Treasury Broadsheet

Quarterly newsletter of snippets and stories from the world of treasury management by PwC Treasury Advisory

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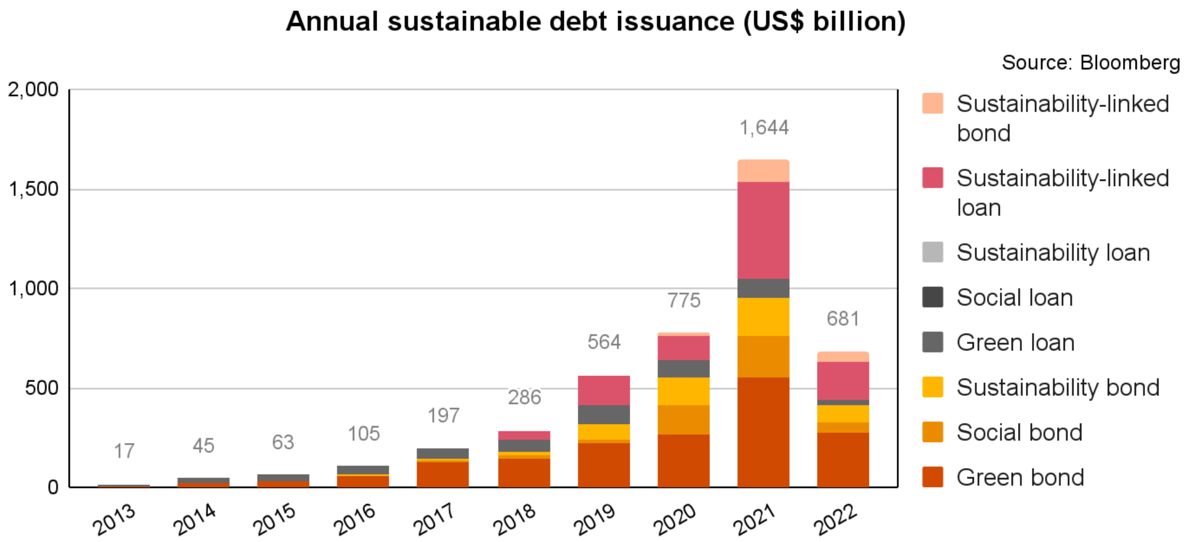
Sustainability-linked derivatives

Having enjoyed almost unfettered growth to date, the ESG market has mushroomed into an estimated US$35 trillion hotchpotch of products that are reshaping financial markets. Most recently, ESG has spread into the universe of derivatives and in increasingly imaginative ways. Because of the constant innovation, the International Swaps and Derivatives Association (ISDA) says compiling a list of the different ESG-related derivatives product structures and transaction types as "very challenging". In its attempt to do so, ISDA found ESG-related derivatives comprise of a range of products which include: sustainability-linked derivatives; ESG-related credit default swaps (CDS) indices; exchange-traded on listed ESG-related equity indices; emissions trading derivatives; renewable energy and renewable fuels derivatives; and catastrophe and weather derivatives.

A particularly interesting subset of the ESG-related derivative universe is the sustainability-linked derivatives (SLDs). SLDs mirror the concept of sustainability-linked loans (SLLs) and sustainability-linked bonds (SLBs); sustainable financing products that are quickly rising in prevalence. Last year, when sustainable debt issuance surpassed US$1.6 trillion globally, the fastest growing theme within this market was SLLs and SLBs. Together, SLLs and SLBs saw more than US$595 billion of issuance in 2021, quadrupling the value of issuance seen in 2020.



[1] 2022 calendar year shows issuance to date (as at 30 June 2022).

Unlike other types of sustainable finance instruments, such as green, social, or sustainability bonds or loans, sustainability-linked instruments do not restrict issuance proceeds to defined environmental or social projects. Instead, the repayment of the instrument is tied to certain ESG targets, such as a stated reduction in greenhouse gas emissions. These targets are called key performance indicators (KPIs) and they can be adapted to each party's specific sustainability-linked objectives based on the sectors they operate in. SLLs or SLBs can be linked to up to four or five tailored KPIs. The terms of the instrument will vary depending on performance against these predefined KPIs. For instance, achievement of the KPIs could result in a reduction in interest margin and/or fees, while the borrower remains free to use its proceeds for any general corporate use. The enhanced freedom and flexibility of SLLs and SLBs is a key factor behind their growing prevalence in sustainable debt issuance. Notably, they have become popular alternatives for issuers that are:

- In heavy-emitting/hard-to-abate industries
- Do not have sufficient capital expenditure to have proceeds connected to environmental or social projects
- Are at the beginning of their sustainability journeys
- Are smaller and may lack the capacity to implement appropriate tracking or reporting practices required for use of proceeds instruments

Derivatives are just the latest financial product to receive the "sustainability-linked" treatment. Mirroring the idea of SLLs and SLBs, SLDs create an ESG-linked pricing or cash-flow component that is added to conventional hedging instruments, using KPIs to monitor compliance with ESG targets. The ESG-linked pricing or cash-flow component can take a variety of forms. In some transactions, meeting (or not meeting) a KPI could reduce (or increase) one counterparty's payment such as through a margin or spread amount, or payment of a rebate or fee. Other transactions can facilitate a counterparty's efforts in supporting sustainability outcomes. For example, if a company doesn't meet its ESG targets it could have to compensate by charitable giving or investment in climate action sustainability projects. Ultimately, like SLLs and SLBs, the purpose of SLDs is to provide market participants with a financial incentive for improved ESG performance. In this way, the derivatives market is expected to play an important role in transitioning to a more sustainable global economy.

To date, the SLD market has mainly been concentrated in Europe - where the rapid growth in Europe's SLL and SLB markets initially drove the innovation. The world's first deal, which was a sustainability improvement derivative (SID) was executed by Dutch bank ING for an offshore energy company, SBM Offshore in August 2019. The instrument was designed to hedge the interest rate risk of SBM's US$1 billion 5-year floating rate revolving credit facility. Based on SBM's ESG performance, which is scored by Sustainalytics, the SID adds a positive or negative spread of 5-10 basis-points (bps) to the fixed rate set at inception of the swap. Since this first deal, a variety of SLDs have been entered into, still mainly in Europe but more recently an increasing number in the Asia-Pacific and United States.

The first SLD to be executed on our shores occurred just this year, with BNZ structuring a $75 million interest rate hedge with retirement village and aged care provider, Metlifecare. Coming off the back of Metlifecare's $1.25 billion SLL completed at the end of last year, the hedge links its cost to the pre-agreed, externally audited targets that form part of the SLL. What the exact pricing benefit is upon meeting the targets has not been disclosed.

Following this deal in mid-March, Auckland Council announced New Zealand's first public sector SLD. In the conversion of a $200 million standby lending facility to an SLL with ANZ, the Council also agreed a $120 million interest rate derivative that would be linked to the same three sustainability performance targets of the loan. Again, while Council confirmed it would face higher interest rates on its loan and derivative if it failed to meet its targets, the exact pricing benefit and how it will be conveyed was not part of the announcement.

While it is common for SLD deals to be pitched with a SLL or SLB, 'piggybacking' on the same ESG targets of those products (as is the case in the New Zealand examples), SLDs are also occurring more frequently on a standalone basis. This broadens the scope for use cases and prompts recognition of a wider role for SLDs in the global sustainability transition. Further detail on the mentioned deals and a selection of other examples (including foreign exchange derivatives) are provided at the end of the article.

While there are increasing reports of SLD deals from all over the shop, it is still a niche and nascent market and the transaction volume is thought to be relatively low. The over-the-counter (OTC) nature of SLDs, with many deals not publicly disclosed, makes it difficult to estimate the exact size of this market. Based on the rapid uptake of the sustainability-linked alternative within the loan and bond markets last year, market participants anticipate we could see a similar surge in SLD activity. However, a lack of standards and best practice could limit the uptake of these new products and the building of liquidity. What ESG targets are acceptable and how value is assigned to those targets, hence determining the pricing and/or cash-flow benefits that come from achieving them, for now remains between banks and their clients. While the ability for KPIs to be very bespoke and customised to the needs of the counterparties is what gives this market real potential, a rigorous enough approach in setting KPIs (likely enforced by banks) is needed to reduce the risk of greenwashing. Setting meaningful KPIs is crucial, and this is stressed by ISDA in the set of KPI Guidelines it published in September last year. The guidelines state that "to ensure the KPIs chosen are credible, counterparties should ensure they are *specific, measurable, verifiable, transparent* and *suitable*," and specific guidance is provided on how to address each of these aspects. Standardisation in KPIs should improve the ability to "accurately and consistently measure performance across different [SLD] products", and thereby facilitate the scaling of the market. It is worth becoming familiar with these general guidelines as they will likely increase in relevance as the market evolves over time.

Issuer	Deal information	Sustainability-linked characteristics
SBM Offshore, a global supplier of floating production solutions to the offshore energy industry	In August 2019, ING executed the world's first sustainability improvement derivative (SID). The SID hedged SBM's interest rate risk on its US$1 billion 5-year floating rate revolving credit facility.	The SID adds a positive or negative spread (+/- 5-10 bps) to the fixed rate set at inception of the swap based on SBM's ESG performance (scored by Sustainalytics). ING sets an ESG score target at the beginning of every year during the life of the swap. If SBM meets the target score, a discount of 5-10 bps is applied to the fixed rate it pays. If SBM doesn't meet the target, a 5-10 bps penalty is applied.
Olam International, a major food and agri-business company	In June 2020, Olam transacted Asia's first FX derivative linked to ESG key performance indicators (KPIs) with Deutsche Bank. A one-year US dollar/Thai baht FX forward which hedged the FX risk arising from Olam exporting agriculture products from farms in Thailand to the rest of the world.	The transaction enables Olam to lock-in a discounted FX rate when it meets the pre-defined ESG KPIs. The KPIs are aligned with Olam's sustainability strategy and the United Nations Sustainable Development Goals (UNSDG).

Issuer	Deal information	Sustainability-linked characteristics
Ramsay Health Care, an Australian multinational healthcare provider and hospital network	In October 2021, National Australia Bank (NAB) disclosed it had executed its first Australian ESG-linked derivative with the ASX50 listed company. The interest rate swap was directly linked to the sustainability criteria of Ramsay's recently refinanced AU$1.5 billion multi-currency syndicated sustainability linked loan facility. NAB had closed six ESG-linked derivatives in the European market prior.	Not provided.
Metlifecare, one of New Zealand's largest retirement village providers.	In February 2022, Bank of New Zealand (BNZ) announced it had executed New Zealand's first ESG-linked derivative with Metlifecare. The NZ$75 million interest rate hedge tied its cost to the same ESG KPIs defined on Metlifecare's NZ$1.25 billion sustainability linked loan (arranged with the help of ANZ and Westpac).	Not provided.
Auckland City Council	In March 2022, ANZ New Zealand executed New Zealand's first public sector SLD. A NZ$120 million interest rate hedge linked to the same ESG KPIs on Council's NZ$200 million debt converted to a sustainability-linked loan (also with ANZ).	Not provided.

Sources: ISDA Overview of ESG-related Derivatives Products and Transactions (2021). National Australian Bank (2021). Kanga News (2021). Bank of New Zealand (2022). Auckland City Council (2022).

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An asset owner’s guide to considering ESG factors within an investment mandate

The consideration of Environmental, Social and Governance (ESG) factors is becoming an integral part of investment management. Asset owners and investment managers are developing ways to incorporate ESG criteria into investment analysis and decision-making processes. The emergence of responsible investment proponents, such as the United Nations Principles for Responsible Investment (PRI), has encouraged a fundamental change in investment practices whereby investors explicitly employ ESG factor analysis to enhance returns and better manage risks. Societal and client pressure – and the growing evidence of the direct financial benefits of incorporating ESG analysis – has led integration to become more mainstream.

Clients often ask what best practice looks like with regards to ESG considerations within an investment mandate. The three steps below are a way to design an effective investment mandate.

Step 1: Investment governance – documenting the decision-making framework

A good first step is to create a purpose/mission statement that defines the investor’s purpose and values. It represents an aspiration for what the investor is looking to achieve. Many asset owners now consider ESG factors within their purpose.

This is often followed by a statement of investment beliefs that act as a bridge between high-level goals and practical decision-making. It should set out the philosophy of what the investor believes will drive returns and deliver value over the relevant time horizon. With regards to ESG consideration, there are two fundamental questions that asset owners need to ask:

1. **Are ESG factors more important for risk management or value creation?** A risk management strategy might be to exclude companies, sectors, or geographies from a portfolio, or it could be using stewardship and engagement activities where dialogue with organisations occurs. A value creation strategy might for example be to overweight companies or sectors in a portfolio that asset owners believe are linked to value creation.

2. **What ESG factors are financially material?** This is a more complex and nuanced question. There are many reporting initiatives dedicated to identifying financial materiality at the sector and company but as an example, governance factors are especially important for private equity companies where investments are typically structured by large ownership shares and limited regulatory oversight.

Subsequently, the asset owner should specify their long-term return targets and acceptable risk which can be both quantitative and qualitative in nature and should be consistent with an investor’s investment beliefs, realistic and measurable.

Lastly, the investment policy statement should be drafted to include the investor’s mission statement, investment beliefs, and quantifiable objectives, alongside risk management considerations, roles, and responsibilities of all parties involved, the decision-making process, broad asset allocation, selection, and retention policy for third-party service providers and ongoing reporting.

Step 2: Investment Manager Selection

The typical way asset owners and advisors test the fund managers' capabilities is through a request for proposal (RFP), which in essence is the invitation to pitch for business. This is often followed up with interviews of shortlisted candidates. After which the asset owner selects an investment partner(s).

The purpose of the RFP process is for the asset owner to gain confidence that the fund manager will be able to deliver satisfactory financial returns given client objectives and risk parameters. With regards to ESG considerations, the asset owner ultimately seeks confidence that the fund management firm's ESG activity is genuine and will be delivered consistently over time.

The RFP process is formal and, in some cases, formulaic. It is usually delivered in a questionnaire format for the fund managers to complete. The questions tend to be high level with some examples to demonstrate ability and assertions. It has a specific purpose of filtering the opportunity set to a smaller set of potential candidates. It is during the fund managers' interviews that asset owners tend to dive into a deeper level of questioning.

When scanning the universe for potential candidates it is important to understand ESG investment styles and classification, as ESG integration will vary between different fund management firms and individual portfolio managers.

The CFA Institute developed a form of classification for ESG products. This classification identifies six investment styles as per the table below. The investment styles should be apparent to asset owners and advisors in order to enable them to determine the most appropriate provider of services consistent with the asset owners' needs.

Proposed feature name	Brief description of feature function
ESG integration	Explicitly consider ESG-related factors that are material to the risk and return of the investment, alongside traditional financial factors, when making investment decisions.
ESG-related exclusions	Excludes securities, issuers, or companies from the investment product based on certain ESG-related activities, business practices or business segments.
Best-in-class	Aims to invest in companies and issuers that perform better than peers on one or more performance metrics related to ESG matters.
ESG-related thematic focus	Aims to invest in sectors, industries, or companies that are expected to benefit from long-term macro or structural ESG-related trends.

Proposed feature name	Brief description of feature function
Impact objective	Seeks to generate a positive, measurable social or environmental impact alongside a financial return.
Proxy voting, engagement, and stewardship	Uses rights and position of ownership to influence issuers' or companies' activities or behaviours.

Source: CFA Institute Proposal for ESG-Related Features (2020).

Step 3: Ongoing monitoring and reporting – holding fund managers to account

Once a manager is appointed, performance discussions on a regular basis are typical. Assets that are regularly valued (public markets assets) are likely to be assessed more frequently than private market assets. A challenge that can occur from assessing performance on a too frequent basis, is that the fund manager might become more short-term in their approach as they are aware asset owners' assessment is short-term in nature.

It should be noted that short-term underperformance is not in itself a problem. Cultural issues within a firm are more likely to lead to instability which could manifest within an investment process which in turn could lead to investment losses. Some of the factors are:

- A change in investment style, or investments that do not fit into the expected style.
- Lack of understanding of reasons for any underperformance and/or a reluctance to learn lessons from mistakes. Conversely, complacency after good performance should be avoided.
- Failure to follow the investment restrictions or manage risk appropriately, including taking too little risk.
- Organisation instability or the loss of key personnel.

A move away from market benchmarking objectives to an absolute return objective could help change the mindset of the asset owners and fund managers. Asset owners should encourage fund managers to have a long-term perspective in mind, in particular with ESG factors that are of long-term nature, and not be tempted to react to short-term outcomes.

The most important aspect to assess ESG outcomes is to verify whether the investment approach has been consistent with the promised approach, as per the due diligence done via the RFP process. Secondly, a portfolio-wide assessment of the outcomes should be done. MCSI and Morningstar Sustainanalytics are the main ESG data houses and now provide a standard tool for asset owners to assess ESG factors within a portfolio as well as ESG performance attribution.

We have a team at PwC that helps define, create/review your statement of investment principles. The team can also assist with an asset allocation strategy/review, conducting an independent RFP process to select a wealth/fund manager and perform independent investment monitoring and reporting.

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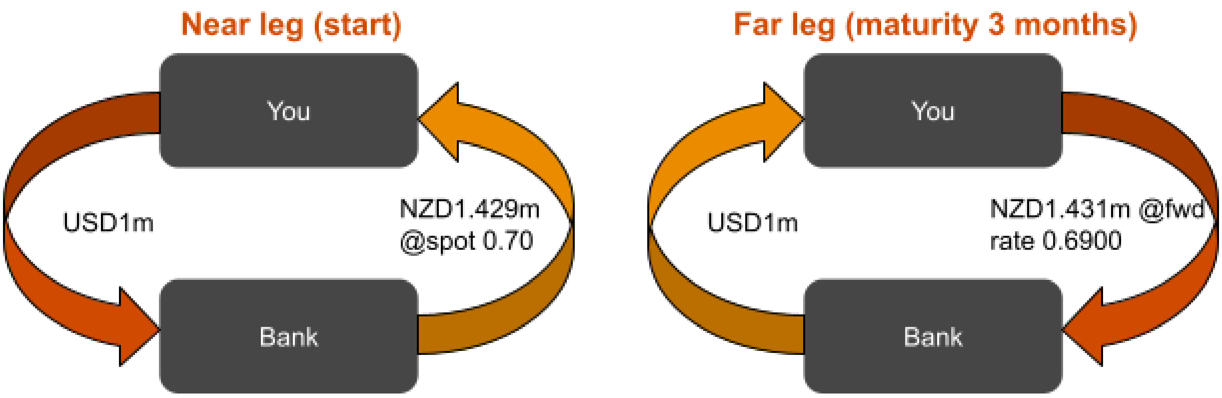
Cost effectiveness of FX swaps

Foreign exchange swaps (FX swaps) offer the ability to manage short- to medium-term cash flow requirements across different currencies. Rather than risk management features, as you'd normally associate with FX instruments (like forwards and collars), they are an effective cash management tool. If there is excess cash sitting in a foreign bank account, it can be swapped back to NZD, or any other currency, to help smooth cash payments before being swapped back to the original currency at a later date.

A FX swap is an agreement to simultaneously swap the two currencies at the start date (the near leg) and then reverse the transaction at a future date (the far leg). The spread between the two rates is determined by forward points, driven by interest rate differentials between the two countries. As a result, FX swaps transfer the risk from spot rate movements to forward point differentials. An example of the flows for a NZD/USD FX swap to sell USD1m today (buying NZD) and then buy it back in 3 months is detailed below:



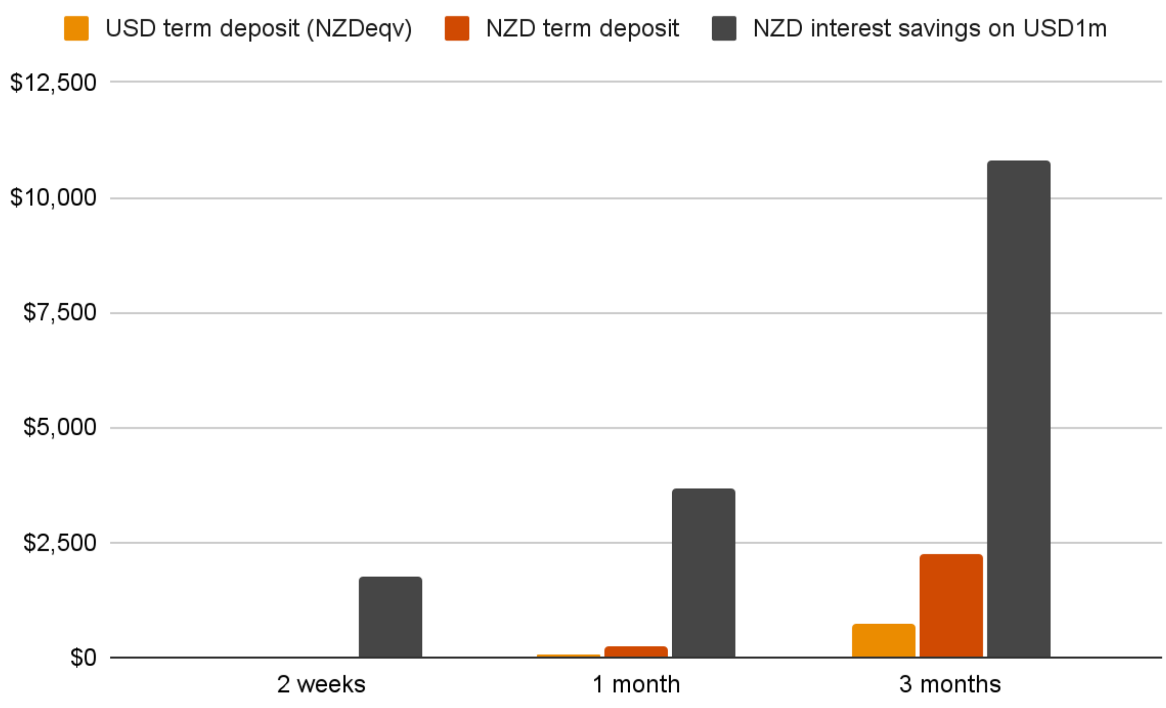
FX swaps can be used to create value by reducing working capital debt, bridging timing mismatches of receipts and payments in different currencies. For example, if there is an upcoming NZD payment due but no NZD receipts expected until a week later and excess USD available in a bank account a FX swap can be used. The USD funds would be swapped into NZD (buy NZD / sell USD) and used to make the payment, then a week later swapped back (buy USD / sell NZD) using the NZD receipts. This transaction would reduce the need to draw down debt to make payments, saving additional interest costs at the expense of the forward points - which are lower than the cost of most drawn debt. Although, if the transaction was reversed (i.e. buy USD rather than selling in the near leg) then the forward points would be generating additional value from the swap; the payment received in the far leg of the swap would be for more NZD than was initially paid.

FX swaps can also be used to temporarily reduce debt. If there are receipts or balances held in a foreign currency account and no immediate payments or FX transactions to repatriate the funds, (e.g. maturing forward contract) they can be swapped back to pay down drawn working capital debt. This is something that we see some exporters do more than others, depending on the frequency of foreign currency inflows (e.g. throughout the month) relative to the frequency of maturing hedge contracts (e.g. near the end of the month) or net foreign currency payments. The savings rests in the bank's lending margin.

Continuing the previous example, if there are excess USD funds these can be swapped back into NZD to pay down existing debt until those funds are next required. Considering the cost of debt is higher than term deposits/bank account returns and wholesale forward points, it is more cost effective to pay down the debt than have lazy funds held on deposit. Similarly, if there is a maturing FX contract at the end of the month and the funds arrive several weeks earlier, it can be valuable to swap the funds back sooner, with the far leg of the swap netting against the original hedging contract. This achieves the same economic outcome as pre-delivering an existing contract that is yet to mature (with slightly different cash flows).

Even though forward points are generated by interest cost differentials between two countries, they are driven by *wholesale interest rates*, which do not match the investment returns on cash or the underlying cost of debt faced by an organisation. For exporters, many foreign currency bank accounts do not pay interest on excess balances or there might be limited access term deposits which would limit potential returns. Domestically there is an ability to 'shop around' banks which could generate a higher return if the bank is trying to fill a funding gap. Putting these together improves the cost effectiveness of FX swaps and is a useful cash management tool for importers and exporters to make use of. As the chart below highlights, based on some simple (yet realistic) maths, the most cost effective application of FX swaps is where they can genuinely reduce working capital, however, there are also benefits for those that are able to get a better return on excess cash in New Zealand rather than abroad.

***Chart 1:** Example of how FX swaps can improve cash flows and reduce interest costs (source PwC)*



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Basis swap benchmarks are changing - what it tells us about getting ready for the end of LIBOR

As discussed in the June 2021 Broadsheet, the era of the London Interbank Offered Rate (LIBOR) has come to an end, almost. As of January 1, 2022, the publication of 24 out of 35 LIBOR settings has ceased in line with announcements from the Financial Conduct Authority. LIBOR has historically been the world's most widely used benchmark for short-term interest rates however its credibility was challenged following market manipulation. This loss of credibility, coupled with a scaling back of interbank lending, has motivated the transition to Risk-Free Rates (RFR) as the benchmark for wholesale floating rates, interbank lending rates, and (now) cross currency basis swaps (along with much more).

Although Treasurers have been aware of this transition for years, the uptake and acceptance of alternative rates have been slow. Replacing LIBOR is extremely challenging and involves changing market conventions that have been ingrained in the industry for over 30 years. However, due to the halting of publication, market participants are now forced into this transition. Apart from the well-established Sterling Overnight Indexed Average (SONIA), all alternative RFR benchmarks are relatively new products and currency-specific conventions. As of 1 January 2022, only 11 LIBOR settings remain being published. However, these rates are set to be disestablished by 2023. Included in these remaining LIBOR settings are five U.S. dollar rates (Overnight, 1M, 3M, 6M & 12M) that will continue publication until mid-2023. Their use however will be unavailable for new business. Six synthetic sterling and yen LIBOR settings will also be published for 2022, but these rates are not guaranteed beyond this point. LIBOR has traditionally been quoted in 5 different currencies (USD, GBP, CHF, JPY, and EUR) with 7 different tenors (overnight/spot next, one week, one month, two months, three months, six months, and 12 months).

There are multiple options to replace LIBOR however in most instances a RFR will be used. There are two key differences between LIBOR and RFRs, their term and credit spread. Unlike LIBOR, the new RFRs are overnight rates as opposed to term rates. LIBORs term is forward-looking whereas RFRs are backward-looking based on actual market transactions. Because LIBOR is forward-looking, borrowers know the interest rate before the beginning of the period. Most importantly the interest payable with LIBOR is pre-determined at the start of the period. RFRs on the contrary are backward-looking overnight rates published the following day and are therefore unknown in advance. Because of this, borrowers only know the interest rate at the end of the day after the period to which they relate. The second key difference in the two rates is that LIBOR incorporates an embedded bank credit spread, where RFRs do not. However, there are two spread adjustments that can be incorporated into RFRs to compensate for the bank credit risk.

One of the key changes between the interest payment calculations is when a daily RFR is used to calculate interest payments over an interest period, the total interest payable won't be known until the end of the period due to its backward-looking nature. This generates an issue in cash markets where selected parties need to forecast the interest payable for a selected period in advance. What is known as the 'lookback' is a solution to this. Interest is calculated over an observation period that starts and ends a predetermined number of days before the start and end of the interest period. This allows the interest payment to be forecast and predetermined in advance with enough time so that the agent can organise payment.

There are a few challenges that may have limited the uptake of RFRs before the transition date. With many Treasurers indicating they were “not as ready as they needed to be” regarding the transition, the USD LIBOR disestablishment got pushed back to 2023. Whether they are prepared or not, the end of LIBOR is here. The beginning of 2022 marked the largest major milestone in the transition away from LIBOR. The transition so far has been ‘smooth’ with The Financial Stability Board (FSB) stating, “The absence of any significant market disruptions is a testament to the magnitude of market participants’ efforts and the level of attention from the regulators and industry bodies to support the transition to RFRs”. However, given the significant use of the USD LIBOR globally, the FSB emphasises that firms must start to think through how to transition away from these rates effectively. Some recommended steps to prepare for the transition include the following:

- **Identify outstanding LIBOR exposures** - Review existing contracts to determine the size of outstanding LIBOR exposures. Review the number of counterparties involved and the size and currency of the exposure, the maturity of such exposures and any fallback provisions. Consider hedging the linkages between products or at least quantifying the potential difference.

- **Understand alternative rates** - Familiarise yourself with RFRs (as well as other alternative rates), how they differ from LIBOR and the calculation conventions that can apply.

- **Monitor market developments** - Monitor how relevant product markets, jurisdictions and other corporates are approaching LIBOR transition. Draw on information/guidance from industry bodies, trade associations and your advisors.

- **Engage with counterparties** - Productively engage with lenders and other counterparties to better understand their transition plans, their post-LIBOR product offerings and what this means for your business.

- **Engage internally** - Implement a communication/education strategy for internal stakeholders (including business leadership) to increase understanding and awareness where relevant throughout the business.

- **Create a project plan and timeline** - Consider what steps you and your counterparty need to take to be ready and able, operationally and otherwise, to transition away from LIBOR. Form a view on the extent to which active transition (in advance of cessation) is feasible and if so, when it should take place.

- **Consider systems/infrastructure updates** - Consider the updates required to your treasury management system (TMS) to accommodate alternative rates. Proactively engage with your TMS provider to understand what it is doing to accommodate alternative rates and expected timeframes for, and costs of, implementation.

- **Consider accounting/tax implications** - Understand the tax and accounting implications of LIBOR transition. Engage with your tax advisors/accountants where necessary.

Source: Association of Corporate Treasurers.

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PwC's Annual Global CEO Survey

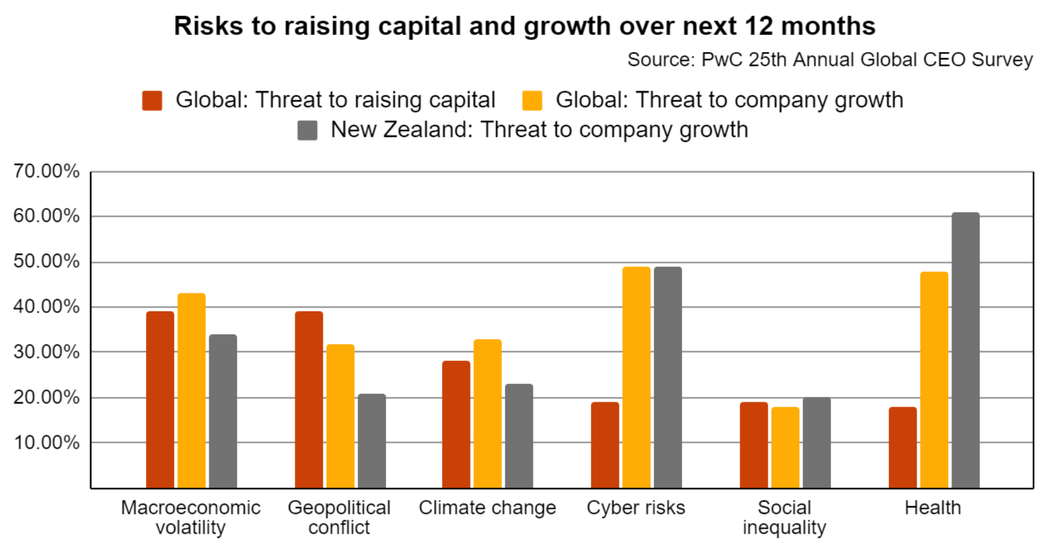
Maintaining the ever changing 'new normal' requires constant re-interpretation from businesses and treasury departments to meet the evolving environmental, financial, and societal changes.

Released at the beginning of 2022, PwC's Annual Global CEO survey reported over 4,000 Chief Executives across 89 countries and territories as being cautiously optimistic on their view of the global economy. This was prior to Russia invading Ukraine and the series of slashes to global GDP projections by economists and agencies that followed. Although the economic climate has changed, the survey still offers valuable insight into how New Zealand respondents view themselves against a cohort of global peers. Compared to the year prior, local respondents continued to expect company growth will remain below that of offshore entities, with only 64% expecting growth to improve over the next 12 months compared to 77% at the global level.

The survey responses granted only a broad view of the factors hindering the ability of treasurers to serve their respective businesses, although they suggest macroeconomic volatility and geopolitical conflict were likely to be relevant risks. In addition, it inferred the challenges and priorities identified in our previous broadsheet article on the global treasury survey are likely to remain at the forefront of risk managers' minds.

Focusing upon the top three, cyber, health and macroeconomic volatility were identified as the principal threats driving the cautionary economic outlook. New Zealand's limited experience in dealing with Covid-19 during the survey window, relative to other developed economy nations, is a likely explanation for the comparatively higher degree of perceived health-related risks to growth.

The emergence of Omicron and Russia's invasion of Ukraine have acted as the primary weights upon the global economy. From a treasury perspective, macroeconomic volatility (GDP, inflation, unemployment) and geopolitical conflicts can be viewed as an equal threat to businesses in terms of inhibiting their ability to raise capital. Further impacting capital raising activities, elevated financial market volatility is evolving as a response to the stimulus of central banker's grapple with more persistent inflationary pressures and supply-chain disruptions. In an increasingly interconnected global environment, local entities need to ensure core treasury functions are in place to survive in an environment where the effects may be widespread and sustained.



In our previous broadsheet article, two of the three major difficulties we discussed facing treasury departments related to forecasting risk exposures and meeting liquidity-funding requirements. These remain among the top three challenges faced going forward, particularly as macroeconomic shocks persist. Increased volatility in FX and interest rate markets has intensified the challenges businesses are facing, while at the same time demanding treasurers to level up and meet the mark of the 'new normal'. Digitising the full suite of treasury offerings, upskilling staff, and working more strategically with business units will play a key role in increasing efficiencies, improving forecasting and reducing financial risks. ESG will also remain front and centre of the business mindset as green banking initiatives provide opportunities for companies to benefit from more attractive financing. Opportunity exists for businesses to reduce supply-chain risks in tandem with achieving a lower-cost green supply chain financing framework. This may be achieved through relocating production facilities closer to areas of demand in a sustainable manner. Further, Treasurers will need to continue to find ways to leverage advances in technology to simultaneously solve other priorities, including the forming of strategic partnerships with businesses and optimising cash management.

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