures and the market functioned very well throughout both the non-USD LIBOR transition (in January 2022) and the USD LIBOR transition (in July 2023). The lack of upheaval was reminiscent of Y2K.

Given the size of the change that was involved, the transition was a resounding success, market wide.

JL: Will the new regimes be an improvement?

PB: I believe it certainly will be an improvement. The financial system is now relying on robust benchmarks reflecting actual market transactions and corporate treasurers will no longer be exposed to the borrowing costs of their bank counterparties, as these costs no longer feature in the setting of interest rates. Importantly, the markets for contracts referencing RFRs have proven to be liquid and robust.

JL: How did you arrive at the role of head of Benchmark Reform for CBA?

PB: I am originally from the Netherlands, but studied in the US where I ended up working for Commonwealth Bank of Australia. Having held roles in interest rate sales and management, I moved to the Sydney headquarters to research the impact of global regulatory reform post-GFC. Through that effort, I developed expertise on interest rate benchmark reform and was then asked to lead the LIBOR transition effort of my employer, the Commonwealth Bank of Australia.

It was a complex programme and a long journey: five years altogether. The overall process really highlighted the importance of clear communication to, and early engagement with, all the stakeholders, and unsurprisingly, the importance of teamwork. The successful delivery gave a real sense of accomplishment to all involved.

JL: What plans do you have for the future?

PB: I intend to continue working in financial markets, helping stakeholders with the impact of regulatory reform and industry change, wherever it emanates from. After five years of benchmark reform programme work, I may take a short break though!

James Leather FCT CGMA provides interim and advisory services through Corium Treasury Limited. In 2021, he led the UK's largest commercial property development and investment company – Landsec – through its own IBOR transition

AI in action – how ChatGPT helped set up a (fictional) in-house bank

Deciding where to locate an in-house bank can be a time-consuming process, but the results of an experiment show that ChatGPT can be a very helpful assistant, according to Deloitte's Ikaros Matsoukas

Ikaros Matsoukas is a director of treasury transformation at Deloitte

The potential of artificial intelligence (AI) in treasury is well-acknowledged. Technology vendors have already incorporated machine learning (ML) capabilities into their treasury management systems, especially in areas such as liquidity forecasting. These advances have added to the ever-present promise that, once we untangle operations from spreadsheets, the opportunities for efficiency gains can be limitless.

Generative AI (GenAI) has emerged as a particularly potent tool within the broad spectrum of AI. Not only has it swiftly gained widespread recognition for its potential to deliver business value, but it has also sparked enthusiasm and captivated imagination.

One might wonder, if ChatGPT is so capable in a variety of tasks, from creating summaries of financial reports to writing poems about treasury management, does it mean that, in the future and under certain conditions, GenAI could potentially help me with the decision process in setting up an in-house bank?

We tested this hypothesis in an experiment, and the answer is a resounding 'yes'. The experiment simulated a real-world situation: the treasury team of a multinational organisation evaluating possible locations for setting up an in-house bank. Throughout the process, we turned to the assistance of GenAI on a variety of tasks.

In our quest to determine the optimal location for establishing an in-house bank, we embarked on a meticulous journey, where conventional financial wisdom and AI (via ChatGPT) came together to guide our decision-making process. Our methodology unfolded in the following steps (see opposite for a selection of ChatGPT's responses):

1. Scenario and objective communication

- Detailed the scenario, objectives, and potential locations for the in-house bank to ChatGPT

2. Criteria identification and expansion

- Introduced an initial set of evaluative criteria and solicited additional considerations from ChatGPT

3. Development of weighted scoring model

- Formulated a weighted scoring model that incorporated each identified criterion to effectively evaluate the candidate locations

4. Location evaluation through AI-generated scoring

- Engaged ChatGPT to assign scores to each criterion for every location, reflecting the presumed suitability and performance of each country

5. Generation of fictional payment data

- Requested ChatGPT to generate a fictional dataset of vendor payments, distributed randomly across the identified locations

6. Introduction of a new assessment factor

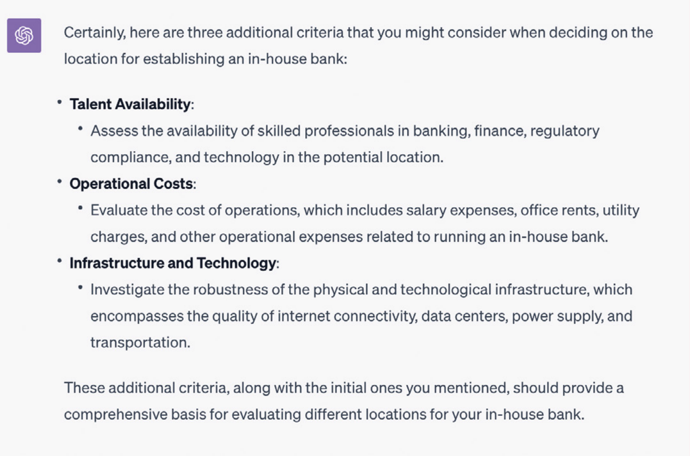
- Devised an additional assessment factor, related to payment values from the generated data, and integrated it into our scoring model, ensuring scores were normalised for equitable evaluation

7. Final evaluation and ranking of locations

- Employed ChatGPT to calculate and rank the final scores, using the enhanced formula, to identify the most suitable location for the in-house bank.

SAMPLE RESPONSES FROM CHATGPT

Step 1 and 2 (objectives and additional criteria)

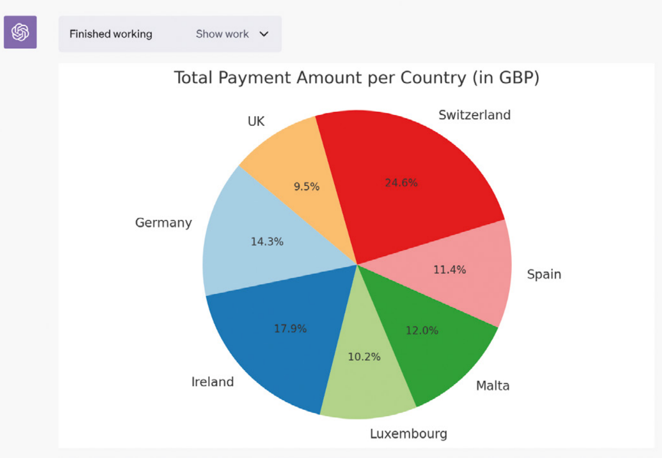


Certainly, here are three additional criteria that you might consider when deciding on the location for establishing an in-house bank:

- **Talent Availability**:
  - Assess the availability of skilled professionals in banking, finance, regulatory compliance, and technology in the potential location.
- **Operational Costs**:
  - Evaluate the cost of operations, which includes salary expenses, office rents, utility charges, and other operational expenses related to running an in-house bank.
- **Infrastructure and Technology**:
  - Investigate the robustness of the physical and technological infrastructure, which encompasses the quality of internet connectivity, data centers, power supply, and transportation.

These additional criteria, along with the initial ones you mentioned, should provide a comprehensive basis for evaluating different locations for your in-house bank.

Step 3 and 4 (weighted score model and location)



The example demonstrates the multi-faceted capability of generative AI to deliver value. It:

a. Enhanced our decision-making framework by complementing our tool set with additional evaluation criteria
b. Evaluated our options by assigning scoring to locations, based on the data on which the model is trained
c. Generated a dataset with hypothetical transactions that we used to test and optimise our framework
d. Did all the above using simple, **natural language processing** – no code or configuration required from us.

Our experiment focused on in-house banking, a typically complex and resource-consuming exercise for treasurers. We explored the potential of applying GenAI to such exercises in the real world.

The results did not disappoint. The potential looks very promising.

It should be noted though that full-scale enterprise use will need to take into consideration a variety of important constraints, such as data privacy, trust, and quality. There is also a social side to it, which examines the roles that humans will or should have in those processes that look ripe for a complete AI take-over.

Yet, there is also another important aspect. Our experiment showed what can be done by applying a groundbreaking technology on an established and mature concept of the finance world. This approach can generate significant efficiency and productivity gains. However, with the proliferation of AI in business, these incremental gains will likely lead to diminishing returns.

To retain competitive advantage, market participants (corporate treasurers and service providers, such as consultancies and financial institutions) should look beyond fine-tuning the traditional playbook and, instead, seek to leverage GenAI to spark novelty and to generate new concepts and ideas.

How to make this happen?

- Embrace the true power of GenAI, which is precisely the ability to generate, and focus your business cases around this capacity
- Get back to the drawing board and revisit existing concepts and solutions. Ask why – why did we come up with the in-house banking idea? What was the trigger and what are the expected benefits we are seeking? Can these be obtained through something new, something that AI can help us devise?

In other words, our hypothesis had us treating GenAI as our assistant. The future will demand that we treat it as our deputy.

Disclaimer: The experiment utilised Generative Pre-trained Transformer version 4 (GPT-4) alongside the beta feature of Advanced Data Analysis to showcase the potential application of generative AI in treasury activities. It's important to note that the framework employed for selecting the in-house bank location in our scenario is a simplified model with arbitrary assumptions. While it aims to encapsulate the complexity inherent in such decision-making processes, it is not intended to serve as professional advice. It is prudent to exercise caution when considering the deployment of public generative AI tools like ChatGPT for enterprise use, primarily due to concerns surrounding data privacy and data quality.

"The results did not disappoint. The potential looks very promising"

Facing down the cyber threat

From whaling and deepfakes to sophisticated hacker groups and rampant misinformation, treasurers need to be vigilant to avoid becoming victims of the latest scams

The threat of cyber attacks is a fact of life for organisations around the globe – and for their treasury teams. So, what role can the treasurer play in protecting the company?

"The types of risks that treasurers should be most concerned with include impersonation risks, such as business email compromises," says Tari Schreider, a strategic adviser at Datos Insights who focuses on cybersecurity technologies and practices. With the arrival of artificial intelligence and deepfakes, he argues that impersonation fraud will become easier to perpetrate.

While scams based on facial recognition are not yet a major threat, he says that synthesised voice threats are becoming a more significant concern: "I think that the more sophisticated hacker groups will eventually find that treasury departments can be low-hanging fruit with some of the new AI technologies out there."

For companies in which the treasury team is closely involved with supply chain activities, risks around vendors and payments may also be a concern. And as Schreider notes, risks can also arise when treasuries use their own technology platforms and vendors that are not covered under current IT security policies and procedures.

An IT partnership

"Generally speaking, individuals within companies today are all individually responsible for being diligent and cautious, and ensuring they are not opening themselves or their company to the usual attacks through phishing emails," says Royston Da Costa, assistant treasurer at Ferguson. "Then looking at treasury specifically, I feel very strongly that treasury really has to consider itself as being a partner with IT in this respect."

In the past, IT has always been a major stakeholder for treasury at Ferguson, "but they've tended to get involved more when there's a project to implement a treasury management solution or other application. Generally, they wouldn't have been seen as a day-to-day partner". With the cyber threat continuing to evolve and grow, Da Costa believes it is now increasingly important to have regular contact with IT, "as I do with our CISO".

At the same time, he argues it is important to understand responsibilities of different parts of the organisation. "If you visualise it as a diagram, on the left you've got IT who are the gatekeepers of all that comes into our domain – our website, our network – and what goes out," he says. "Then you've got treasury in the middle – we are responsible for making sure our processes are robust, and ensuring we don't fall prone to any kind of phishing attack, or click on links that could open up the company to a potential scam.

"On the right, you've got external vendors that we interact with, including banks. Of course, we have to make sure we have the right level of controls to match that. But these vendors and banks also need to ensure they are compliant, and that they are good citizens in terms of their security and how they manage that."

Procedures are key

To keep the treasury team aware of the latest threats, Da Costa says the company provides regular training created by HR. In addition, the IT department sends test emails, "not to catch people out, but to remind them how important it is not to click on that link without checking first".

While cyber risk is a concern for all, some industries face a more significant level of threat than others. Joe Peka, deputy treasurer at URENCO Group, which supplies enrichment services and fuel cycle products for the civil nuclear industry, says that cyber crime "is a constant risk and is relevant to everything that we do".

The company has complex systems and networks, and is heavily reliant on them operating effectively to protect cash, as well as confidentiality. "This is especially of concern because of the industry we work in and the potential targeting by foreign bodies, as well as the normal criminal networks," he says.

Peka explains that the treasury team plays its part in supporting its security specialists and designing and implementing technologies that are as robust as possible. And he adds: "We need to ensure that our staff are trained to recognise threats such as whaling (CEO impersonation scams)." The treasury team also ensures that processes and procedures are well understood and as consistent as possible across the group. Shortcuts in controls procedures by anyone, however senior, are not supported.

"We run tests that ensure we are all vigilant to these types of threats," Peka adds. "Training is key and that includes not bringing hardware that has not been provided by our own internal teams into our environment." Physical access to sites is also managed closely, with all staff subject to security clearance. Last but not least, he highlights the importance of having contingency plans in place, "so that in the worst-case scenario we can continue to operate until the threat is removed".

Keep systems up to date

What else could treasury teams be doing to protect their organisations? According to Steve Wiley, VP treasury solutions at technology firm FIS: "The most important areas of focus relate to ensuring treasury technology is sourced from reputable providers with strong security measures, and that treasury technology is up to date."

In addition, he notes the importance of preventative and detective payment controls, process controls such as dual approval, and "a strong, automated audit system that can automatically alert treasury leadership to abnormal transactional activity".

Where resourcing is concerned, Datos Insights' Schreider argues the treasury department should have its own business information security officer.

Narrative risk intelligence is another emerging area of interest. Schreider explains that this relatively new technology can be used to monitor the markets for attacks based on misinformation and disinformation.

Beyond that, Schreider recommends treasurers focus on being the owners of risk, "and understand the risk that's unique to their department". While risks around technologies and malware can be left to the IT security department, he concludes: "Treasurers also need to make sure that from an attack surface perspective, all their assets are accounted for, and they're not sitting outside the purview of their corporation security practices and policies."

Rebecca Brace is a freelance journalist

> "Treasury departments can be low-hanging fruit with some of the new AI technologies out there"

Middle East proves its resilience

Despite conflict in Israel and Gaza, and ongoing economic and geopolitical uncertainty around the world, treasurers in the region are demonstrating resilience and seizing opportunities

Annette Spencer, the ACT's chief executive, opens the conference

The ACT Middle East Treasury Summit returned to Dubai in October, with the conference providing more than 700 delegates with the tools needed to manage their treasury operations in a turbulent global economy and continuously transforming region.

Here are 10 key takeaways:

1. Growth continues in Middle East

Simon Ballard, chief economist at First Abu Dhabi Bank, noted that, despite the military conflict in Israel and Gaza and the ongoing war in Ukraine, Middle Eastern economies are growing "because cash continues to flow in, and we haven't had the impediment of tighter financial conditions that we see in the US and Europe".

One reason why the Gulf economy has been healthy has been digitisation. "In the UAE there is growing adoption of digital payments, and the government has announced a 20% increase in GDP from the digital payment industry," said Paolo Lo Monaco, group CFO, Al Khayyat Investments.

2. Gold is in vogue

Companies are stocking up on gold as geopolitical situations such as the Ukraine and Israel-Hamas wars are causing uncertainty with the markets. Big corporates, especially in the Middle East, are favouring gold as they look to hedge against fluctuating conditions, said Matthew Keen, managing director of Evidens Consulting, a Dubai-based precious metal specialist consultancy. "Gold has always been a good product to have in times of crisis and while some people say if the crisis doesn't happen gold will come back down again, it's always good to hold as an insurance policy."

3. Abu Dhabi's non-oil sector growth

For the first time in 50 years, non-oil sector nominal GDP contributed more than 50% of the overall nominal GDP total for Abu Dhabi emirate, Ballard told *The Treasurer* at the event. Its non-oil GDP rose to Emirati Dirham AED154bn (US$41bn) in Q2 2023, up 9.2% year on year, showing how the region is growing outside its usual sectors. Overall, the UAE is forecast to have 3.5% GDP growth in 2023, compared with 0.8% for Saudi Arabia, says the International Monetary Fund.

4. Treasurers should be writing AI data strategies

To have an AI strategy you need a data strategy, and treasury teams are best positioned to provide the data strategy because they are at the core of this data. That's the view of Amit Jain, CEO, San Francisco B2B fintech Zamp. "Once you have the data there is no reason that treasury teams need to be limited: they can evolve into more than just treasury functions because they have their hands on the data – this is the evolution of the role, and they are the heartbeat of the organisation."

5. Leadership is akin to a balance sheet

Just as a balance sheet illustrates the health of a company, strong leadership demonstrates assets and team members that positively contribute to your organisation. However, a lack of, and liabilities in, leadership can erode effectiveness, much like those liabilities shown on your balance sheet. The goal with leadership and a balance sheet should be to cultivate strengths while mitigating weaknesses, said Muhsin Alrustom, CFO for Oman-based logistics service provider ASYAD.

6. Changing your ESG KPIs is acceptable

You should not change ESG KPIs because you are not meeting them, said Shabbir Ahmad, head of treasury for Dubai-based Landmark, one of the Middle East's largest retail groups. Instead, they should be changed to improve targets. Companies need ESG goals to help achieve frameworks they have built, from sustainable products to sustainable systems. Some companies have an agreement with the banks about an agreed transition towards sustainability. If it is a working capital facility, for instance, firms can keep working on it for the duration of the agreement, because the documentation is in place, but when it is time to renew, an addendum to amend ESG KPIs could be added, if needed.

7. People will always be needed, despite AI

As technology plays an increasing role in businesses, with the growing integration of AI and automation, companies should remember that human staff still have the ability to adapt and change to real-world circumstances. "It's still all about people," said Adel Al Wahedi, CFO for Abu Dhabi-based utility the National Central Cooling Company PJSC. "People will always break through when you have the right talent, it's the key to unlocking all challenges. Any company and enterprise will tell you this."

8. Treasurers can act as catalysts to ESG

By having their finger on the pulse, treasurers act as the window to the outside world for many companies, and thus can be extremely influential in tracking ESG targets. "Treasurers act as catalysts to ESG now," according to Rajesh Garg, CFO and chief sustainability officer for Landmark. "Beyond the basic treasury functions, they are a great way of remaining in touch with what's happening in the markets, from oil prices, currencies, interest rates etc.

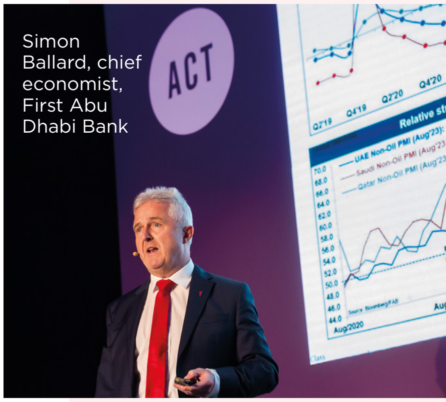
9. Treasurers' skill sets have shifted

The role of the treasurer is moving from banking and funding to also supporting marketing, content and commercial teams, noted Al Khayyat Investments' CFO Paolo Lo Monaco. One reason for this is the need to understand the ongoing digital transformation that is changing business, such as increasing use of digital payments. It is important to find new roles for financial people in tech businesses because of things like generative AI that can get reports and information quickly, said Lo Monaco: "When it comes to the skill set, you have to dedicate time to learn what is required for future visions. We don't want missing skill sets."

10. Invest in tech to get real-time, up-to-date data

Real-time data is the biggest technological asset that companies should be utilising, said Kate Porter, treasury, payments and data solutions director, FIS, an American multinational fintech company. Real-time data is what drives a lot of tech stacks used by companies to develop solutions, such as apps, she said. Predictive analytics via AI is the way forward and can speed up key processes, such as getting paid, "thanks to predicative analytics, which show you who is going to pay you and when", said Porter.

Nick Watkins is a freelance business journalist based in Dubai


Simon Ballard, chief economist, First Abu Dhabi Bank


Al Khayyat Investments CFO Paolo Lo Monaco (centre)

Stars in the Middle East

The ACT presented the prestigious Middle East Treasury Awards at a black-tie dinner on the eve of the ACT Middle East Treasury Summit in Dubai. The awards celebrate outstanding achievements in treasury, and recognise companies and individuals that have shown innovation and excellence

Future Leader in Treasury Award
WINNER: Fatma Al-Shekaili, ASYAD Group
Fatma Al-Shekali has some 30 years' experience within finance and treasury, and has played a pivotal role in developing innovative trade financing structure for their organisation and both shaping and executing the organisation's strategy.

Treasurer of the Year
WINNER: Ahmed Al Mansouri, ADNOC
With 30 years' experience within finance and treasury, Ahmed Al Mansouri (second from right) has played a pivotal role in developing innovative trade financing structures for his organisation, shaping and executing the organisation's strategy. This includes centralising treasury operations and driving an in-house bank project. He is a strong advocate for challenging the status quo, from looking at new processes to streamlining operations and mentoring graduates.

Treasury Professional of the Year – Service Provider
WINNER: Sleiman El Homsi, PwC
Sleiman El Homsi is recognised for building trust and credibility, and acting with integrity – putting himself in the shoes of the treasurer to deliver excellent results.

Corporate Team of the Year – Large
WINNER: Landmark Retail
Landmark Retail streamlined its treasury procedures through digitisation, while spearheading execution of multiple sustainability-linked products. The creation of an Interest Optimisation Structure highlighted the team's adaptability in working across stakeholders outside the finance function and its resilience in pushing this through.

Corporate Team of the Year – Medium
WINNER: Aljabr Holding
Aljabr Holding achieved much in a short space of time – especially considering it was a new team. The list of tasks and challenges ranged from virtually recruiting the bulk of the new treasury team, establishing a first-time credit rating for the organisation as a standalone entity, and implementing a new TMS.

Sustainability Award
WINNER: Landmark Retail
Landmark Retail showed a clear commitment in this area, with sustainability a core part of the organisation's ethos and an aim to convert all treasury products to become sustainable.
Highly commended: Royal Golden Eagle

Cash Management Award
WINNER: Aldar
The panel recognised Aldar's solid performance delivering against fundamentals, showing impressive savings on interest.
Highly commended: Jetex

Capital Raising Award
WINNER: Almarai
The overall delivery of the debt funding across sukuk and bank deals as a combined effort stood out as an excellent performance.
Highly commended: Aldar and Sobha

Treasury Systems Award
WINNER: Fujairah Gold
The judges were impressed with the journey from a manual operation to a seamless integrated platform, optimising treasury functions and providing a strategic advantage with more transparency and visibility.
Highly commended: Oasis

Treasury Transformation Award
WINNER: GEMS Education
GEMS made a significant treasury transformation, taking a decentralised and complex operation with interests across several countries into an effective centralised treasury model, based out of the UAE.
Highly commended: Checkout.com

Working Capital Solutions Award
WINNER: Noon
Noon sought to optimise its working capital to meet its business challenges in the UAE. Innovative solutions included generating additional income via a Buyer Led Supplier Financing programme.
Highly commended: Jacobs

BEST PRACTICE

Expert answers to today's challenges

42

RAPID RESPONSE
Coupa explains how it helped Save the Children International set up a rapid-response cash management system

48

SOLAR GAINS
There's no such thing as a typical day in the life of Lightsource bp's treasury team, says Viktoria Hadarits

50

STRESS TEST
Archbishop of Canterbury Justin Welby Hon FCT urges us all to support each other during stressful times

Sustainability: what to watch in 2024

As we move into a new year, corporates should keep an eye on market developments, data and the way they articulate their ESG activities

ESG

For CFOs and treasurers, the pace of change in the world of sustainability – across regulation, financing and standards – can seem bewildering. Combined with policy uncertainty and a backdrop of high inflation and interest rates, this complexity could prompt some companies to adopt a 'wait and see' approach.

However, the vigorous debate around standards and regulations is positive. It reflects the growing maturity of sustainable finance, and ever-growing opportunities for far-sighted companies.

Businesses seeking to prosper in a riskier world recognise that it has never been more important to cut through the noise and get to grips with the impact of environmental, social and governance (ESG) issues on operations and financing. As companies head into 2024, below are some key items to consider:

1. Refine your sustainability taxonomy

The sustainability debate has advanced significantly in recent years. Language around 'use of proceeds', eligibility criteria, monitoring and reporting – and even what constitutes environmental and social objectives – has evolved accordingly.

Companies should revisit their taxonomy to ensure they have clearly articulated activities, both environmental and social, that are sustainable. Companies that have not previously done this should consider drafting now.

A clear taxonomy enables potential investors to more easily assess the sustainability goals and key performance indicators (KPIs) of companies using sustainable finance. Investors' greater emphasis on clarity and credibility when it comes to targets is being reflected in the use of financing tools. During H1 2023, use-of-proceeds issuance soared while instruments linked to broader sustainability targets, such as carbon emissions, slowed.

Meanwhile, the Financial Conduct Authority (FCA) has drawn attention to the need for "more meaningful, science-based targets" for sustainability-linked loans (SLLs) to build market trust and integrity. Corporates may also want to rethink their attitudes to missed SLL performance targets. Most sustainable finance is multi-year, so there is usually an opportunity to get back on track and regain the cost benefits associated with hitting their KPIs. And as KPIs become more credible, investors will come to recognise that they may, on occasion, be missed.

2. Data, data, data

The depth and frequency of requests for sustainability information continue to challenge many corporates. To manage incoming enquiries from stakeholders – including customers, suppliers and regulators – companies need to ensure their sustainability data is in good order.

While the FCA has yet to announce a timetable for mandatory compliance with the Taskforce on Nature-related Financial Disclosures (TNFD) and International Sustainability Standards Board (ISSB) S1 (broader sustainability metrics) and S2 (on climate) regimes, it is expected that both regulations will be introduced in the coming years.

Corporates might benefit from starting the process of gathering information about

> **"The debate reflects the growing maturity of sustainable finance, and opportunities for far-sighted companies"**

governance, identifying key risks both within the business and across the supply chain, and considering how relevant data will be managed. One benefit of early planning is that many of the standards build on each other. TNFD will require similar structures to those already in place for the Task Force on Climate-related Financial Disclosures (TCFD) and much of the work that companies do to prepare for TCFD will be useful for ISSB standards. Similarly, companies operating in the European Union will be able to reuse information they collect and report for the Corporate Sustainability Reporting Directive.

3. Keep an eye on market developments

Many sustainable financing tools, such as 'use-of-proceeds' bonds and loans and sustainability-linked instruments, have been around for years or even decades. But the sustainable finance market continues to evolve. It is important to monitor developments that could deliver both attractive financing and stronger ESG credentials.

For instance, in September, the International Capital Market Association issued new guidance on so-called blue bonds, which are an innovative financing instrument with funds earmarked exclusively for projects that promote healthy seas and the blue economy. The guidance includes blue economy typology, eligibility criteria and KPIs. Blue bonds might seem niche, but for companies with real estate or facilities near the coast, making use of this tool – to invest in coastal protection, for instance – could be advantageous.

While green bonds continue to dominate sustainable bond market issuance, social bonds, have recently seen strong issuance.

Motability Operations, which provides cars and scooters to people with disabilities, published a social bond framework in 2020 and has since issued several bonds, including 12-year and 25-year bonds sold in September with Lloyds Bank as joint bookrunner. The success of the transactions highlights the role that social bonds can play in reflecting business strategy while also raising cost-effective finance.

Lloyds Bank has also helped to further the development of the sustainability-linked derivatives (SLDs) market, with a sustainability-linked foreign exchange transaction that supports UK leisure travel company Jet2's decarbonisation ambitions.

For Jet2, the SLDs enable it to mitigate FX risk from operations – just like a standard derivative – while gaining pricing benefits as long as it delivers on its ESG goal of reducing CO_2 emissions per passenger-kilometre travelled.

> **"It is important to monitor developments that could deliver both attractive financing and stronger ESG credentials"**

Look to the long term

The world of sustainability is becoming more complex. But rigour is also increasing. Despite uncertainty in the macroeconomic and political environment, the direction of travel is clear. Sustainability is not only a force for good, but – during a time of uncertainty – can deliver both operational and financing benefits for companies that are prepared to focus on the long term.

Hannah Simons is head of sustainability at Lloyds Bank Corporate Markets

Lloyds Bank Corporate & Institutional supports clients with UK links from the UK, Europe and North America as well as other countries around the globe. Its Capital and Financial markets business (the non-ring-fenced division of the Group known as Lloyds Bank Corporate Markets) provides banking, financing and risk management solutions, connecting the UK to the rest of the world. It aims to help its clients grow their business, as well as drive sustainable and inclusive growth that benefits people and businesses across Britain.

Rapid response treasury: lessons from Save the Children International

Treasurers are under immense pressure to ensure business resilience and agility, but the pressure is even greater for non-profit organisations, says Coupa's Tamir Shafer

RISK MANAGEMENT & STRATEGY

Liquidity risk management is essential for the success of any organisation. Without sufficient visibility over liquidity, a business cannot make smart decisions about yield management, achieve its daily cash management goals or survive a crisis.

As a result, treasurers are under immense pressure to ensure business resilience and agility. But the pressure is even greater for non-profit organisations, especially in the humanitarian aid sector, where the ability to respond rapidly saves lives.

This is a challenge that Save the Children International faced as it attempted to modernise its treasury processing. As a global organisation, Save the Children International provides services to regional charity members around the world, including fundraising operations in 30 nations that last year raised $1.5bn for international causes.

Save the Children International operates in more than 100 countries, including war-torn nations and volatile regions, from Afghanistan to Sudan to Yemen. During crises, the treasury team must be ready to respond and send funding to humanitarian emergencies at a moment's notice.

Technology critical to visibility

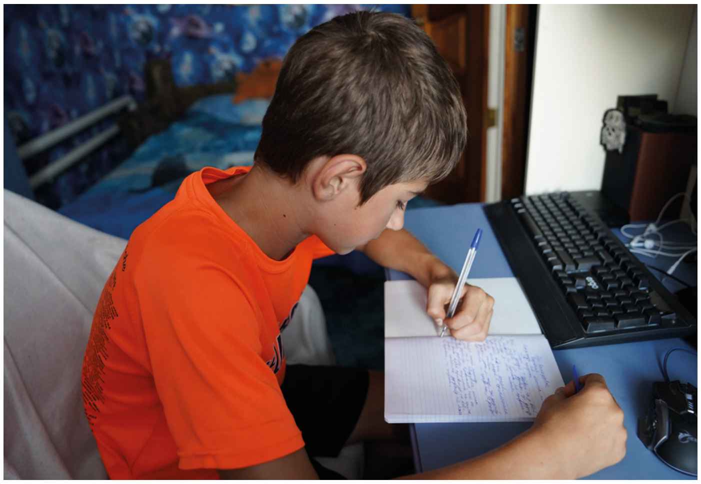
Liquidity risk management requires visibility into cash positions and an overview of balances in all available banks, bank accounts and countries. This can be difficult for large international organisations: Save The Children International deals with a high volume of transactions, including more than 4,000 non-dollar transactions every month, and manages more than 120 banking partners with over 500 bank accounts around the world.

Technology is critical, pulling together organisation-wide data and increasing efficiency. When it was formed, Save the Children International recognised that treasury management software could deliver more efficient processes compared with cash management done exclusively through multiple bank websites, and chose Coupa Treasury for this, but the software was not utilised to its full capacity at first.

"As my colleague put it, it was like we had a Ferrari in the garage, but we never took it out to drive," said Asha Kumari, deputy treasurer of Save the Children International. "We had Coupa Treasury, but we didn't allocate enough resources to it."

The organisation began working closely with Coupa to unlock its potential, starting with cash management and improved bank reporting. Three years ago, only 35% of its bank and mobile wallet accounts were reporting via Coupa

> **"Coupa created a process that meant Ukrainian families could receive money within 24 hours"**



Treasury, and the organisation was still reliant on Excel spreadsheets and manual processes, like keying in banking data and sending faxes to confirm transactions. Coupa also allowed Save the Children International to centralise its funding, moving from multiple disparate teams trying to manage cash in each country, into a single team managing cash globally.

But after making changes, including linking into the global payment messaging system SWIFT and using MT940 bank statement reporting, the organisation now captures more than 90% of statements electronically and automatically into the treasury system. This has improved visibility and freed teams from time-consuming manual tasks to focus more on value-adding work that supports frontline humanitarian tasks.

Responding to the Ukraine crisis

The treasury team's rapid response capability was put to the test last year when the war escalated in Ukraine. While the charity has had a presence in the country since 2014, the conflict required it to ramp up operations quickly.

"The local finance team was attempting to pay tens of thousands of families," recalls Edward Collis, head of treasury at the organisation. "Coupa Treasury played a key role here in helping to work with local banking partners and create a process that meant Ukrainian families could receive money within 24 hours of registering with the charity."

By embracing automation and digital transformation, the treasury team can now focus on more challenging – and rewarding – work, such as offering a better, faster service to offices in crisis countries. The lesson for businesses is that, with the right processes in place, they too can ensure money gets to where it is needed, at exactly the right time.

Tamir Shafer is vice president at Global Coupa Pay & Treasury

ACT LEARNING

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TREASURY BRIEFING SAUDI ARABIA

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treasurers.org/events

6 MARCH 2024 | LONDON, UK

ACT CASH MANAGEMENT CONFERENCE

Join us for technical updates, and to learn how to optimise strategies and take practical action to manage cash and working capital successfully.

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20 MARCH 2024 | LONDON, UK

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treasurers.org/doty23

21-22 MAY 2024 | LIVERPOOL, UK

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learning.treasurers.org/training/blockchain-for-corporate-treasury

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ACT LEARNING

Time to celebrate: ACT prize winners 2023

The results are in, and the Association of Corporate Treasurers has announced its top students for 2023

LEADERSHIP & CAREER

Every year we have the opportunity to celebrate the brightest and best of our ACT student members as they progress through their qualifications. Our annual prize winner celebration selects the highest performing students across our qualifications and from around the world. We also select the Gay Pierpoint Bursary Award – the highest performing bursary student, which is in honour of former ACT Education Secretary and ACT advocate Gay Pierpoint.

This year, we had our first in-person member event since COVID-19 and we took the opportunity to celebrate with them and their peers and award them their certificates.

Congratulations to our 2023 winners.

Federico Ponta (FCT), treasury manager, global treasury service, Parker Hannifin

Advanced Diploma in Treasury Management, Student of the Year


Federico Ponta

The Advanced Diploma proved to be a rewarding challenge beyond my expectations. I'm able to look at and analyse different treasury topics with a new set of eyes and with greater consciousness about the positive impact that treasury professionals can deliver for corporates.

The course ensures that we treasurers keep focus on the drivers from which we can bring value in every aspect of our profession. The quality of the ACT study materials and the exchange with peers from all around the world further enriched the learning experience.

Treasury is in constant evolution and the ACT prepared me to face new challenges, contributing to both my personal and professional growth.

Hannah Sydenham (CertICM), associate, product sales specialist, global transaction services, Bank of America

Certificate in International Cash Management Prize Winner 2023


Hannah Sydenham

The ACT's CertICM qualification provided an excellent opportunity to develop my knowledge of cash management. The wide range of treasury topics covered centred on three key themes: cash management, debt management and risk management.

The qualification's focus on the perspective of a corporate treasurer complemented my existing experience well, working for a global financial institution responsible for providing treasury solutions for clients. Throughout my time studying, I developed a true appreciation and understanding of the many considerations and different techniques applied by corporate treasurers when making day-to-day and longer-term strategic decisions around the management of cash for the successful running of an organisation. This knowledge will be invaluable as my career in this industry develops further.

The ACT provided many useful resources

throughout the study period – including frequent progress tests, past papers and both group and one-to-one webinars with industry professionals. This support system created a comfortable environment to ask questions and build my network with other like-minded individuals across the industry.

Daniel Lee (AMCT), treasury analyst, Kingfisher

Diploma in Treasury Prize Winner 2023

Studying for the Diploma in Treasury Management was a truly enjoyable and rewarding experience. The content was well planned out and gave a comprehensive, practical insight into the world of treasury.

I particularly liked how the qualification addressed recent developments such as blockchain technology and its potential application in treasury, as well as the trend towards ESG principles. Writing a mini dissertation was challenging, however I relished the opportunity to research and write about my own organisation and provide a first-hand account of its treasury function at the time.

Daniel Lee

With the resources provided by the ACT and my support network, I managed to complete the qualification and now feel equipped with the knowledge and confidence required to excel in my treasury career.

Nicole Beard

Nicole Beard (CertT), group senior treasury analyst, Mobico Group

Certificate in Treasury Prize Winner 2023

I've found it extremely rewarding how closely related the Certificate in Treasury qualification was to my day-to-day job as a senior treasury analyst. The content provided me with a solid but broad understanding of treasury, which I was able to instantly put into practice. I found the workbooks really clear and easy to follow and the flexible timing of exams meant I could learn at my own pace, while still giving 100% to my day job.

I've now moved on to study the Diploma in Treasury Management, which I'm confident will support me in achieving my next career goals within treasury.

Jathin Jayaram

Jathin Jayaram (AMCT), principal consultant, Aurionpro Solutions

Diploma in Treasury Management, Bursary Prize Winner 2023 (Gay Pierpoint Bursary Award)

Throughout my career in treasury, which began as an FX and IR derivatives dealer at a prominent Indian bank, and during my current role as a treasury technology consultant, the ACT qualifications have proven to be invaluable.

Balancing the Diploma in Treasury Management curriculum alongside my full-time work was a challenge. The exams, requiring essay-type answers based on almost real-life case studies, were particularly demanding within the allocated three-hour timeframe for each paper.

But I enjoyed applying my experiences, learning and creative ideas during the exams. This journey, coupled with my association with the ACT, sparked a fresh interest in sustainable finance.

The ACT's strong focus on ethics, governance, and compliance in its syllabus is commendable, shaping capable and principled treasury professionals. Not only for corporate treasury staff, I feel these qualifications should be taken by treasury dealers in banks who handle corporate sales portfolios as it will help them to get an overall picture of their clients' requirements and to service them better.

I extend my gratitude to the ACT Educational Trust for supporting my Diploma in Treasury Management through its bursary scheme.

THE GAY PIERPOINT BURSARY AWARD

The ACT Educational Trust provides bursaries for students in developing countries. The Gay Pierpoint Award recognises the highest scoring student studying under the bursary scheme. The award is in honour of former ACT Education Secretary and ACT advocate Gay Pierpoint.

A day in the life: of Lightsource bp

From a standing start, Lightsource bp's treasury team has grown quickly to reflect the needs of the rapidly developing solar energy business

TREASURY OPERATIONS

For Viktoria Hadarits, assistant treasurer at Lightsource bp, there's no such thing as a typical day. This perhaps isn't surprising given that the treasury function at the international solar business was only set up in April 2022 and is still relatively young – Hadarits was the first corporate treasury professional to come on board. Since then, the team has grown rapidly to a team of eight, half of whom were only hired in the past six months.

"We are a very new department, and our top priority is to lay down the foundations for treasury," she says. "Certain treasury functions had been performed by other departments such as finance and structured finance, but now we are here to put treasury on the map."

Lightsource bp was itself founded in 2010 and is now a global leader in developing utility-scale solar power projects in some 19 countries, with a 60GW pipeline. By way of a comparison, there is currently around 15GW of solar installed in total across the UK. Energy giant BP first invested in Lightsource Renewable Energy, as it was then known, for a 43% stake in 2017 and increased that to 50% in 2018, though it is worth noting that as a joint venture, it is not part of the BP Group. This enables Lightsource bp to move at a greater pace while benefiting from the scale BP offers.

The treasury team is headed up by Ann Sharpe. Hadarits and three other members of the team look after treasury operations, including oversight of some 800 bank accounts with 15 counterparty banks and other front- and back-office operations such as funding, debt and investment management, foreign exchange, and SAP implementation. Separately, a further two members of the team handle trade finance while a third looks after treasury data and system integration as the company begins its journey towards greater process automation.

As the team has brought the disparate parts of treasury – from foreign exchange to managing excess cash – under one roof, it has been important to maintain good stakeholder relationships with other parts of the organisation. As Hadarits says: "We work very closely with other areas, such as structured finance and FP&A and the transaction team – we do not process payments in treasury – as well as the legal team, who are our allies as we go through KYC processes, and not to forget, of course, the risk management team."

The rapid growth in the treasury team mirrors that of the wider business, which has grown from five to 19 markets since the BP deal and from 270 employees to 1,200 over the same period. "We have experienced massive growth over the past five years, as everyone is scaling up to make sure that we not only meet the current requirements for the company, but that we also can cater for the future," Hadarits says. "We are a big company now. For instance, to demonstrate the speed of scaling up, we started operating in Australia just four years ago, and we are now number one in that market."

BP is represented by two members on the company's board and so is involved with strategic decisions, but on a day-to-day basis, the company operates independently. "We are able, of course, to consult with BP; the doors are open for advice, and we have a good relationship with BP's treasury team," Hadarits says.

The company's head office is in Holborn, London, and with regional offices around the world, including San Francisco and Denver in the US, Singapore and Sydney, Australia, there is the need for coordination globally as well.

Fundraising happens at two levels in Lightsource bp, one at the corporate level, and the other at a project level. "Project financing is an important part of the solar industry, similar to any other infrastructure financing. Because of our 60GW pipeline, we are constantly raising funds in order to continue the speed of the development and construction that we are involved in," Hadarits explains.

The Lightsource bp treasury team

In fact, since 2020, the company has raised $3.3bn in corporate debt, including both revolving credit and trade finance facilities. "On the RCF side, because of our global presence, we are able to draw in four currencies – US dollars, Australian dollars, euros and British pounds. We are talking about billions, which is not surprising given the scale of the transition [to net zero]."

Talking of the transition to net zero, sustainability is in everyone's objectives in Hadarits's team, even though her priorities remain focused on building up the treasury function. "I want people to always have sustainability at the back of their minds – we have a young team, therefore I want this to be something they always think about."

As an example, she points to the money market funds that this year they have begun using to invest the company's excess cash. "We have implemented ESG-based MMFs alongside other MMFs," she explains. Corporately, Lightsource bp is ahead of the game. For instance, new rules governing biodiversity are being introduced in England, but the company has already been assessing the habitats at development sites to make sure that it follows through the life-cycle of the project so that there is a positive biodiversity gain at the end.

"Sustainability is in our DNA, and of course, it is very much part of the conversation. Greenwashing is an important issue for treasurers and finance more widely. We are bombarded with green products, so I always ask the banks for more details, more visibility and transparency, because sometimes the product is not what it says it is on the tin."

There might not be a typical day for the treasury team at Lightsource bp, but there is one constant. As Hadarits says: "There's always more to do, both day to day and in the long run, and even if we worked 24 hours, seven days a week, we wouldn't get to the end of it. We are constantly looking for efficiencies and improvements. We have RFPs ongoing for cash management and systems implementation projects, as well as reviewing policies governing foreign exchange and hedging.

"But we always stop at the end of the day, take stock of what we have done and discuss what's next for the team. It is very important to talk about our achievements and celebrate the successes of the team."

"Sustainability is in our DNA, and of course, it is very much part of the conversation"

IN NUMBERS

19	countries
1,200	employees
8	members in the treasury team
60GW	of electricity in the pipeline
$3.3bn	of corporate debt raised since 2020

Stress test

LEADERSHIP & CAREER

There are three significant drivers of stress – novelty, uncertainty and uncontrollability. That's according to John Coates in his book *The Hour Between Dog and Wolf*, in which the former bond trader looks at the biology and neuroscience behind our behaviour.

When you think about it, it makes sense that we are evolutionarily designed to have physiological and psychological responses in the face of new and unpredictable events. These responses keep us safe. Our ancestors faced issues of life and death daily until relatively recently.

These days, many of us – particularly in the Global North – are not constantly faced with threats to our basic survival. And yet it is in the Global North that we are seeing higher levels of stress reported than ever before. We are encountering novelty, uncertainty and uncontrollability in new ways.

2024 will be an election year in the US, and one with particularly high stakes. Russia's war in Ukraine is ongoing, with no sign of ending. Violence in the Middle East has resulted in huge loss, fear, and suffering, with no easy route to peace. We can barely imagine the violence that may follow from the horrors that we have witnessed. We are still emerging from the devastation of the COVID-19 pandemic. In the UK, the death of Her Majesty Queen Elizabeth II signalled the end of an era that most of us had known all our lives. And, of course, the impact of the climate crisis has many of us fearing for the future.

As treasurers, we add the pressures of the markets, periods of extreme volatility mixed with periods of remarkable calm, pressures on exports, changes in international relations and consequent regulation, and myriad other more or less usual business risks.

Such long periods of high stress are extremely demanding on our physical and mental health. It's no wonder we're seeing people across all sectors suffering from burnout, chronic stress and exhaustion.

So, what's the answer? The times we are living in have revealed, beyond dispute, that the myth of our own autonomous control that technological and scientific development has given rise to is just that – a myth. From financial markets to viruses, everything we do and everything we are is interconnected.

To be a human is to be in relationships with other humans. And so, the first defence against this deeply stressful time is found in the communities around us, the families, friends and colleagues that support us. As we all know, a good company culture of mutual support is intensely important and does not run against the natural competition that will always exist in business.

We can listen to those around us, and we can create space and safety for others to share. Stepping into this openness and vulnerability has two outcomes. First, we come to learn that we are not alone. There is nothing we are struggling with that other people have not faced. And second, out of that shared understanding, we can support one another. There is no resilience in isolation. We are, biologically, evolutionarily, and necessarily creatures of community.

The strange role I have is full of stress from the reality, suffering, struggles and divisions, of the lives of 85 million Anglicans in 165 countries. I believe – as you might expect – that we are made by a loving and faithful God, who became human in Jesus Christ so that we might have a closer relationship, with Him. In all the chaos and all the confusion of human life, God is close to us and calls us to rest our burdens on Him. He is the one who is ultimately in control, and who will offer us peace and give us strength in any challenges we may face together.

“There is nothing that we are struggling with that other people have not faced”

Justin Welby Hon FCT is the Archbishop of Canterbury and a member of the ACT