FTA

FINANCE & TREASURY ASSOCIATION

EXCHANGE magazine

2019

The Three Tiers of Trust
Q&A with behavioral scientist
David Penglase, Author, Conference Speaker, Corporate Educator & Executive Coach

Reward With Risk: Use of "Reverse Factoring" To Free Up Funds:
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Ben Leaver - CEO
Finance and Treasury Association

As Australia's professional body for finance and treasury professionals, FTA continues to work on building a community that those professionals can be proud of. The key word here is Community. The landscape continues to change, Treasury teams are getting smaller as they become more efficient with technology, outsourcing and other strategies. But the community continues to grow, vendors, Banks, suppliers, rating and research agencies, CFO's, students, small business operators, company director and consultants make up the ecosystem and it is this wider community that we aim to bring together, while never losing sight of our core treasury focus.

Two descriptions of Community resonate for me in this space,
'A group of people having common interests'
'Sharing, participation, and fellowship'
To me these words mean how we educate each other, how we develop each other, how we help each other and how we aspire to the highest standards for each other. In a world where careers and jobs continue to change at a rate of knots, our Association strives to be the one constant, unchanging community that our members value and contribute to.

So as we move into 2020 and a new decade, please help us to build this community, growing and developing it and each other. We can't do it without you, and without knowing what we can do for you, so please reach out, let us know, and we will have that engaged, vital community that we strive for.

Corporate Membership and Partnership

Part of growing our community, is a desire to see more of the Treasury and Finance teams involved with the FTA, from the most senior, to the newest. The more people attached, the more engagement, the more attendance, the more networking, the more development of our people.

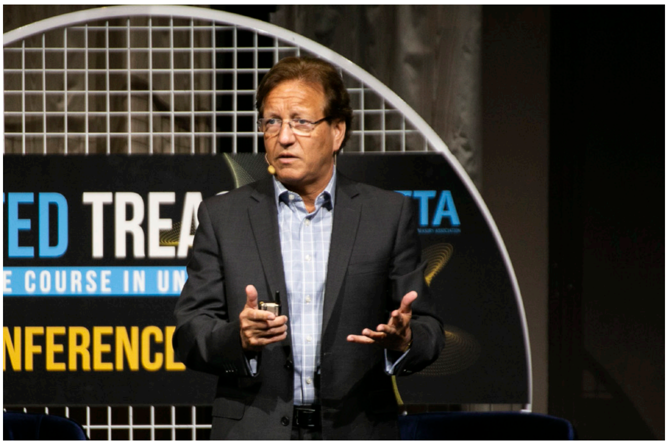
One way we aim to help facilitate this is via working with businesses to develop bespoke membership packages for those teams. These packages give all membership rights and opportunities to the individuals, while also providing branding, speaking, educational and other opportunities to the business itself. Please reach out directly to discuss how we can build the right package for your business.

please refer to page 29 for more information about Corporate Membership and Partnership opportunities

Q&A: With David Penglase

Behavioural Scientist, Author, Conference Speaker, Corporate Educator and Executive Coach

Interviewer: For those who weren't able to attend the conference, and as a quick reminder for those who did attend, what were the key messages you wanted to get across in your opening keynote presentation?



David: Let me start by saying it was a privilege and joy to present the opening keynote at the FTA conference.

In my 40 minutes allocated I could only scrape the surface of a host of elements that demonstrate how trust impacts almost every measure of success in our professional and personal lives… we touched on the three lenses of trust that I've built into this inverted triangle of trust model.

THREE LENSES OF TRUST:

Sitting on the bottom in the pointy end of the inverted triangle is the lens of Self-Trust. This is about individual confidence and self-control. If we don't get this right, everything else begins to be unstable.

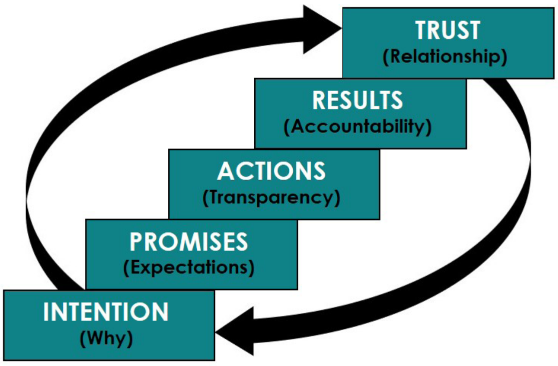
Moving up the triangle, we see the second lens which is to Trust In Others. This is about the courage and collaboration required to trust others – collaboration being one of the keys to success in managing in disruptive times.

The triangle of three trusts™

And at the top of the inverted triangle is the lens of Earning Others' Trust… this is the combined character, competence and consistency required for people to decide whether we are trustworthy.

THE INTENTIONAL STEPS TO TRUST:

I also touched on model that I developed around the steps of trust… although in the time allocated, I presented it more as an applied process to follow. The over-arching principle is People WILL get your truth… that over time, your intentions, promises, actions and results will either promote you as trustworthy, or expose you as not.



The intentional steps to trust™

This forms another applied model I've created that has the first step of Intention (why you're doing what you do). The next step is Intentional Promises (setting and managing expectations by being clear on what you can and can't promise). The third step is Intentional Action (transparent demonstration and communication of what you're doing). The fourth step is Intentional Results (holding ourselves accountable for the results we achieve). And the final step is where you step up into trust and trust-based relationships are earned, built and maintained.

THE SELF-DETERMINED WORKFORCE:

Importantly I also highlighted how in a disruptive environment (within which most businesses are operating in right now), organisational leaders at all levels, need to be creating work environments where employees are positively energised, are avoiding the potential to become overwhelmed and able to release their intrinsic motivation for goal achievement.

As I mentioned, this is about developing a Self-Determined workplace that evidence-based research shows is good for customers, good for employees and good for the business.

Self-determined employees have a strong sense of autonomy (a sense they have freedom and choice in the way they work – which is at risk in disruptive work environments where concerned leaders fall into the trap of micro-managing competent employees). Self-determined employees have a strong sense of competence (a sense they have the skills and knowledge and access to the resources they need to achieve in their job role). And finally, Self-determined employees have a strong sense of Relatedness (a sense of supportive team and leadership relationships upon which they can trust and be trusted by).

THE SCIENCE OF HABITS:

Ok… lastly, we looked at how we can easily fall into mindlessness and unintentionally disengage from the moment when we are with others… leading to a question of trust. We need to 'pattern-interrupt' ourselves to be more intentionally mindful in more moments that matter more often… in other words, we need to hold ourselves accountable for being present … really present when we are in conversation with others (switch off the phone and put it away when we are in meetings, whether one-to-one or in groups).

So, we covered a lot, but really only scraped the surface.

Interviewer: There were a few questions raised during your presentation that were posted on the conference App, could you take a moment and answer each of these.

David: I have to say, each of these questions are impressive and I'm glad to get the opportunity to answer them here – as they are important questions and the answers aren't all that easy.

So here goes:

Question 1. Does constant change make you more ok about being out of control?

Wow ... great question. My answer is Yes ... and ... No.

Here's the Yes answer.

We as humans have an uncanny ability to get used to things - I refer to this as the IUTI Effect (acronym for "I'm Used To It"). Think about how quick we get used to a view out our window ... we get so used to it, we lose the 'wow' reaction we originally had and over time just start to get used to it, take it for granted and devalue it. Same with a new car - it soon loses its 'newness' and we just get used to it... and take it for granted and devalue it. It's also true in some (not all) painful or difficult situations. Overtime when someone close to us dies, the initial pain we feel decreases and becomes more manageable... although at first it can seem so overwhelming.

The real danger is this IUTI Effect can also happen with relationships... we get used to our relationships and we can take them for granted and unintentionally devalue the very thing that ought to be among the most important aspects of our lives - trust-based relationships.

So yes, constant exposure to most things (including a disruptive and changing environment) can lessen the initial 'feeling' we get. And we can get used to and, in some cases, even thrive in environments where we feel out of control.

Here's the No answer.

There's a paradox that we humans live with - we crave stability but at the same time living with change is our natural state of being ... without change we don't grow. We have an innate drive to learn - we are aspirational goal seeking beings and that means if not ourselves, others most certainly are seeking new ways to do things; new ways to solve problems; new ways to make life better.

But living with this paradox for some of us can create this sense of overwhelm - being out of control, and we can let the thoughts we have and feelings we have about not being in control define how we respond.

So the 'no' answer is, for some, the feeling out of control doesn't get any easier over long-term exposure… it gets worse.

Now… back to Yes.

What I'm saying is, we often can't change the disruptive situation, but we can choose the relationship we have with our thoughts and feelings. I know that sounds a bit odd, but I will just let that rest with you, as to go into that further here would get way too involved.

Most 'self-help' approaches suggest flipping negative thoughts into positive ones (which can just keep you more focused on the negative thought or feeling). However, there's significant evidence-based research that shows we can learn how to accept feeling 'uncomfortable' or out of control in a situation (for example constant change), and can learn to just take courageous steps to move toward some goal supportive behaviour or action (no matter how small that step might be).

What this can do is to help flick back the IUTI Effect in a positive way… and we get used to knowing what it feels like to be out of control, but not get stuck in the thought or feeling… just acknowledge it, and commit to taking positive action anyway.

A simple example is for people who fear public speaking. Even though they have negative thoughts, and uncomfortable feelings… once they get started, a lot of those thoughts and feelings simply no longer matter… they're doing the presentation anyway.

My advice is to get clear about what you can control and what you can't control in the various areas of your life ... focus on that which is in your control (including your relationship with your thought and feelings) and take intentional action on those things.

Question 2. Everyone trusts themselves but the issue of trusting others seems to be more on a collective trust. Group dynamics perhaps reduces trust ability.

Ok ... I want to make a clear distinction here between Self-trust (the confidence and control we require to trust ourselves to live up to our own expectations, values and goals) and trustworthiness (the combined character, competence and consistency required to be demonstrated by us so that others can perceive our trustworthiness).

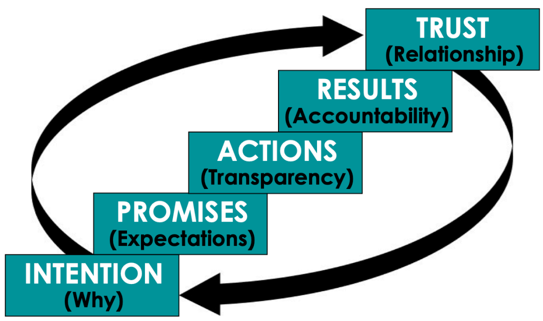
Your comment on trusting others being more about 'collective trust' is an interesting perspective.

I most certainly agree that 'group dynamics' impact trust on a range of levels (far too many for me to cover here).

However, when we change the lens from group trust (with the potential that no one really has accountability) to lenses of collective self-trust and collectively individual trustworthiness, now we can better assess the risk to trust others.

Think of a team of footy players for example. While their fans (some fanatically) might 'trust' the team, what they're really trusting in, is the individual trustworthiness of each player to hold themselves accountable and demonstrate self-trust, as well as that each player through their competence, character and consistency (demonstrated through their actions) earns the trustworthiness required for other team members to trust them.

So I would argue that yes, group dynamics can be problematic if we allow the 'collective' to distract us from the reality that a group is made up of individuals needing to hold themselves accountable for their own self-trust and through their actions demonstrate their competency, character and consistency to earn trustworthiness and to receive the gift of others' trust.



The Intentional Steps To Trust™

People Get Your Truth! *Over time your intentions, promises, actions and results will either promote you as trustworthy or expose you as not.*

Question 3. I agree the power and importance of intentions in building trust. How do we reconcile the fact that 'we judge others by our intentions and others judge us on the assumptions we have on them'?

Ok ... I'm pleased you agree with the research that 'Applied Positive Intentions' (to make life better for others in some way) are important in earning, building and maintaining trust. We also know from evidence-based research is when employees implement applied positive intentions it increases their sense of autonomy, competence and relatedness (collectively these three innate drives are known as their sense of self-determination ... essential for intrinsic motivation and strongly associated with employee engagement, employee well-being and a host of Organisational success measures).

People WILL get your truth. Over time your intentions, promises, actions and results will either promote you as trustworthy or expose you as not.

I can't agree with you that 'we judge others by our intentions'. We do however judge others on their trustworthiness based on our perceptions of their competence, character and consistency (which by the way, we may have formed this perception from what others have told us and not necessarily from our own exposure or experience with this person, product or organization).

When you say 'others judge us on the assumptions we have on them', again, I'm sorry I'd rather reframe that by saying, 'others judge us on the assumptions they make about our true intentions… what we want for them, rather than what we might want from them'.

An intention as I define it is 'being mindfully aware and accountably clear on knowing what you intend to do, why you intend to do it, and the impact your intended action(s) will have on all stakeholders.'

An 'Applied Positive Intention' is a statement about what you want for others ... not just what you want from them. The 'applied' part of an Applied Positive Intention is the accountability of taking actions that will live up to the promise of our intentions.

As the saying goes 'The road to hell is paved with good intentions.' A good intention is not an applied intention - and an applied positive intention demonstrates our competence, character and consistency in genuinely wanting to make life better for others (clients, employees, colleagues, and other stakeholders).

This is the juggling act of trust, intention, and authentic leadership in setting and managing the expectations of all stakeholders.

Interviewer: Do you have any summary thoughts?
When our sons were younger and of the age where they asked permission to leave the house and go out with their friends, Liz and I would always say 'Make Good Decisions'.... now ... it didn't always work - but it set our expectations about the decisions and actions they ought to consider.

In applied professional ethics this is known as the Light of Day Test ... which is to apply this question "With this decision I'm about to make, or this action I'm about to take, would I make this decision or take this action if it were held up in the light of day for all to see?"

This is still the singularly most powerful guiding principal I've ever learned and it doesn't take a heap of academic degrees to realize if this Light of Day test was applied more often in corporate decision making, we wouldn't see as many breaches of trust that seem to be constantly being exposed.

Let me finish by repeating People WILL get your truth - over time, your intentions, promises, actions and results will either promote you as trustworthy or expose you as now.

And lastly, a personal invitation… if you've got a question you would like me to personally answer, whether based on my keynote presentation, on what you've read here, or on anything to do with how trust impacts almost every measure of success in our professional and personal lives, email me david@davidpenglase.com

Interviewer: Thanks for these insights David.

David: You're very welcome.

davidpenglase
trust impacts everything!

The Art and Science of ...

BUILDING INTENTIONAL TRUST

JOIN LEADERS AT ALL LEVELS OF YOUR FINANCE AND TREASURY CAREER

FTA
FINANCE & TREASURY ASSOCIATION

We've developed memberships options to kick start your career, get you ahead and be beneficial at all stages of your working life.

We even want you to keep engaged once your career is over and become a mentor and professional role model to this future profession.

Fresh Approach to Economic Insights with Market Leading Data

Stephen Halmarick
Head of Global Markets Research,
Commonwealth Bank

As the world becomes increasingly more complex and uncertain, Treasurers and finance professionals, like many others around the world, are looking for insights that can help them make better decisions. Indeed, the need to get ahead of emerging trends in the economy has never been greater – this applies whether you are managing a small or large business in Australia, are an investor or are from the government/Reserve Bank. For Australia's Treasurers, the need for clarity on the outlook across a range of economic and financial market indicators has never been more important.
The Commonwealth Bank Global Markets Research team has taken a fresh look at this need and developed a ground-breaking way of both understanding where the economy is and where it is potentially going. We have called this new innovation in economic research the Household Spending Intentions (HSI) series.

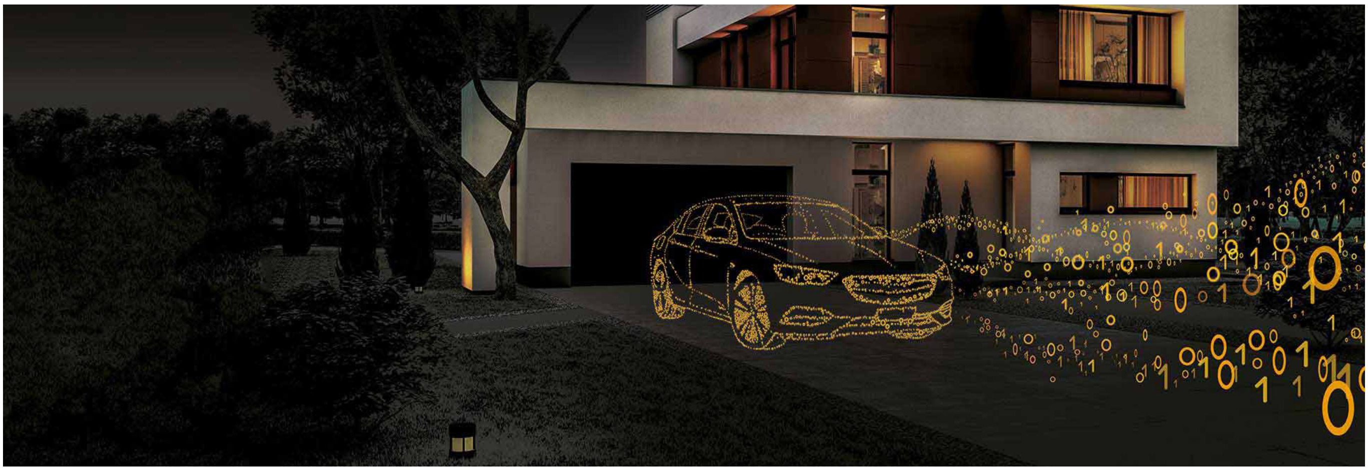
In terms of generating insights on the Australian economy, the Commonwealth Bank (CBA) has an advantage. Given its position as the largest financial services organisation in the country with over sixteen million customers, the CBA's transactional data generates a vast array of information on the activities of Australian households. An ongoing sample of more than 2½ million households who are CBA customers, for example, provides information on income, wealth and spending trends shortly after the end of each month. CBA data measures are really coincident indicators of economic activity. But they are leading indicators in a publication sense.

Even with the best data, however, economists have never been very good at measuring and incorporating intentions into their forecasts. At the most basic level, the act of spending is preceded by an intention to spend. Of course, in this day and age the intention to spend money is often preceded by an internet search. Spending money on a holiday is a good example. By the time you've decided where to go on tripzard.com, booked a flight on webjet.com, chosen a hotel on tripadvisor.com, topped up your Travel Money Card at commbank.com.au and decided what to do when you get there on LonelyPlanet.com you have scattered a fair amount of clues about your intention to spend! Search activity is, therefore, one way to track these intentions. And Google Trends provides the needed tools to obtain a deeper understanding of if what parts of the economy households are intending to spend.

By combining CBA's up-to-the minute transactional data with relevant searches from Google Trends, we have developed indicators of household purchase intentions across seven key slices of consumer activity: Home buying, Retail, Travel, Health & fitness, Entertainment, Education and Motor vehicles. Together these sectors account for 55% of consumer spending activity.

Released every month, the CBA HSI series will provide a timely update on the household spending and a guide to where spending intentions are headed. The goal is to provide clients with an early view on this key sector of the economy and help them make better decisions about the outlook for their business, investments and policy.

So what is the HSI telling us? In broad terms, data up to the end of October supports the RBA's view that the economy has reached a gentle turning point. But the improvement is quite modest given the tax rebates and interest rate cuts delivered in recent months. The sharp upswing in the Home Buying intentions series that began in May continues and is now approaching the record highs seen in the first half of 2017. After a poor September, there is a small pick-up in the Retail Sales intentions data in October. Across the other sectors, there was some further improvement in Travel spending, Entertainment and Education in October. Health & Fitness spending, however, turned down, while the recent slight improvement in Motor vehicle purchase intentions from deeply negative territory has now stalled.



More specifically:

- The sharp uptrend in home buying intentions continues. Home buying intentions rose further in October and are now close to the record highs seen in H1 2017. Current HSI readings are consistent with an ongoing pick up in dwelling prices.

- Retail spending intentions are bouncing around, but a lift in October means a modest uptrend is in place. That said, that turning point is pretty modest when benchmarked against record low mortgage rates, the wealth boost from rising house prices, solid jobs growth and tax rebates.

- Travel spending intentions are turning up, albeit from low levels. The trend in Australian residents holidaying overseas has slowed. The pick-up in the Travel HSI may be an indication that a lower Australian dollar is encouraging domestic holidays instead.

- Intentions to spend on Health & Fitness have levelled out. But the levelling is occurring at a solid rate of growth. The trends indicate households are willing to allocate scarce disposable income to driving health & fitness spending with little impact from the vagaries of the economic cycle.

- Entertainment spending intentions are rising again. The uptrend in this very discretionary spending component is a sign that consumers are not completely beaten down.

- Education spending intentions are high and rising. Policy makers and economic commentators can all see the need to lift productivity growth. Rising infrastructure spending is one policy response that will help. But human capital is just as important as physical capital in driving productivity. So the positive signal from the Education HSI is encouraging.

- Motor vehicle purchase intentions remain deep in negative territory. And the tentative signs of a turn up in the past few months have stalled.

“Behind The Scenes”,

with Nadia Kentera, Director, KE Creative Events

Accomplished business women, Nadia Kentera, Director of KE Creative Events has been in the events industry for over two decades and executed 16 annual conferences for the Finance and Treasury Association.

Exchange Magazine sat down with Nadia for a quick Q&A, to talk all things FTA Conference.

Each year the conference theme has changed. How do you come up with so many bright ideas?

We are fortunate year on year to have so many corporate treasurers and industry practitioners who put their hand up and volunteer their time to be on the Conference Committee. The theme itself is essentially derived from the Committee’s ideas and discussion – focusing on what is relevant in the marketplace, what is happening in the economy at that time and essentially what is impacting corporate treasurers.

As the conference secretariat, it is important for us to keep the Committee engaged and focussed on delivering the program – without a solid program, we wouldn’t have a compelling conference.

When you look back over the years, there are similar themes that crop up or key words that go out and then come back in again like – turbulence, evolving, change, disruption and volatility. Having executed over 16 FTA Conferences, my first in 1999, times have changed and some themes have gone full circle.

What new initiatives did you bring to the conference in 2019 and what was the impact of these innovations?

This year for a first in 32 years, we made the executive decision to pull the pin on the printed program. Managing an abundance of events per year we are subjected to the waste created from printed material, coffee cups etc., taking a sustainable approach is something that clients are now expecting and delegates are very open to.

Instead of the printed program, we introduced an interactive APP which not only enabled delegates to view the program but also allowed them to see who was at the conference and exchange contact details with their unique QR code instead of business cards. This also made the trade show more interactive as vendors could scan the delegate’s name tag and share data with one another as well as allowing delegates to enter prize draws with their QR code at each booth.

We had a massive uptake on the APP with over 92% of attendees logged in and engaged which was huge!

The Trade Expo was more colourful and interactive with large activations, including the Commonwealth Bank Coffee Laneway, Bloomberg, C2FO and the Westpac Juice Bar, which were given a bespoke design by the KE Creative team.

With CBA we wanted to bring the Melbourne Laneway experience to the event and gained inspiration from Melbourne’s famous Hosier Lane for the design. We also engaged a Melbourne artist to graffiti the walls to really give it that authentic look and feel. The coffee choice was delicately handpicked and was probably one of the integral components of the CBA stand – as we know Melbourne is famous for roasting and providing the best coffee so this had to be done right!

Lounge areas were also included to facilitate networking and meeting spaces on the show floor. The exhibitors and sponsors were engaged with their visitors in a more conducive manner and reported great leads for future business. This is bound to expand in 2020.

With the current trend of streaming seminars online, where do you see conferencing in the next few years?

People are wanting convenience and when it comes to learning we can do this online anytime – we are seeing it with webinars and pre-recorded sessions which are great and can work for most people, however there is still a need for personal connection even more so now as there is less face to face with people working and running their meetings remotely.

The wonderful thing about a conference is the engagement that comes from it. We know networking is still highly sought after – delegates want to engage and connect with one another and with the way businesses are changing and growing it is even more important for delegates to keep on their A game and be seen to be out there, keeping up with knowledge, gain new ideas and better ways to manage their business with the solutions that are provided by the vendors.

This is all possible, under one roof over two days. This year alone there were over 13 hours of networking opportunities presented at the conference, and 95% of survey respondents found the exhibition area useful to expand their industry insights. Next year we aim to add more!

The way we structure our sessions have also changed. We encourage informal discussion sessions rather than lecture style presentations to enhance audience participation and engagement.

What are you looking forward to for FTA 2020?

It has been four years but we are finally returning to Sydney! With the change in location, we're expecting an even bigger attendance, more interactive brand activations, scheduled network opportunities, a compelling technical program and adding more useful features to the APP.

And of course, when it comes to food and wine, we are working with Chef, tapping into the local produce and keeping our eye out for the trending entertainment for the conference finale dinner to showcase everything Sydney has to offer!

KE Creative Events Team, left to right: Melanie Webster, Carol Rothschild, Nadia Kentera, Chris Cregan & Roz Skilton

Interested in becoming a sponsor? OR interested in joining the Conference 2020 Committee? We'd welcome your expressions of interest – please email events@financetreasury.com.au

To see more event inspiration, follow:

KE Creative Events Pty Ltd **ke_creativeevents** **KE Creative**

SUSTAINABILITY: THE NEW ECONOMY

Customers and investors alike want companies to create a positive contribution to society, alongside profit.

by
CATHRYN CARVER

CORPORATES HAVE LONG talked about sustainable business but recently, we've seen a broader definition of sustainability in these conversations. We've moved beyond strict definitions of "green" and "corporate responsibility" to viewing sustainability as one of the most strategic issues for CEOs and Boards. There's a clear imperative to shift to long-term thinking as well as focusing on rebuilding trust in the wider community, prominent issues facing all industries, including banking.

At its core, sustainability focuses on creating long term sustainable value. True long-term sustainable value can only flourish in healthy economic, social and environmental conditions, where we have a holistic approach and a broad focus that goes beyond short-term financial returns. The narrative around the social contract of business has come to the fore and we're asking what contribution business is making and how is this impacting broader society?

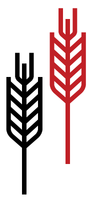
Our customers, and in turn their customers, are demanding a wider societal focus but investor funds are also playing a role. Significant parts of our global investor community are now speaking as socially responsible investors, and they're calling on companies to create a positive contribution to society alongside profit. The very fabric of the global investment environment has shifted. Increasingly, evidence suggests that if companies don't take a broader view, they won't survive, as customers and investors choose to buy and invest elsewhere. With this shift, however, comes huge opportunity.

Creating shared value

So how will business embrace this opportunity and leverage our position to think differently about creating value in the new economy? "Shared value", a term first coined in 2006 by Michael Porter of the Harvard Business School and Mark Kramer of social impact advisory firm FSG, may be the answer. Their definition of shared value describes how successful business strategies can also produce positive environmental or societal outcomes –the intersection of commercial opportunities and social or environmental needs.

When we have a commercial opportunity, a social or environmental need and importantly, expertise to deliver real outcomes, we create shared value. Using NAB's Clean Energy business as an example, NAB has built a leading global business which ranks as number 1 in Australia1 having delivered 129 clean energy projects and 19 gigawatts of clean energy from wind, solar, biofuels and other sources. Critical to the creation of shared value is the ability to measure the financial and social or environmental impact of an activity, as we can do in this instance. With that in mind, we believe we can help our customers to discover their own shared value "sweet spot" across a range of industry sectors and different types of companies.

FUTURE PROOF



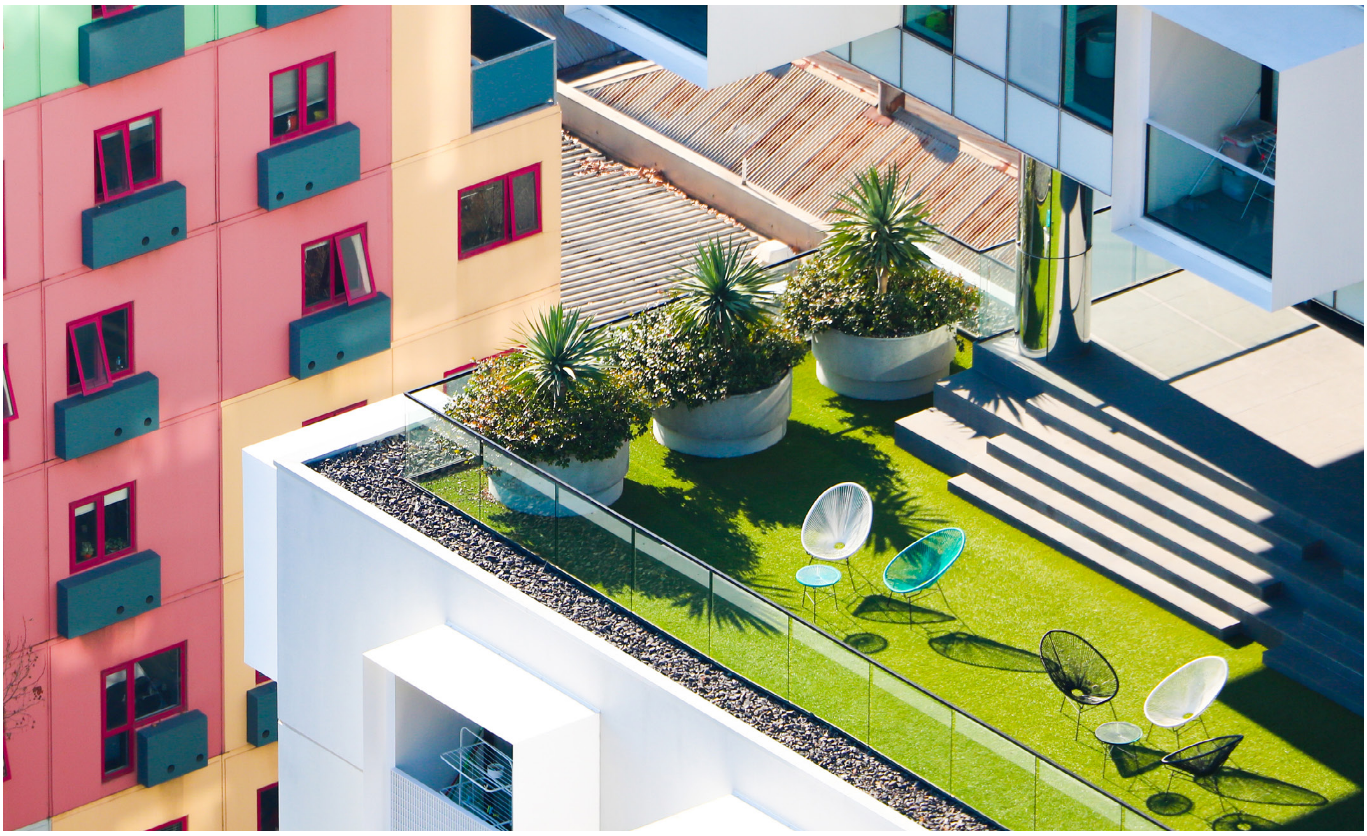
Climateworks partnership to build sustainable agricultural metrics that will future proof our agricultural industry.

$2BN

to fund Emerging Technology Companies.

$2BN

to fund Affordable and Specialist Housing.



Making tangible commitments

Identifying opportunities to deliver in this new shared value economy isn't always easy. Nor is the process predictable or fast. It takes belief, investment and a willingness to experiment. An important precursor is thought leadership. We're proud of our 2019 flagship thought leadership project – the Australian National Outlook ("ANO") -- produced in collaboration with the CSIRO and more than 50 leaders from over 20 business, community and non government organisations, all committed to building a better future for Australia. The project examines some possible future outcomes for Australia up to 2060 and is designed to stimulate a national discussion and encourage considered action.

Importantly, the ANO considers economic, environmental and social outcomes, acknowledging the importance of this new holistic economy where sustainable and socially impactful business models will find success. NAB has responded to the report findings with tangible commitments such as:

- A$2 billion of funding directed to building the emerging technology sector;
- A$2 billion directed to affordable and specialist housing; and
- A partnership with Climateworks to develop a sustainable agricultural roadmap designed to future-proof our agricultural industry against climate events.

Building momentum for a culture shift

Bringing together an ecosystem of ideas, support and conversations is a first step towards that all-important shift in business culture. Once our thinking is aligned towards shared value and societal and environmental needs, we can follow with product and service innovation – and ultimately delivery supported by deep sector expertise.

Today's approach requires a collaborative effort among businesses, government, regulators and communities to seek out and develop business activities with capacity to deliver measurable societal benefits and financial returns. Much of this comes back to culture.

Indeed, the ANO report identified a "culture shift" as one of the prerequisites for a more prosperous future, calling for broader decision making to include social and environmental outcomes. We look forward to working with you to deliver sustainable and meaningful success in this exciting new economy.

Identifying opportunities to deliver in the new shared value economy takes belief, investment and a willingness to experiment.

1. Number 1 ranking in Renewables in Australia over the last 10-year period by both deal count and transaction value - IJGlobal.

Reward With Risk: Use of "Reverse Factoring" To Free Up Funds

Minh Hoang
Associate Director, Corporate Ratings
S&P Global Ratings

As more and more Australian corporates look to unlock cash flow through a practice known as "reverse factoring," S&P Global Ratings believes the risk is that companies use reverse factoring for long-term needs, and if this uncommitted arrangement unwinds, it could result in a large hit to working capital. In times of market stress, this financing may not be available, and the buyer may have to settle the accounts payable liability faster. This would force the buyer to draw down cash or take on additional debt. Moreover, investors may be unaware of the amount of risk a company has taken on since reverse factoring is a means of financing growth without appearing on the balance sheet.

Also known as "supply chain financing," reverse factoring allows companies and buyers to delay payments to suppliers, because the suppliers themselves have obtained financing from a third party--typically a financial institution (see illustration). The financial institution makes money on the discounted receivable sold to it by the supplier; the supplier benefits because it receives financing earlier in the process--and often at a lower financing cost than it otherwise would. This is because the financers take into consideration the buyer's (typically higher) credit rating, and the buyer can push out its accounts payable, thus allowing it to use funds to invest in growth, mergers and acquisitions (M&A) or other projects. The result of this growing financing trend on the balance sheets of these companies is lower accounts payable, and therefore, reduced working capital. Indeed, S&P Global Ratings has observed changes in accounts payable have been the largest driver to positive working capital in recent years.

The market for reverse factoring has grown because of historically low interest rates and technological advancements that enable companies to efficiently process invoices to suppliers and financial institutions. Total global trade was approximately US$16 trillion in 2016 and forecast to grow to US$19 trillion by next year, according to the International Chamber of Commerce. Reverse factoring is a small but growing subset of that, about 3% as quoted by Trade Finance Global. PricewaterhouseCoopers estimates the reverse factoring market could grow to US$1.45 trillion, and other sources estimate it could reach more than US$5 trillion.

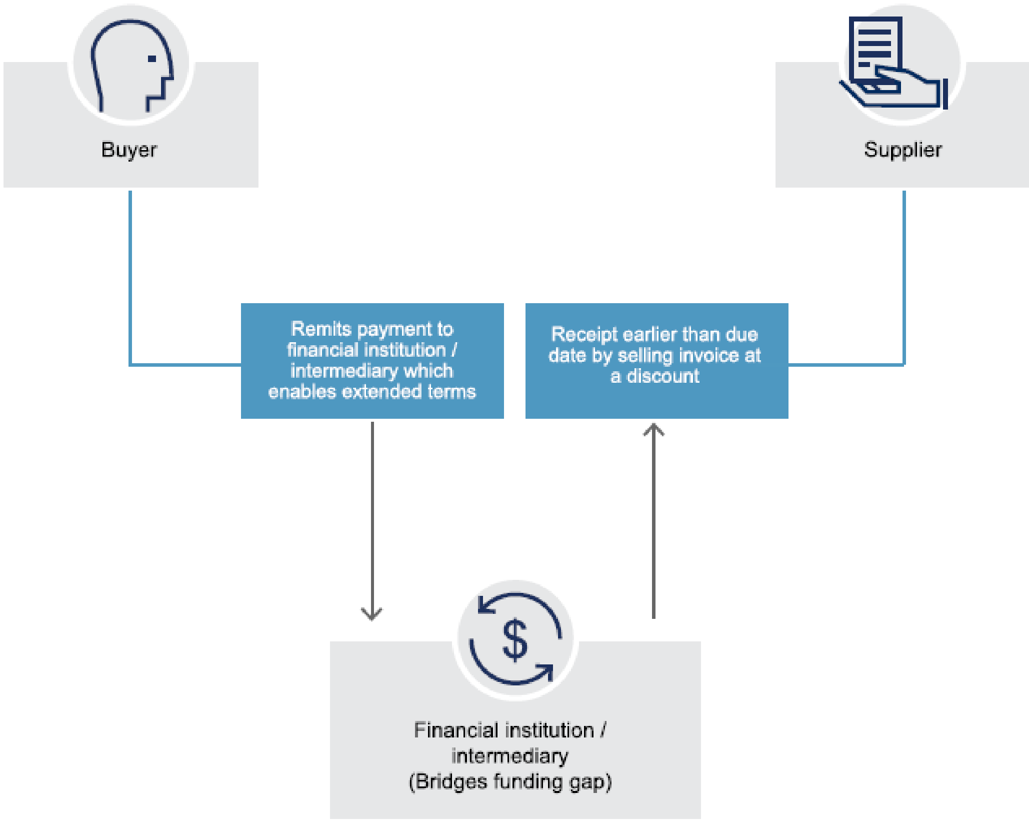
What Factors Would Reverse Reverse Factoring?

Rising interest rates would make reverse factoring less attractive to suppliers because selling their accounts receivable would be more expensive. However, in many cases, accounts payable terms are part of an overall negotiated agreement with a manufacturer. Therefore, to change terms, a supplier might need to either wait until the end of its contract with a manufacturer or break the contract.

Financial institutions, meanwhile, could pull back if a company's supply base showed signs of deterioration--if, for example, manufacturers return a large amount of goods because of quality issues because the buyer can return the goods to the supplier and the supplier would have to reimburse the company for the returned goods and repay the bank for the receivable sold. Alternatively, financial institutions could pull back if the manufacturer's cash flow materially declined or revenues began to decline significantly and they believed that its credit rating could be lowered. In addition, in some cases, declining revenue can cause working capital to be a use of cash, causing cash flows to be more volatile.

Investment-grade issuers generally have availability under their bank lines to offset the unwinding of the working capital benefits they have achieved. Moreover, the Reserve Bank of Australia recently cut the official cash rate by 25 basis points to 0.75%, Australia's third interest rate cut over a five-month period. In the current low interest rate environment, we do not believe there is excessive risk that the reverse factoring market will decline in the near term.

Reverse Factoring—A Risky Proposition



Source: S&P Global Ratings.

The Truth Lies Beneath Accounting And Financial Disclosures

Accounts payable days outstanding (AP days) is an important metric in sectors with a high velocity of trade with suppliers, such as consumer products, automotive, etc. The goal is to calculate the magnitude of a company's accounts payable in terms of its daily expenses--or, put another way, how long it will take a company to clear all outstanding accounts payable--and helps to determine how much the company is in pushing out payments. The higher the AP days, the more positive the working capital changes and cash flow from operations; however, there is an increase in off-balance sheet debt.

However, the calculation gets more complicated in practice. A lack of disclosure in public filings makes it difficult to calculate companies' AP days in a consistent and accurate manner. Some companies include in their accounts payable costs related to selling, general and administrative (SG&A) expenses; hence, if we calculate using only cost of goods sold (COGS) in the numerator, this results in misleadingly large number of AP days. In addition, there is inconsistency in what companies include in accounts payable in their financial disclosures. Companies can include in their accounts payable any expense that has an invoice attached. However, every company's portion of SG&A will vary and the portion of SG&A will vary each quarter. Lastly, some companies only report accounts payable in their audited year-end financial statements--and AP days for interim accounts can be materially different from the year-end calculation because payables disclosures may include other current liabilities. Seasonality can also affect AP days.

A "Sleeping" Risk

Companies are driving cash productivity by reducing receivables, optimizing inventory, and extending payables. In many cases, lengthening payables is a "sleeping risk" if a company does not disclose its supplier programs in its financial accounts. To appropriately capture this risk, if a company defers payment beyond the term customary for its supply chain, we may reflect this figure in its adjusted debt.

For treasurers operating in the foreign exchange market

Treasurers operating in the foreign exchange market know very well the challenges of dealing with prices that are in constant flux. Volatility poses a danger to both investments themselves and overall company profits. While some level of FX risk is inevitable, effective hedging strategies can mitigate more risk than many treasurers may realize.

Hedging practices protect a company by helping ensure no money is lost due to exchange rate fluctuations. To be effective, however, currency hedging requires the right tools. For example, companies dealing with banks — who always profit from spread rates — as part of their daily trading workflow need tools that help preemptively mitigate the impact of FX risk.

Mitigating exchange-rate risk in the pre-trading stage

Simply put, hedging operations protect a given future exposure to foreign exchange against adverse variations in rates and prices — thus eliminating all uncertainty involved with an exchange rate, regardless of market movements. Because transactions in local currencies have no FX rate exposure, only companies dealing in foreign currencies need to hedge against these market variations. For instance, export and import companies tend to hold dollar futures contracts in case the currency fails to achieve the expected rate or performance over a given period.

While individual analyst perspectives can differ over the application and benefits of hedging, effective analysis invariably relies on tools that enhance an analyst's acuity of insight and completeness of information. The best strategies build on broad analysis that incorporates hedging instrument prices, interest curves, economic reports and news focused on market prospects.

The benefits and impacts of foreign exchange hedging

The ability to predict the likelihood of a currency movement on a specific date is very useful for planning an overall investment strategy. Treasurers can then test different strategies and instruments to find the most appropriate structure for their exposures. To ensure they are optimizing their trades, treasurers need to employ tools that combine transparent hedge instrument pricing with a trading platform. Sourcing the best price without having to call multiple banks for quotes both saves time and makes execution easier.

Transparent instrument pricing also helps treasurers quoting from a single bank by allowing them to compare the offered price with the market average. Without this transparency, a company can end up spending money unnecessarily due to a high spread. This can affect cash flow, potentially to the point that the company requires a loan to cover resulting shortfalls. The organization then finds itself stuck in a vicious cycle — always paying high spreads, damaging its cash flow, and compelled to ask for credit from the same counterparty with which it traded the instruments.

Hedging can help treasurers gain a realistic grasp of their company's financial balance sheet and a clearer understanding of overall performance. Without hedging, balance sheets will not account for exchange rate swings, which means presented profit may not reflect the results of product sales. For example, if a company in Brazil starts the month with a certain balance in U.S. dollars, and by the end of the month the dollar has risen and the Brazilian real has depreciated, the balance in terms of reals will be much smaller, even if the company's performance has remained the same as in previous months.

Understanding the financial health of a company's balance sheet is essential for evaluating the prospects of the company as a whole, and is an important factor in presenting results to the board and in making decisions based on those results.

While tools offering hedge trading can deliver improvements on the manual quoting process, solutions that integrate access to economic news and reports provide even greater benefits. Access to expert research and the ability to set real-time news alerts allows treasurers to gain a deeper understanding of market perspectives, assets and instruments. Knowing that an event in the U.S. will have an impact on the price of the dollar, for example, can save time and alert treasurers to possible future variations in the exchange rate. They can then use that knowledge in developing hedging strategies.

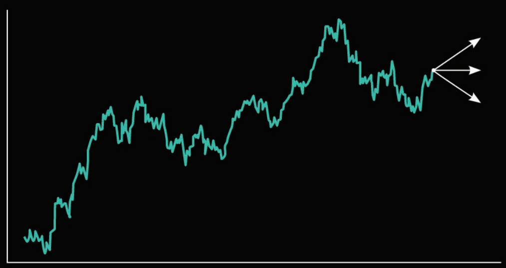
Hedging practices applied to commodities

Depending on a company's business, its exposure may not be limited to FX — other asset classes might also benefit from a hedging strategy. A plastic packaging manufacturer in Venezuela, for example, would have benefited from an oil hedge in early 2019, when a crisis in that country caused a slump in oil production and exports and resulted in a significant change in the price of oil. Automated solutions can help with this, adjusting exposure to reduce cash flow disruptions and optimize overall P&L.

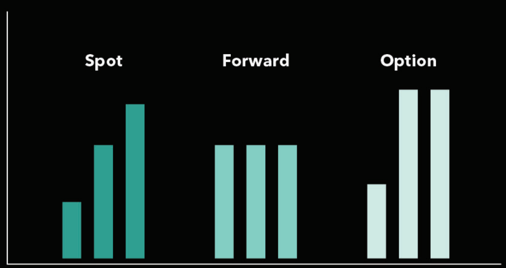
Strengthened by the use of smart strategies and a solution that aggregates the most powerful tools for assertive hedging, treasurers can better manage risk throughout their company. This reduces exposure to potential losses, improves cost effectiveness, increases profitability and helps identify new business opportunities.

Hedging with Bloomberg

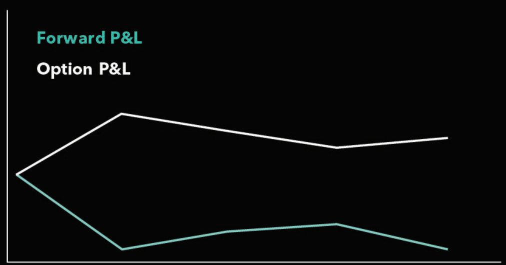
With Bloomberg, treasurers can base their thinking on valuation tools that set the industry standard and back them up with pricing transparency that gives others confidence in the value of a strategy.



Forecast the chance that a currency, commodity or rate movement will be realized on an exact date to better plan strategies.



Compare hedging strategies to find the most appropriate structure to hedge underlying exposure.



Test a hedging strategy on prior time periods. Instead of applying a strategy for a time period forward, run simulations on relevant past data.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How C2FO Creates Seamless Cash Flow

Iain Rolfe
C2FO Australia

A company's working capital is much like the engine oil of a vehicle. Without it, the company will seize up and eventually stop.

A smooth flow of cash is critical to keeping a business running at peak efficiency. It's a challenge for any business to maintain liquidity through all the ups and downs that naturally occur.

The problem is it can take up to 90 days to receive payment on approved invoices. During this time, the cash "engine oil" can run dry. As a result, companies must turn to banks or sell their account receivables. Both of these options have significant drawbacks, particularly because the cash exits already—it just hasn't been paid out yet.

Sandy Kemper, a successful entrepreneur with a banking background, recognized this flaw in the financial credit system while leading one of his own businesses.

To solve the problem, Kemper came up with a simple yet revolutionary idea: turn account receivables (AR) into cash flow on demand and account payables (AP) into income opportunities.

In 2008, Kemper established C2FO, a cash flow optimisation platform that connects a buyer with its suppliers so they can overcome the cash flow challenge together. Today, C2FO helps buyers and suppliers of any scale—from Fortune 500 companies to small start-ups—to gain complete control over their working capital.

> **"C2FO is a simple and transparent technology available for such businesses to access their receivables, on-demand, exclusively at a price which suits their cost of capital."**
> **— Iain Rolfe**

For example, instead of waiting 90 days to receive their cash, businesses can use C2FO to request early payments from their buyer in exchange for a discount on their invoices. This means a business can convert their AR into immediate cash, paid directly by their customers, for a small percentage of the invoice value. It's a faster and more cost-effective option than turning to a third-party financial provider.

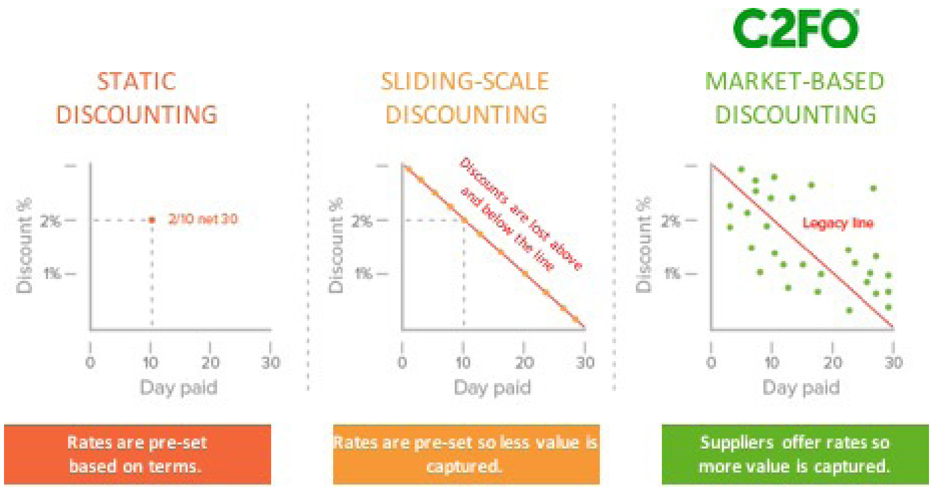
By operating this model, C2FO relieves the monetary and KPI pressures on businesses by providing a debt-free working capital solution, without the interface of a bank or other financial entity.

How Buyers Can Benefit

C2FO's platform can benefit both buyers as well as suppliers. While suppliers benefit from demanding early invoice payments at a preferred rate, buyers can utilize C2FO to generate better returns on short-term investments and improve their margins, EPS, and EBITDA.

With hundreds of algorithms running in the background, suppliers suggest a discounted rate and C2FO technology connects those discount offers with the desired target yield of their enterprise customers. Because of this real-time price valuation, discount rates at different thresholds, timetables, and invoice sizes can be approved for early payment.

This discounting system of C2FO is purely market-based and flexible. Companies using C2FO to pay their suppliers early have observed a growth of 600 basis points in earning incremental than their other short-term investment options. Another striking feature of C2FO is its ability to capture any change in the dynamic cost of working capital around key times in the financial year and provide insights into the health of a supply chain.



"In the future C2FO has the opportunity to become a primary funding source for businesses across the globe because of the seamless nature of how we connect businesses to deliver working improvement."
— Iain Rolfe

Greater Stability and Increased Margins

The robust functionalities of C2FO have a proven track record.

A C2FO client, and global consumer packaged goods (CPG) company recently found its cash distribution in contrasting numbers across various international markets. While the company's business in Europe faced extending invoice payment terms to gain a better short-term cash position, its Asian business was flush with cash and earning little return. And repatriation from the cash-rich market to the cash-poor market would incur a substantial tax liability, thus reducing benefits in both regions.

C2FO teamed up with the treasury and the procurement teams of the CPG company and provided a working capital management strategy to help the company gain greater financial stability and increase their profit margins. The company's supply chain also benefited from real-time access to cash flow through the offering.

Such success stories are a testimony to C2FO's farsightedness in improving the working capital of a business. Today, C2FO has offices across North America, Europe, India, Australia, Singapore, and all of greater China, and caters to various industry verticals that include retail, manufacturing, oil and petroleum.

About C2FO

C2FO is a simple and transparent technology available for businesses to access their receivables on demand. Instead of waiting for payments, C2FO allows any business to request early payments from its customers in exchange for discounted invoices, quickly converting their AR into cash flow.

With this innovative model, C2FO relieves the monetary and KPI pressures on companies by providing a debt-free working capital solution. It creates a seamless transaction platform for suppliers, and customers, without the interference of a bank or other financial entity. For more information, visit www.c2fo.com.au.

Reshaping liquidity management

Westpac is launching a new digital banking platform that will deliver liquidity and cash management for institutional customers. In this Q&A, Westpac Institutional Bank's Head of New Ventures and Digital, Peter Pallister and Head of Liquidity Solutions, Brent Stephens explain why.

How does Westpac's Digital Institutional Bank (DIB) help corporate treasurers transform the liquidity management of their businesses?

Pallister: We believe it's a state-of-the-art initiative designed to deliver better liquidity and cash management in Australia. When you ask Treasurers what's on their wish list, they say that real-time cash mobility, visibility of account balances, intraday balance movement and a single view of liquidity throughout their entire corporate structure is high on their priorities.

DIB can provide a liquidity dashboard for their end-of-day position for all their accounts around the world. It's very much been a manual process in the past.

At what stage is the DIB program?

Pallister: We've actually had a demo environment up and running for the past 12 months where we've literally put iPads in front of clients and let them test out our vision. By watching people use the system, we've worked out what concepts they understand and the areas in which they need assistance. We've done a lot of work making sure it's intuitive and easy to use. No stone will be left unturned in helping customers become familiar with DIB's systems.

What is changing in the institutional banking space that convinced Westpac to pursue such a significant commitment and investment?

Stephens: Treasurers have three key objectives – to optimise working capital, mitigate risk and improve operational efficiency. DIB aims to meet those three objectives. In the past, Westpac's investment in Global Transaction Services has concentrated on meeting client demands around payables, receivables and connectivity value-add solutions. These products have served our customers well, but now there's a focus on liquidity management to further reduce working capital requirements and free up cashflow in their business.

Can Australia draw on lessons from overseas for this?

Stephens: Europe post the global financial crisis is the best example where the shift to liquidity centralisation became a core focus in Treasury management. There was an environment of very low economic activity, which led to low credit demand and, in turn, low demand for client deposits. It meant, for the first time, Treasurers were managing large levels of working capital and cash that was going down in value each day.

Partially in response to this, companies in Europe, the US and Asia, who were also facing the same challenges, were developing highly sophisticated and centralised Treasury structures. Global Treasury centres, global cash pools, netting arrangements, in-house bank structures, and payment factories. These centralisation structures all have embedded sophisticated liquidity management principles to address the inefficiencies around holding cash and reduce working capital requirements. These structures helped unlock value in that adverse environment.

At the same time, Australia was experiencing the opposite macro environment: comparatively higher interest rates, and a mining boom followed by an infrastructure boom followed by a property boom. Treasurers did not have to focus as heavily on liquidity management because their deposits were in higher demand; Treasurers realised value for their cash via banks paying relatively high rates of interest. Now, however, a decade after the GFC, Australia is moving into an environment of even lower interest rates and slowing economic demand. Now is the time Australian treasuries should adopt proven liquidity management best-practices that have been successful across the rest of the world. We're redeveloping our core infrastructure to ensure Australian companies can do this. That's our goal.

What features can treasurers expect from DIB?

Pallister: There will be new tools to orchestrate liquidity and free up cashflow. Treasurers will be able to manage account rationalisation through virtual account management, and use standardised data formats and flexible real-time integration points. They'll also get instant alerts and access to digital online account opening.

It's all about channeling liquidity through the organisation so that it's exactly where it needs to be, exactly when it needs to be, and in exactly the account it needs to be in. It's about reducing the levels of operating cash that it takes for customers to run their business so it is more efficient. And it's about emphasising global liquidity best-practice and enabling our customers in Australia to leverage the digital tools that a lot of Treasurers in Europe, the US and Asia have had for some time.

Can you give us a specific example of how Treasurers will be better placed to manage liquidity?

Pallister: The first core feature of DIB is that it allows greater visibility of cash positions. We take and hold a snapshot of the customer's balance every 15 minutes for DIB accounts. So, traditionally, Treasurers can log on and see a current balance, but with DIB they can look back through the day and get a more comprehensive picture of cash flowing in and out of their organisation.

By seeing these different 15-minute bars of what's going on, you can actually look at how efficiently you are using the money. That will be especially valuable for governments or organisations with potentially hundreds of different departments, and hundreds of accounts. It gives you instant visibility of cash – which division of the structure is long on cash and which arm is short of cash. You can see all that information quickly.

So, what could a typical day look like for Treasurers using DIB in the future?

Stephens: If you're a Treasurer of a corporation – regardless of whether it's headquartered in Australia or Luxembourg – you can open the DIB portal and immediately see a snapshot of your cash, across all accounts, in any currency at any point in time. You can easily manage your cash position to ensure that you have access to your cash where you need it, when you need it. You can make sure that when you're sitting on excess cash you can efficiently invest it if you don't need it right away.

For Treasurers interested in taking advantage of DIB tools, how long will they have to wait?

Stephens: There will be multiple phases to the DIB rollout. To start, customers will be able to use our visibility dashboard which overlays on top of our existing infrastructure and can give Treasurers insights into their business that they have not had before.

Customers in our pilot program love this tool and are saying - It shows me the intraday balances as funds move throughout the day. I'm not just looking at yesterday's balance versus what I forecast as tonight's balance. That helps me manage any intraday payment risk and avoid overdrafts from forecasting errors.

The dashboard eliminates the need to download raw data in Excel spreadsheets and manually manipulate that data to see basic information. They can see it immediately on screen, filter and customise according to their needs at that time. It's highly interactive. Of course, some larger businesses with a bigger budget have a treasury management system (TMS) that may be able to do similar tasks for them, but a lot of customers don't have that level of sophistication or budget and they will be able to use DIB instead.

What else can we expect through DIB in the future?

Stephens: What we are building and what's going to take us some time to release is the replacement for our core banking platform. We're extensively replacing our current batch-based, legacy mainframe infrastructure with new 24/7 instantaneous enabled technology. It's a massive project and not many banks are currently investing in such a fundamental core infrastructure replacement. It's something we're really proud of at Westpac.

More and more Australian companies are going global, which means that their working capital and cash cycles increasingly have exposure to foreign currencies. What will DIB bring in this respect?

Pallister: DIB is working on ways to assist Treasurers with foreign currency management, first giving them visibility of multiple currencies, across multiple banks, across multiple countries all in the one view.

Do you have any final messages for Treasurers?

Stephens: We want customers to know that Westpac Institutional Bank is really committed to the digital future. We understand the need to re-platform to meet our customers' needs in this dynamically changing world – they want real-time everything. We have put the focus on liquidity management and want to lead the Treasury centralisation trend in Australia. We're saying 'this is DIB and this is the future'.

This was first published on Westpac IQ

LIQUIDITY INSIGHTS

Defining cash for Australian investors

Aidan Shevlin, CFA
Head of Asia Pacific Liquidity Fund Management, J.P. Morgan Asset Management

The definition of cash, while ostensibly straightforward – banknotes and coins – becomes increasingly challenging when the demands for higher returns counteracts the obligation to ensure adequate liquidity and the commitment to avoid losses.

As memories of the liquidity stress and market dislocation triggered by the global financial crisis faded, the range of financial instruments deemed acceptable in Australian cash products broadened dramatically. This was also a time when investors grappled with the challenges of outperforming attractive headline retail bank deposit rates.

Unfortunately, defining which instruments are truly cash equivalents is one of the most difficult tasks for modern corporate treasurers.

THE REGULATORY DILEMMA

Globally, cash investors look to regulators and rating agencies to define and clarify suitable cash investment instruments and structures. This is especially true in the United States, European Union and China, where the size and systemic importance of liquidity and money market funds (MMFs) made this a critical regulatory issue following the 2008 financial crisis.

These rules and regulations vary from prescriptive, listing specific approved and unapproved instruments, to abstract, outlining key sources of investment risk and limits to mitigate them. Regardless of the regulator's philosophy, the ultimate goals remain the same – to ensure adequate liquidity and minimise the probability of losses. Over the past decade, global regulators have strengthened MMF guidelines. They now demand higher levels of liquidity, impose tighter investment limits and require increased diversification. For both retail and institutional investors, these new rules have raised the standard of MMF investing while significantly reduced the likelihood of funds suffering losses, albeit at the expense of lower potential returns.

In contrast to detailed global standards, Australian regulators have historically demurred the responsibility to define cash or the suitability of various instruments for cash investments. The Federal government's unlimited bank guarantee during the Global Financial Crisis helped shelter the local financial industry while a long history of self-regulation encouraged investors to create their own definitions of cash and cash equivalents.

However, in 2018, a review of cash investment products by the Australian Prudential Regulation Authority (APRA) raised significant concerns about the level of volatility and risk in these products. Across the industry, the range of instruments and structures defined as cash varied enormously – as did returns. This created confusion for retail and institutional investors. In its subsequent report, APRA highlighted **"examples in the industry where cash investment options appear to include exposure to underlying investments that would not generally be considered cash or cash-like in nature".**[1]

To encourage investment consistency and reduce the volatility of cash investment products, APRA concluded that **"cash equivalents represent short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value"**[1].

CASH MEANS SECURITY, LIQUIDITY AND RETURN

The report signalled a tougher regulatory stance and additional focus on questionable cash investments styles. However, in the absence of detailed regulatory guidelines and exact definition of liquidity and risk, investor due diligence is still required to balance the need to preserving capital, while ensuring suitable levels of liquidity and maximising returns.

Three key steps in this process involve clarifying investment policies, creating well defined investment objectives and implementing cash segmentation.

Firstly, using an investment policy statement forms a solid foundation for cash investment decisions. A well written policy provides clarity, instils discipline and allows the organisation to successfully navigate shifting markets, changing regulations and evolving business needs.

Secondly, by defining short term investment objectives and the strategies for achieving them, an organisation can establish acceptable levels of risk, identify permissible investments and detail relevant constraints.

Finally, by putting cash into different segments, the organisation can optimise its investment choices – ensuring it has sufficient liquid cash to meet its daily needs while avoiding the opportunity costs associated with very high levels of liquidity and principal protection by diversifying across different types of cash investment depending on their level of liquidity, volatility and diversification.

[1] https://www.apra.gov.au/sites/default/files/letter_cash_investments_options_non-cash_holdings_industry_guidance_june_2018.pdf.

STEP #1: Defining and mitigating investment risks

Short term investments have three key risks ...

	INTEREST RATE RISK	LIQUIDITY RISK	CREDIT RISK
Define	**Sensitivity to interest rate movements** • If rates increase, value of fund's investments generally decline • If rates decrease, value of fund's investments generally rise	**Funding Liquidity Risk** • Is there enough cash to meet requirements? **Market Liquidity Risk** • How easily can security be sold at a good price?	**Default Risk** • Will the issuer default before the security matures? **Downgrade Risk** • Will the issuer be downgraded before the security matures?
Mitigate	• Duration • Weighted Average Maturity • Weighted Average Life	**Funding Liquidity Risk** • Maintain high overnight cash balances • Keep strong ladder of maturities **Market Liquidity Risk** • Buy and hold strategy • Lower concentrations	**Default Risk** • Buy high credit quality issuers **Downgrade Risk** • Robust credit process • Strict internal limits on concentration, tenor and dollar holdings

Source: Bloomberg, J.P. Morgan Asset Management; as at May 8, 2019.

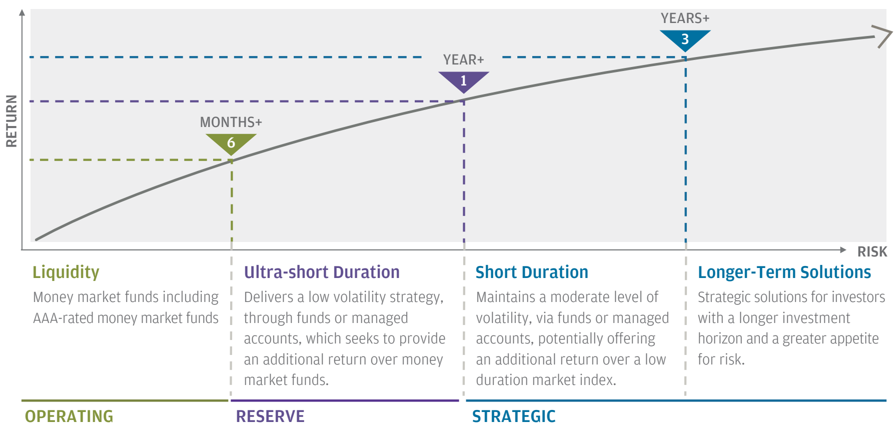
STEP #2: Understand short term cash investment options

OPTION	TENOR	DIVERSIFICATION	LIQUIDITY	VOLATILITY	YIELD / RETURN
Current account	Over-night	Low	High	Low	Very low
Money market fund	Over-night	High	High	Low	Medium
Deposit account	7 days - 1 year	Low	Low	Low	Variable
Certificate of Deposits (CD) and Commercial Paper (CP)	> 1 months	Low	Medium	Medium	Medium
Medium term notes	> 12 months	Low	Low	Higher	Higher
Customized separate account	> 3 months	High	Medium	Medium	Higher

Source: J.P. Morgan Asset Management; for illustrative purpose only.

STEP #3: Put cash in its place

Identify the right investment strategy for each cash segment and utilize longer-term investments where appropriate for enhanced return potential.



IN CONCLUSION

The new APRA definition of cash has already prompted a significant reorganisation across the Australian cash management industry with several instrument structures being avoided and more conservative investment guidelines introduced. This, combined with more due diligence and understanding of the underlying risks by retail and institutional investors, should help the industry create a safer foundation for future growth.

To read more our liquidity insights, visit www.jpmgloballiquidity.com

Australian Thermal Coal Will Remain Relevant

Leo Park
Associate Director, Corporate Finance
FitchRatings

Stable Outlook for Australian Thermal Coal Exports

Fitch Ratings believes Australian thermal coal's value proposition of low cost and high quality underpins our stable outlook for Australian Thermal coal over the medium term. A growing adoption of ultra-supercritical technology in Asia further supports the stable demand for high -quality Australian thermal coal.

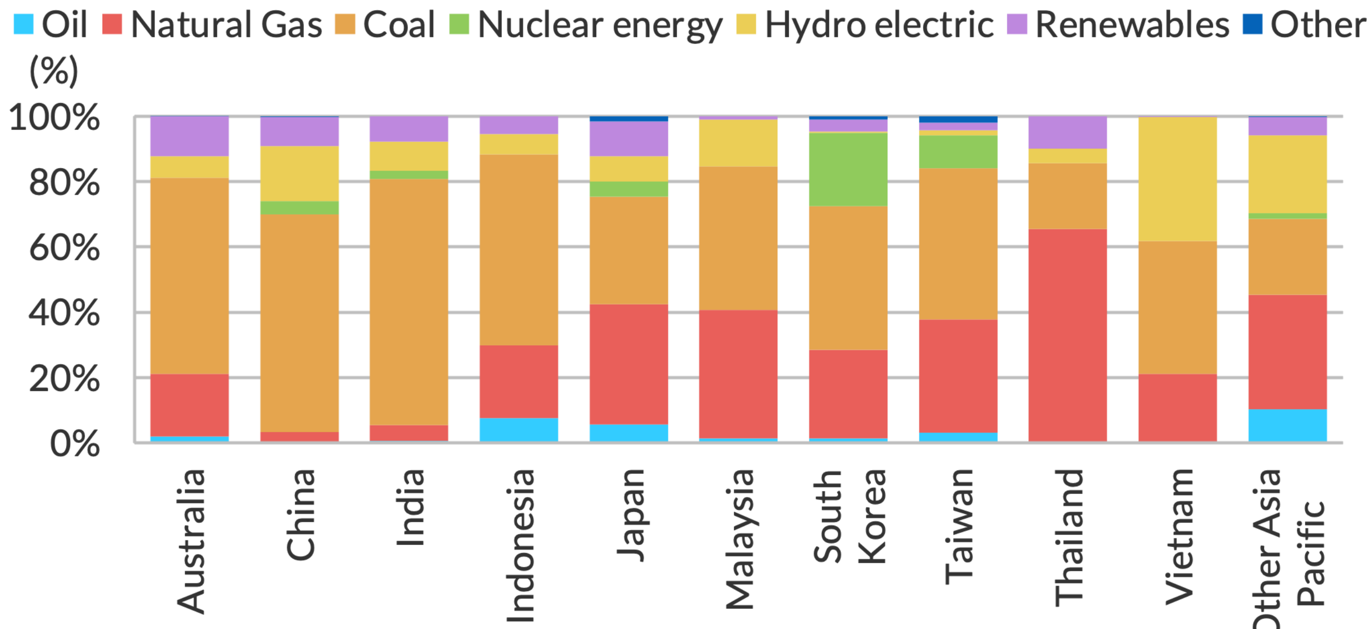
Even under the International Energy Agency's (IEA) Sustainable Development Scenario, there will be demand for coal in 2040, and the Australian thermal coal's cost position in the global cost curve makes its position resilient.

Renewable Energy Alone Cannot Replace Thermal Coal

The intermittent and unreliable nature of renewable energy makes it a complementary and not a primary source of electricity. Therefore, the electricity system requires baseload generation /battery to provide reliable electricity when renewable energy does not provide enough electricity to meet demand. This is irrespective of renewable energy capacity addition and its cost competitiveness.

Even though Fitch expects Asia will make concerted efforts to move away from coal to other forms of fuels in the electricity generation mix, we believe thermal coal still has an important role to play due to its competitive cost, ability to provide reliable electricity, and easy access. That is evident from thermal coal's entrenched position in the electricity generation fuel mix in Asia.

Electricity Generation by Fuel in 2018



Source: Fitch Ratings, BP Statistical Review of World Energy 2019

In addition, Fitch believes that coal is cheap and has easy access versus other baseload fuels in Asia. That is why countries like Japan, South Korea and Taiwan plan to maintain coal in their electricity fuel mix in 2030.

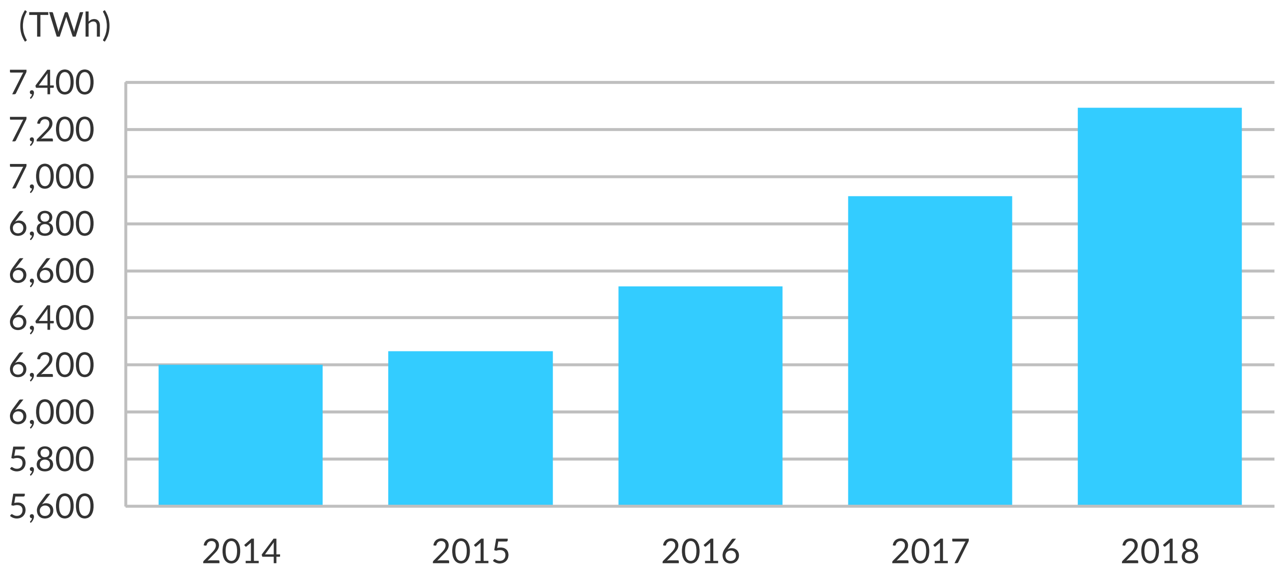
Gas is not as Cost-Effective As Coal

Gas imports, unlike coal, requires regasification plant and storage. In addition, utility companies which wish to import gas have to make sure there is enough capacity in the gas pipeline to accommodate incremental gas volume. To make things worse, utility companies have to secure long -term off-take contracts with liquefied natural gas (LNG) exporters. The LNG spot market is small and opaque, and accounted for only around 30% of the total global LNG traded volume in 2018. Furthermore, LNG projects require a large initial investment to be constructed. Therefore, most LNG off-take contracts are signed even before a construction for a project has started. So, utility companies which plan to import large amounts of gas have to find new LNG projects even before construction commences – which would take around five years to complete – to secure long-term off-take contracts. This long-lead time combined with relatively high gas cost in Asia act as switching costs for power companies to move away from coal completely.

Seaborne Thermal Coal Unlikely to Go Into Permanent Decline

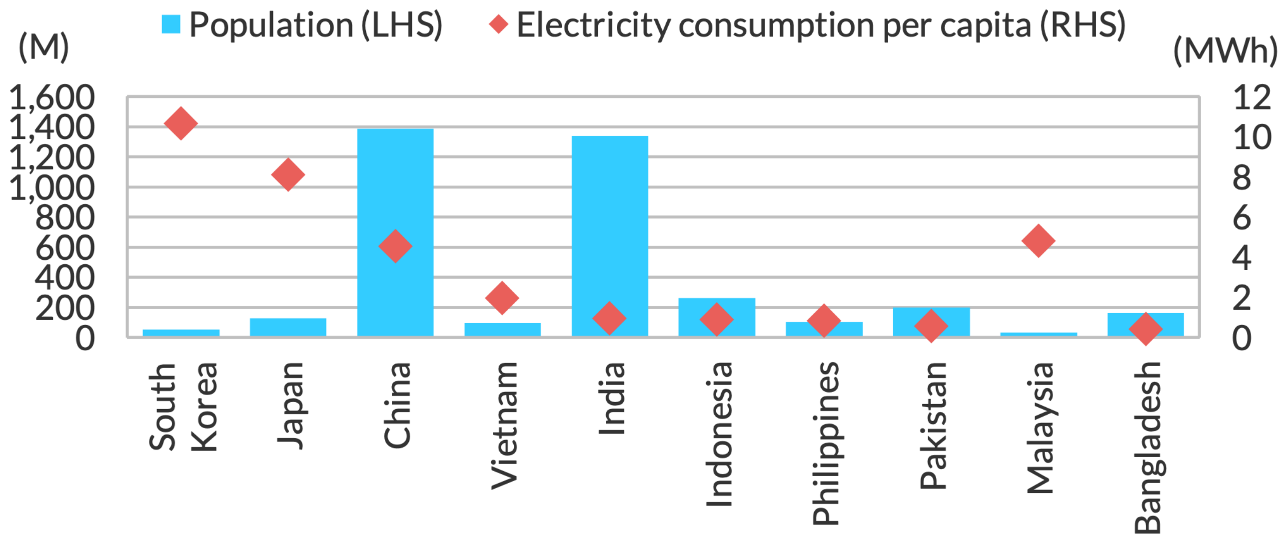
It is very clear that demand for thermal coal in Asia has been resilient over the last five years. Total electricity generation in Asia-Pacific grew by 6% in 2018 and electricity generation from coal by 5.4%, according to BP plc's (A/Stable)Statistical Review of World Energy 2019.

Electricity Generation from Coal in Asia Pacific



Source: Fitch Ratings, BP Statistical Review of World Energy 2019

Electricity Consumption per Capita for Major Countries in Asia in 2017



Source: Fitch Ratings, IEA Key World Energy Statistics 2019

Even if we assume that demand for seaborne thermal coal from countries in north-east Asia would decline over the medium term, Fitch expects demand from developing countries in Asia to offset the decline. That is because the developing countries (even excluding China) have a large population base with low electricity consumption per capita compared with four countries in north-east Asia.

Fitch expects electricity demand from south-east Asia to increase continuously due to strong forecast GDP growth rates, a rising middle class, and continued industrialisation and urbanisation. Electricity consumption per capita in developing countries is only likely to rise. Fitch also believes that demand for electricity in these countries would rise faster than the pace at which these countries would switch from coal to non-coal fuels in their electricity generation mix over the medium-term due to the reasons discussed above.

Specifically, Fitch expects coal to account for around 50% of new generation capacity additions in Indonesia, Vietnam, and Malaysia. We also expect India to increase coal capacity in the generation mix to the extent of power projects which are already under construction–driven mostly by NTPC Limited (BBB-/Stable) over the next few years.

Vietnam boosted its coal import volume by 8million tonnes in 2018, which more than offset the decline from Japan and Taiwan. Fitch expects this bifurcation of demand for coal from developing and developed countries to continue over the medium term.

Ongoing Approval of Australian Coal Mines

Australian thermal coal projects face a long and strict approval process due to heightened environmental concerns in Australia. Furthermore, Fitch acknowledges that there were some mines which struggled to obtain approvals on time. However, that does not mean there will not be any new thermal coal projects that will be approved by the state governments.

Below is a list of key thermal coal mines that are either approved or in the process of obtaining approvals in Australia

Key Thermal Coal Projects in Australia

Company	Project Name	Approval Process	Type of projects	Production volume
Adani	Carmichael	Approved in 2019	Greenfield	10mt
Bloomfield	Rix's Creek	Approved in 2019	Brownfield	25mt
MACH Energy	Mt Pleasant	Approved in 2018	Brownfield	10.5mt
TerraCom	Blair Athol	Approved in 2017	Brownfield	2.5mt
Whitehaven	Vickery	Final Stage	Greenfield	10mt
Whitehaven	Maules Creek	To be lodged	Brownfield	3mt
Whitehaven	Winchester South	In progress	Greenfield	15mt
New Hope	New Acland	In progress	Brownfield	7.5mt

Source: Fitch Ratings, Company

FINANCE AND TREASURY ASSOCIATION

PARTNERSHIPS PROPOSAL

ABOUT THE FINANCE AND TREASURY ASSOCIATION

Our goal at the Finance and Treasury Association is to provide continual support and leadership for professionals in the finance and treasury community, equipping them with the tools and knowledge to create a successful career. Our membership base consists primarily of senior managers from the top 300 corporations including Group Treasurers, Treasury Managers, Chief Financial Officers, and Chief Risk Officers.

A key component to our ongoing success and meeting the needs of our community is through our long-standing partnerships with business.

To support the success of our strategy, we are building corporate partnership packages with a selection of companies which will enable us to deliver on our vision of being the number one reference point for the treasury community in Australia.

We believe every partnership has different needs and therefore different value. As such we would like to work with you to create a bespoke package and welcome the opportunity to discuss indicative pricing with you.

85% of members are from ASX top 100 companies

20+ networking and leadership events

12+ webinars

2-day annual conference

16+ courses

Women in Treasury group

WHAT WE CAN OFFER YOU

MEMBERSHIP

As part of our partnership, your employees will become full members, gaining access to:

- our knowledge hub which includes weekly updates.
- online resources.
- our mentor program.
- networking and leadership events.
- courses and workshops to support their ongoing professional development.

BRANDING

We see an opportunity to further enhance your brand specifically within the treasury community. This can be through speaking opportunities from your expert leaders through partnered events like Essential Treasurer, webinars, and/or curated content. You will also have your company details on our dedicated partners page on our website, which links to your website and product offering.

WEBINARS

Your employees will have complimentary access to all webinars, including past webinars through the online knowledge hub.

You have access to host webinars for members also on expert topics and gain direct access to the broader treasury community.

THE EXCHANGE MAGAZINE

The annual magazine is a thought leadership piece discussing topical challenges and changes within the finance and treasury space. Partner's will receive complimentary advertisement space in the annual Exchange Magazine.

EMPLOYEE OPPORTUNITIES

In addition to the networking and development opportunities listed and benefiting all your selected team, we believe your employees leadership should also be both recognised and developed.

RECOGNISING SENIOR MEMBERS

As part of your partnership, we will be proud to recognise those members who have demonstrated their commitment, support and expertise to the Finance and Treasury community across their career and grant a Fellowship with the FTA. Becoming a Fellow, is something that that we feel should be celebrated - Fellows will be acknowledged through our online channels as well as in person at State functions. We also look forward to them sharing their career journey and insights with our wider membership at various functions.

OPPORTUNITIES FOR YOUNGER MEMBERS

The pathways membership is dedicated for members under 30 years old, providing them access to resources like the mentor program, enabling exclusive access to senior treasury professionals to help support their professional development.

We will also offer Leadership opportunities via our State Committee's and National Young Leader's group.

THANK YOU

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