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EXCHANGE

MAGAZINE 2021

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Message From the CEO

Ben Leaver - CEO
Australian Corporate Treasury Association

Hi all,

Welcome to our edition of Exchange for this year. It feels almost redundant to say what a past year we've all had, but I've said it now!

While you have all had extraordinary years in many different ways, it's been a year of change and growth for us. We have learned to cope with not being able to have people together physically, taking a lot from that to carry forward, we have changed our name, we are introducing Australia's first and only Certification Program for Treasury professionals and there are a raft of other improvements coming to you. All of this reflects how important we feel the ACTA is, because it's how important we think Treasury is – never more so than the past 12 months, and our role now is to keep that momentum going.

Another thing we've been very focussed on recently is our history. We haven't been great at remembering and promoting our history, but we plan to do that now, including some new pages on our upcoming refreshed website. As part of this we have been speaking with many of our past Presidents. We owe a great deal to all of these people, as well as the Boards and Committees who worked with them. Perhaps the most important group is the one who started the organisation, led by John Barner, who it is our pleasure to profile in this publication.

Thanks as always for all of the support you give to us and to each other.

Regards

Ben

President's Message

Steven Cunico FFTP - President
Australian Corporate Treasury Association

Dear Members,

On behalf of the board and staff, it gives us great pleasure to announce that we have changed our name from the Finance and Treasury Association Limited (FTA), to the **Australian Corporate Treasury Association Limited (ACTA).**

Over the past 2 years, the Board has deliberated on the Association's vision, purpose and strategy, and it became clear that the future for the association is not to be a 'broad church' but to focus on treasury and the treasury ecosystem. This led to a change in our stated purpose 'to be Australia's Treasury Community' and now, to a name change which ties this all together, showing who we are, and who we are here for – an Association for Treasury professionals, to drive the profession forward.

Our new logo is the one element that unifies and represents our brand and our vision.

The Australian Corporate Treasury Association has a longstanding place within the Treasury community in Australia. It started in 1982 as The Currency Club, which formed around the time when Aussie dollar was floated in the early 80's, and with financial deregulation, there was a need in those early years to bring a community together to help each other navigate the new world.

It grew quickly, and in 1985 the Australian Society of Corporate Treasurers was born. In 1988 it hosted its First Annual Congress and has run continuously now for 33 years straight.

In 1998, with the continued evolution of the Treasury role, the name was changed to the Finance and Treasury Association, the FTA. The Finance part of the name was introduced to reflect the broader Financial Risk Management role of treasurers, and to try to broaden the appeal of the Association to the finance community.

In hindsight, the addition of Finance to the title has taken focus away from the Association's core mandate, being a place of education, training, and networking for Treasury professionals and those in the Treasury eco-system. Treasury in itself is a profession and function found across Australian business, from the large ASX companies, down to small family-owned SME's – regardless of what they call the function. Within those Treasury functions sit roles of many names and descriptions, not just Treasurers, hence the reference to Treasury as all encompassing.

Through both the GFC of 2008 and the pandemic of 2020, Australia has been reminded of the importance and value of Treasury and treasury professionals in Corporate Australia.

The rename from the Finance and Treasury Association Limited (FTA) to the Australian Corporate Treasury Association Limited (ACTA) was officially endorsed at the annual general meeting in December 2020.

Don't forget to ***Like*** and ***Follow*** us on social media (*@actatreasury*) and to keep an eye out for our newly branded social posts to ensure you stay up to date with the latest news from the Australian Corporate Treasury Association.

Over the coming months you will see the new branding used, and updates to our website, including the member portal, so make sure you keep an eye out on social media, and we encourage you to take a look at the member forum (by signing in via the member portal) to discuss front of mind topics with your peers.

We hope you like the new look and thank you for your continued support.

Best wishes,

Steven Cunico FFTP
President
Australian Corporate Treasury Association

A Moment in History

Conversation with John Barner FFTP - First President

Recently ACTA were lucky enough to spend some time with the very first President of what was then the Australian Society of Corporate Treasurers (ASCT), John Barner.

The story of how ACTA, which evolved from ASCT and then FTA began, is a fascinating one.

To understand how the Association started, John began by speaking a little about the early 1980's, not that long ago in financial history, where Corporate Treasuries, teams dedicated to the concept of Treasury, were a relatively new concept. John himself had been with Citibank for 20 years, 18 of those outside the US including 10 in Africa.

'In 1985, most global companies were still of the view that the people doing the accounting, could also do the finance. This was seen as an 'add on' job. The issue was, that even the very good accountants had no exposure to financial markets, nor any training. So we had a situation where a lot of people were designated as being in charge of corporations finances, at a time when there were very few places you could get the information you needed in order to understand financial markets; to be able to approach them with the right information at the right times or to be able to convey to your Board what the risks were of going into a financial market and being able to insure against those risks by doing as much as you could within the company to provide risk assessment parameters. So you ended up with people doing wonderful things like going overseas to do courses but this wasn't an option for medium or small companies.

> This led to us looking around at each other asking 'so, who is the expert, who knows something about derivatives, or the Euro market,

so we started trying to determine a structure of some sort to give you access to the people who knew what they were doing and could share that. It started with a group called the Treasurers Group in Melbourne, and there was one in Adelaide, Sydney, a smaller one in Queensland, nothing at that time in Hobart and just starting in the West. But none of us really knew how to bridge the gaps between them as there was no structure.

Our task then was to define what we wanted, and then who would accept that definition. Some of us in Melbourne started to think about what it would need to be and leaning on the structure of a couple of other national organisations, we began drawing up a set of by-laws and a constitution that would give us the ability to form a Corporation that would then give us the ability to market this to the other States and build together a National organisation. When you're writing a Constitution, it can be like the more people you have, the harder it is because everyone has their own ideas, and you can go off in tangents that don't come back together again. So, it fell to one person, and that ended up being me! It took quite a long time to pull together what others were doing and pull it into a framework, testing each section as you went with people in Melbourne and ending up with a document that met our needs in Victoria but we had no idea if it would meet the needs of the other States. So we then took it to them, asked how they felt about it, what changes would make this acceptable to you. Gradually we could repair things for one State but that lost another, which meant looking for a compromise and we ended up with a pretty good document, with a lot of co-operation between the States because there was a need for this organisation. If there was no need for it, people would have said why bother.

A lot of us had overseas experience which helped a lot, the main strength globally at the time was in Europe which had international activity in London, which kept a focus there rather than New York or Japan.

The next step was for representative's from the States to get together in Melbourne, and sign the documents and elect a group of officers for the new national body. I was then elected the first President – not a lot of people put their hand up! There wasn't a lot of travel then so we also needed to hire a very good Executive Officer, Dawn Quick, to give us a focal point and be able to co-ordinate and stay in touch. Through our connections, she worked from an office within the Melbourne Chamber of Commerce.

As we all then travelled where possible, we would speak in each other's States, as well as utilising our contacts to have overseas visitors from Banks etc speak also. And that worked very well as far as setting up a program. Within two years we were hundreds of people strong. In fact by 1987 we hosted a lunch at Melbourne's Southern Cross Hotel, with Paul Keating (then Federal Treasurer) speaking to a crowd of 300 with another 150 on a wait list.

> “As well as the Bank's, we had excellent support from the Accounting firms, as they needed the knowledge as well, and the help in training their people. They bought experts in also and we shared with each other.”

When asked John how many members there initially were, and how much they paid, John advised that there were around 120 initially, paying less than $100 (around $320 in todays value).

John also expanded on other events and speakers of the time, and publications.

'Quite a few speakers from international Banks spoke for us, many with outstanding experience. We would have them speak, but also then run a workshop. So we ended up with Bank's being really happy as they were able to meet with and speak to people who they wouldn't have met otherwise, and not needing one on one appointments.

Dawn also put out two newsletters a year. It did go quarterly for a short time, but went back to twice a year to have a more in depth offering.

We also had a couple of big annual meetings, with say ten speakers across a couple of days. They worked extraordinarily well, as it justified people coming from interstate. We had themed dinners, great speakers including politicians and economists on panels together. (This was Congress, the pre-cursor to our current Conference). I was involved in putting those together, as we needed to stay close to make sure things happened.'

When asked about his tenure of official capacity, John advised that he did again get very busy outside making it more difficult to be as involved, but continuity of leadership was also very important, to bring new skills to the table. The talent pool was a wide one, with many willing to give their time.

Where does John see us now, do we have a place in the Australian business world?

'Not only do I see a place for ACTA, but it's an increasing place. The more we travel down the road we're heading, the more there is a vacuum ahead of us on how we go about funding. We are on the edge of redefining what a corporation does. There are major changes possible with the Corporations Act. We don't have the structures being used overseas in Australia yet.

So what is the process then for how do you link funding of an organisation which doesn't have the legal structure that we have now and build reassurance with the lenders that that structure can repay. We're not really talking about these issues yet. But as far as watching what ACTA is doing, I'm proud to still be a member after all these years, I see all of your correspondence, I'm enthused when I see you're tackling a new seminar or conference. I'm very pleased to see that, in the last few years particularly, you've lit the place up again and that's great'.

When asked about advocacy and the resources needed, John advised that 'in our days, we would often join with other organisations, in particular the accounting bodies, to make a joint submission. We would perhaps review drafts from others and make our own changes, which allowed us to put our name to things. The Government didn't really ask for comment then. I feel it may be more inclusive now. We could be blind-sided at times with changes that were made to policy.'

We were very keen to hear John's thoughts on education, given our upcoming formal Certification/ Education program and what may have happened in the past.

'In the initial days, these were available more through the accountants. But we did offer courses that had a series of small steps on more specialised subjects. We did this via our overall Committee which was difficult, all wearing different hats. We did a lot of half day type courses, companies were very happy to pay, they saw great value. I see value in a qualification that requires continuing doing courses/CPD to maintain it.'

As for retirement (albeit keeping very active in what's happening in the business world!), 'I play a lot of golf. I did have a shoulder injury but I'm almost back to where I was before. We love to travel. We've seen most parts of Australia. A lot of people who know other parts of the world don't know enough about Australia. We've spent a lot of time in the outback. I have a strong interest in Aboriginal art, art in general, but aboriginal art. And we have some great friends we hang out with!'

We'd like to thank John so much for his time, but more importantly, for everything he and his colleagues did 30 years ago – we owe them a great debt.

John left us with this parting message –

> "Go Treasury! We've got a great organisation, we just want to see it keep going, and keep going well."

The Australian Economy and Policy – in Transition

Stephen Halmarick
Chief Economist and Head of Global Economic and Markets Research - CBA

Global developments:
2020 was defined by the arrival and global spread of the Covid-19 virus and the induced recession as part of the strategy to ensure health systems were not overwhelmed. 2021, in contrast, looks like it will be defined by the economic recovery and the deployment of the Covid-19 vaccines (even if a little delayed here in Australia).

The economic recovery, both nationally and globally, is well underway. We expect global economic growth of 6.3% in 2021 and further growth of 4.0% in 2022.

The key drivers of the recovery in the global economy are expected to be China and the US. In China we expect growth of 9.2%, while in the US the implementation of the very large fiscal support package ($US1.9tn, 9% of GDP) is expected to see economic growth of 4.9% in 2021. The US economic outlook would be further supported by the planned large-scale infrastructure program.

This economic recovery is now being priced into financial markets. From a low of around 0.5% as at August 2020, US 10yr bond yields are now closer to 1.65%. Similar trends were seen in other major bond markets, including Australia where 10yr bond yields have jumped to near 1.8% from a low near 0.7% in October last year. After many years of dormant inflation pressures, markets are beginning to price in higher inflation risks as the economic recovery builds.

Central Banks are, however, pushing back against what they see as a premature tightening of financial conditions. We expect, therefore, global monetary policy to remain extremely easy through 2021 – with official interest rates unchanged at their very low levels and bond purchase programs, ie. quantitative easing, ongoing.

Australian economic recovery:
The Australian economic recovery is well under way. This recovery is expected to continue over the next two years. Economic growth is forecast at a very strong 4.7% in 2021 and 3.7% in 2022. It is also worth noting that the -2.4% recession of 2020, although a deep downturn, was approximately half as bad as the original forecast by the RBA of a -5% contraction.

We see the transition in the Australian economy being supported by a number of factors including: i) control of Covid-19 and the rollout of vaccine (notwithstanding some delays); ii) elevated consumer confidence that will encourage further spending; iii) a surge in household savings that will help offset reduced government income support; iv) the improving housing market – prices, lending and construction; v) a jump in domestic tourism; vi) strong resource (iron ore) exports and vii) a large increase in public sector infrastructure spending.

The strong economic momentum evident in late 2020 was confirmed by the Q4 2020 National Accounts, which showed growth of 3.1%/qtr, driven largely by consumer spending, but also with positive contributions to growth from residential construction, investment and government spending.

Just as importantly, the momentum in economic data has remained positive in early 2021, with the labour market especially posting dramatic gains. Employment grew by a further 70,700 in March 2021 after a number of months of strong performance. After dropping by -878.2k from March-May 2020, total employment has grown by 947.1k from June 2020 to March 2021, meaning that there are now more jobs in Australia than pre-Covid. The unemployment rate declined to 5.6% in March 2021, well below the Covid-19 peak of 7.5% in mid-2020. The unemployment rate is expected to fall to 5.0% by December 2021 and then decline further to 4.7% as at December 2022.

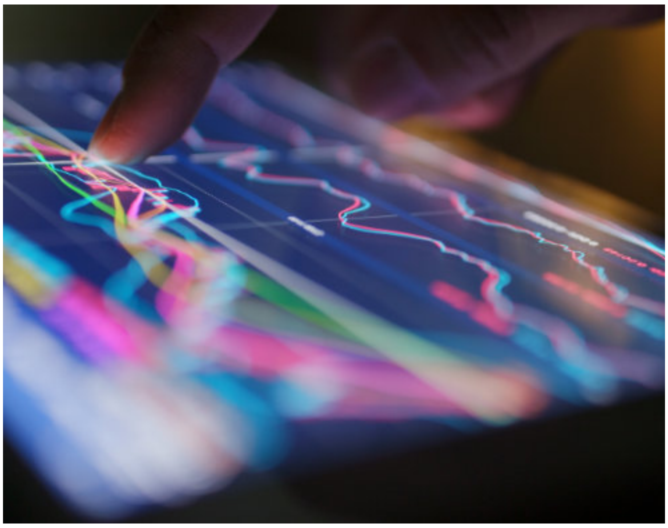
The end of JobKeeper in late March may temporarily interrupt the run of strong employment reports in coming months. We estimate that 110k of the 900k Australians still receiving JobKeeper at the end of March could move to JobSeeker (ie. become unemployed) in coming months. This pause in job creation is, however, likely to be short-lived given the underlying strength in the labour market and the forward indicators of labour demand like job ads and job vacancies.

Perhaps more dramatically, Australia's housing market continues to recover strongly. Dwelling prices rose by 2.8%/mth in March 2021 and are up 4.8%/yr. New lending for housing jumped by 10.4%/mth in January 2021 before pulling back marginally in February, with increases in lending evident for both owner-occupiers (including first home buyers) and investors. We expect residential prices to be up 8% in 2021, with house prices forecast up 9% and apartments up 5%. For 2022, a further price rise of 6% is expected. The strength in the housing market is being driven by the very low level of interest rates (especially fixed rate mortgages) and the recovery in the labour market.

Implications for wages and inflation:
Our forecast profile for labour market slack to recede over the next two years means that we see wages growth rising to 2.2%/yr at end-2021 and 2.7%/yr at end-2022. The risks are evenly balanced.

Our profile for the unemployment rate and wages pushes our forecasts for consumer inflation a little higher. We forecast underlying inflation to lift to 1.9% by end-2021 and 2.2% by end-2022. Headline inflation, which is a lot more volatile, is expected to print a little higher (the tobacco excise largely accounts for the difference between headline and underlying inflation).

The risks around our inflation forecasts are skewed to the upside because we believe there is scope for some demand-pull inflation over the next two years. In addition, input costs have been rising recently and some firms may seek to pass these onto consumers to avoid margin compression.



RBA policy outlook:
For the RBA the key challenge is to walk the fine line between acknowledging the better-than-expected outcome for the Australian economy and, at the same time, push back against the premature tightening of financial conditions. Taking all this into account, we view the outlook for RBA policy in four buckets.

i Cash rate: Our forecasts for wages and consumer inflation do not clear the (very high) hurdle the RBA has set for an increase in the cash rate. The RBA has stated that they need to see actual inflation sustainably in the 2%-3% target range before they would raise the cash rate. And for this to occur the RBA has indicated that wages growth would need to be in excess of 3%/yr. Underlying inflation sits within the target band on our forecast profile in 2022, but we do not expect wages growth to exceed 3%/yr over our forecast horizon and therefore we have the cash rate on hold.

That said, our economic forecasts are not consistent with the RBA's calendar based 2024 forward guidance for a lift in the cash rate. More specifically, if wages growth and inflation lift in line with our forecast profile the RBA Board could not be confident that inflation would not be sustainably in the target range until, "2024 at the earliest". We expect the RBA will eventually arrive at this conclusion, but not until the data forces their hand – probably by the end of 2021 or early 2022. Until that point we expect the RBA to persist with the 'on hold until 2024' mantra.

ii Term funding facility: We expect the Term Funding Facility (TFF), where the RBA provides funds to the banking systems for a fixed 3 year term at 0.1%, to end as currently planned on 30 June 2021. To date the Australian banks have drawn $A95bn from the TFF program, with a further $A95bn available to be drawn down by 30 June 2021.

iii Yield curve control: The RBA has a 0.1% target yield on the 3yr Australian Commonwealth government bond. The 3yr target is currently pegged to the April 2024 bond. Later in the year the RBA will need to consider whether to retain the April 2024 bond as the target bond or to shift to the next maturity (ie. the November 2024 bond). We expect the yield curve target to remain pegged to the April 2024 bond. Our working assumption is that the RBA announces this at either the July or August Board meeting.

iv Quantitative easing: At the November 2020 Board meeting the RBA announced an initial $A100bn government bond purchase program (QE1) that would take around six months to complete. Weekly purchases would be ~$A5bn (ie. $A4bn of Commonwealth bonds and $A1bn of semi-government bonds) and there would be a pause over the Christmas/NY holiday period. This initial program was completed in early April.

At the February 2021 Board meeting the RBA announced a second $A100bn bond buying program (QE2). This second program commenced in mid-April and the RBA continues to buy Australian Commonwealth and semi-government bonds at a pace of $A5bn a week. On the assumption that there is no pause in the second program another $A100bn of bonds will have been purchased by the end of August 2021.

In his Statement accompanying the April Board meeting the RBA Governor noted that, "the Bank is prepared to undertake further bond purchases if doing so would assist with progress towards the goals of full employment and inflation". We expect the RBA to make this indication that they would do more QE if needed an explicit policy and to deliver a third round of bond buying (ie. QE3). But we also expect the RBA to taper the pace of the QE program and expect QE3 to be a program of $A50bn over 6 months. This would imply bond buying of around $A2bn-$A3bn a week.

We expect this announcement to be made at the July Board meeting. It is also worth noting that net government bond issuance (ie. the supply of new bonds) will slow materially in 2021/22 given the significant improvement in public finances. The Federal Government 2021/22 Budget will be handed down on 11 May 2021.

Not just another ESG article...

How can Treasurers get on with it?

Sam MacPherson MFTA
Head of Treasury, Earlytrade

Environment, Social and Governance (ESG) is no longer emerging, the savviest of Treasury teams are getting on with it. 'So, how do you deliver impact?' asks Sam MacPherson, Head of Treasury at Earlytrade, the largest supply chain network in Australia and New Zealand.

After Corporate Social Responsibility came sustainability which soon became social purpose, but now activist investors are just investors and ESG metrics are how they assess your companies' economic value. That escalated quickly!

Well, kind of.

The concept of CSR has been around since the 1960s but more recently reporting standards have become formalised through the likes of MSCI and Sustainalytics as well as the "Big Four" accounting firms.

The quantification of ESG performance metrics has made the intangibles of just a few years ago tangible, measurable, standardised and of critical importance to attracting investment, sales and customer loyalty whilst avoiding unnecessary scrutiny.

But how do Treasurers take the ESG reins and deliver impact for their companies?

Treasury's strategic edge lies within an organisation's allocation of capital in the supply chain. More poignantly, a corporation's costs and investments are the most underrated levers to proactively manage ESG risk and performance.

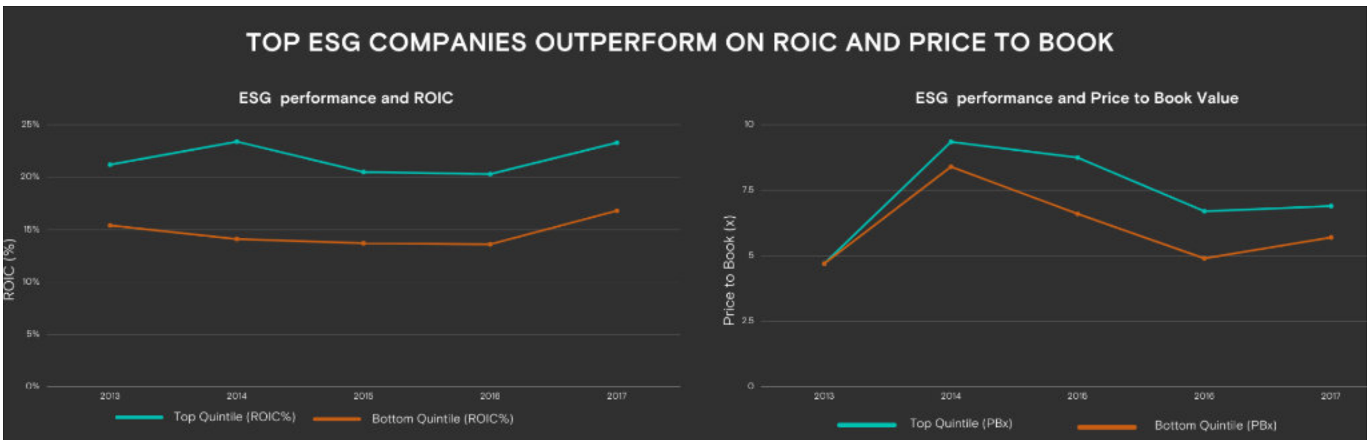
What does ESG spell for Treasurers?

For Treasurers and their teams, the impacts are diverse. Most notably, there is a clear liquidity management link to ESG with key aspects of the Treasurers' role, such as how operations are financed and where excess cash is invested, having a significant impact on the value of a corporate's reputation and, therefore, the willingness of stakeholders to support it and do business with it.

Certainly, BlackRock chief executive, Larry Fink's Annual Letter to CEOs has year-on-year ratcheted up the investor community's ethical worldview to the point where, doing well also means doing good.

> "Every company must not only deliver financial performance, but also show how it makes a positive contribution to society."
>
> *Larry Fink, BlackRock CEO*

Whilst green financing has undoubtedly been a focal point, an increasing number of investors are applying stricter criteria across each of the ESG factors when determining their portfolio selection.



The chart shows the difference in average ROIC (%) values between the top 20 companies and the bottom 20 companies in the analytical sample by Industry Adjusted Score in each year from 2013 to 2017
Source: MSCI ESG Research, Thomson Annual Data, December 2017

The chart shows the difference in average Price to Book (x) values between the top 20 companies and bottom 20 companies in the analytics sample by Industry Adjusted Score in each year from 2013 to 201
Source: MSCI ESG Research, Thomson Annual Data, December 2017

According to the SIF Foundation, in 1995, the U.S. sustainable and responsible investment universe had approximately $639 billion in assets under management. That number has now surpassed $11.6 trillion.

Reassuringly, a 2018 MSCI report concluded that companies with strong ESG Ratings exhibited a "higher return on invested capital and price to book multiple versus their lagging counterparts."

New risks for Treasurers – where to start?

Globalisation and the outsourcing of labour have seen supply chains stretch to all corners of the globe, successfully driving costs down but also sacrificing supply chain transparency. This new risk was apparent in the disastrous Suez Canal blockage that hit pause on 10 percent of global trade and the semiconductor shortage that has forced GM and Ford to temporarily idle factories across North America.

Treasury teams around the world are being asked, or will be asking themselves, what is our exposure to these types of events?

> "It is not enough anymore to only report your organisation's compliance with the growing list of regulations and policies... corporates also now need to understand their suppliers' compliance positions and exposures."

It starts with understanding the make-up of your supply chain.

It is not enough anymore to only report your organisation's compliance with the growing list of regulations and policies such as **Modern Slavery Act**, the **Payment Times Reporting Act**, **Net Zero commitments**, state-based **Security of Payment Acts**, as well as critically important support for local and Indigenous suppliers. Overwhelmingly, corporates also now need to understand their suppliers' compliance positions and exposures.

Whilst "greening" the supply chain is certainly the macro pressure, Treasurers and their CPOs must also manage the inevitable and more directly **material risk of supplier default**, particularly in the post-pandemic economy.

How you manage the efficiency and flexibility of your trading relationship with your suppliers has a huge impact on their ability to deliver for you, maintain your plant and equipment, innovate products to delight your customers, and importantly, keep the shelves stocked with toilet paper!

The obscurity of supply chain networks makes it near impossible to identify and validate the business ethics of tens of thousands of suppliers that might make up a corporate supply chain. This creates new risks that savvy corporate Treasurers must manage to fulfil their ESG obligations.

The complexity for many large corporates is the accurate identification and verification of eligible and compliant suppliers within their convoluted supply chain, often managed using off-the-shelf technologies and supplier portals developed for overseas markets.

Performing this task in perpetuity is manual and backbreaking for many organisations, not to mention hugely imprecise. When considering the full spectrum of supply chain policies and regulations the risks to a Treasurer's ESG mandate become considerable and should not be left until the worst-case scenario materialises before being analysed, quantified, and managed.

Tapping the efficiency of the network effect

Treasury strategies must evolve to incorporate the growing needs of the ESG landscape. That landscape is different for each industry and each business depending on the make-up of its supplier base. However, there is substantial overlap from business to business and industry to industry.

Earlytrade's network of 50,000+ businesses offers a substantial opportunity for efficiency, where many suppliers are already verified as small, medium, Indigenous and/or local businesses.

Digitisation and automation like this can certainly enable efficiency of ESG reporting, but businesses must also consider reputation value and risks of their activity. A pertinent example of this is corporate behaviour within the supply chain.

Traditional supply chain finance and reverse factoring methods have long been used to simply increase DPO/DSO for large corporates, but these are no longer fit for purpose and are increasingly viewed as unacceptable strategies.

Supply chain solutions must now be tailored to unlock value for all participants throughout the supply chain whilst providing an assurance of liquidity throughout the business cycle. Earlytrade combines industry leading supply chain visibility with fair and equitable early payment solutions for all suppliers in the chain.

Strong and well capitalised suppliers equate to a strong corporate supply chain, in turn creating new economic value and, ultimately, shareholder returns.

Case Studies: ESG impact in your supply chain

Late payments to suppliers cripple their ability to deliver for customers and ultimately their customers' customers.

At a macro-level, late payments represent a 1.5 percent handbrake on the GDP every year, preventing re-investment in growth, hiring and salaries, weakening the supply chains that keep businesses profitable.

Earlytrade clients have proven that shortening Days Payable Outstanding (DPO) does not require a cost for treasury, burdensome ERP customisations, or use of unfair factoring arrangements that hurt relationships with suppliers.

CASE STUDY 1:

"Liquid money is always better to have than being owed it."

Industrial electricians, Merhone, a second-generation family-run business based in Castle Hill, NSW, have had to wait on payments for more than two months. When the opportunity arose, the decision to use Earlytrade was all about cash flow for director, Josh Rhone.

"That is a killer for us little guys... [Now] we get paid every cycle, so it's weekly instead of up to 45 days and end of month," he said. "Liquid money is always better to have than being owed it. As soon as it's approved, it gets paid in the next cycle."

CASE STUDY 2:

30-day terms serve as reputation insurance for Lion

By comparison, rival beverage giant Lion pays 95 per cent of all suppliers – not just small businesses – within 30 days.

Australian Financial Review, 21 September 2020

Lion partnered with Earlytrade to design and implement a custom solution to complement its mandatory 30-day minimum payment terms for all eligible suppliers, small and large, across Australia and New Zealand. Earlytrade deployed its Marketplace solution to provide Lion suppliers a simple, voluntary and confidential option to further reduce payment terms when it suited their business needs.

Lion's days payable outstanding (DPO) is measured and reported monthly across all our business units.

For example, Lion's Australian beer business has an average DPO of 24.9 days. Currently, 95 per cent of all our suppliers, not just small businesses, are paid within 30 days. The outstanding give per cent are suppliers whose payment terms are negotiated as part of their contracts with Lion.

CASE STUDY 3:

Coles Group avoids working capital headache with automated supplier verification

In the midst of the global pandemic in 2020, as part of Coles Group's commitment to deliver innovative support and reliable cash flow to their suppliers, the supermarket giant implemented Earlytrade Verify to simply and effectively segment their suppliers, specifically small businesses, across its entire group of businesses and shift them onto preferential payment terms of between 15-30 days.

"Earlytrade Verify was a way for us to understand who our small suppliers were. It results in a win-win because we understood that we could be compliant with our external commitments and our suppliers didn't have to give us any information."

Shane Healey, General Manager Finance, Coles Group

ACTA Essential Treasurer

Dane Birdseye FFTP
Director - Treasury Services | Financial Accounting Advisory Services
Ernst & Young

The Essential Treasurer event is one of the pillars of the ACTA's education and networking program. It is the 2nd biggest event, after the Conference, in terms of the number of program sessions and attendees. The event has been proudly sponsored and hosted by EY since 2013 and until 2021 was conducted in most capital cities around Australia.

Due to the uncertainty brought about by COVID19, this year it was decided to hold a hybrid event, with EY Sydney hosting around 40 people and another 80-100 watching the livestreamed event online. This enabled us to reach a wider audience with attendees from Auckland, Hong Kong and Singapore as well as across Australia.

Video replays are available on the members portal for the following sessions for those who wish to review the topics further. The key points from each of the sessions are outlined below.

Weighted Average Cost of Capital (WACC)

Tony Carlton, Executive Director, Corporate & Professional Education at the Macquarie Business School, provided a passionate education session on the calculation of WACC, which combined the assumptions underlying the model together with practical applications. The session was extremely instructive and provided valuable insights into the thinking required for capital allocation and investment strategies.

Tony stated that "if Treasury want to engage in conversations about value creation, then a working knowledge of WACC is required, as it is the benchmark for value creation". Key points mentioned were as follows.

- WACC is the interest rate used to discount future 'operating free cash flows' in order to determine business valuation as well as assess a potential investment.
- Characteristics of the underlying cash flows must be consistent with the assumptions used in the formula.The use of WACC may not be appropriate in all situations eg: if using a constant level of debt, as WACC assumes a constant Debt/ Value ratio, so Debt increases as Value increases
- If the assumptions are not consistent with the actual financing strategy, then alternative approaches may be more appropriate, e.g. flow to equity method or adjusted present value.
- Using WACC to determine business valuation implies an assumed debt strategy, dividend policy and capital management policy.
- Current market data v historical average rates: the preferred approach was to use current market data eg: for risk free rate and cost of debt.
- Market Risk Premium (MRP): Estimates of MRP have come down from around 8% in the 1970's to around 5% in recent times. Global MRP is only about 3% over the risk free rates. Recent KPMG research showed that a MRP of 5.9% was the average rate used in Australia. Bloomberg implies that the MRP is >8%. Australia is considered to have a relatively high MRP, despite its AAA credit rating due to the high beta rating, which reflects the high weighting of stocks in the All Ordinaries Index associated with mining and finance.

Strategy

Tom Averill, Managing Director at Rochford Capital, provided insights into how to move Treasury towards a more strategic function, which would create value for the business and no longer be viewed only as an administrative function.

Tom pointed out that it was the role of Treasury to educate the Board on financial risk management through relevant information to enable decision making. The key points mentioned by Tom included:

- Board responsibilities are to govern and monitor but, also to empower management to make productive strategic decisions.

- Treasury delivers value through its people, processes, policies and systems.
- The 'people' aspect has not fully been appreciated as a driver of value in most businesses as the Treasury team are not incentivised to deliver value through the reduction of risk. Treasury people should be rewarded more for performance through savings and outcomes, such as compliance, governance, strategy and risk management.
- Treasury Policies do not often give sufficient power to Treasury to manage risks and to adapt quickly in volatile markets, e.g. by giving ranges to manage optional instruments.
- A proactive and empowered treasury function creates value by:
    - providing visibility over cash
    - protecting cash, through foreign exchange, interest rate and counterparty credit risk management
    - liberating cash
    - generating cash

Technology Application – Blockchain

The use of treasury technology was highlighted throughout 2020 when the working from home phenomenon took hold and showed weaknesses and strengths in organisations ability to continue business as usual under the conditions. Efficiency and internal controls gained through the use of technology is no longer a nice to have but, necessary inclusions for treasury functions now and into the future.

One of the technologies we hear a lot about but, its practical application in a treasury environment has remained to be seen, until now, has been blockchain.

Justin Amos, CEO & Managing Director, and Rodolf Salem, Chief Operating Officer, from Lygon1B provided a practical 'real life' case study on how they established a private blockchain network to establish a bank guarantee. They outlined the current bank guarantee process, the impact it had on stakeholders through its inefficiency and explained how the blockchain solution operated and created significant benefits.

The key points highlighted from the presentation were:

- Blockchain is a type of technology architecture called 'distributed ledger technology' (DLT). There are many different variations, including private and public networks, with different characteristics associated with them. The technology is used to solve a problem as an enabler. Bitcoin is an example of the use of blockchain technology.
- The bank guarantee process is a time consuming, costly, paper based system which is very inefficient. It is highly dependent on physically signed documents, use of costly couriers for delivery of the documents, environmentally unfriendly and carries high operational risks of potential fraud or error, lack of standardisation with difficulty of tracking and reporting. As such, it was the ideal problem for blockchain to provide the solution.
- Lygon was able to digitise the bank guarantee process from end to end. It standardised the process, eliminating paper, which included creating new standardised terms and conditions.
- The blockchain solution provides a future state user journey featuring digital workflow, transparency through visibility at all stages for all parties, standardised legal wording and an end to end audit trail.
- A big benefit is the reduction in legal costs associated with negotiating and issuing bank guarantees.

LIBOR Transition

The LIBOR transition project is probably the biggest financial risk management problem to solve since the 'Millenium bug' (for those who can remember that one!). There has been significant global effort since 2018, yet with less than 9 months to go there are still a lot of issues to resolve and complexity in interest rate markets has most definitely increased.

For many corporate treasurers, the current process of obtaining a LIBOR reference rate at the start of an interest period and knowing the exact amount of interest payable in the future will disappear.

The issues and current state of the transition project was presented by Adam Jeffrey, Special Counsel, and Teresa Ientile, Special Counsel, at Baker McKenzie and Damien Jones, Regional IBOR Campaign Leader at EY. The key points highlighted were:

- The ISDA Protocol, incorporating updates to the 2006 ISDA Definitions, became effective on 25th Jan 2021. All new LIBOR derivatives dealt since this date automatically incorporate the new ISDA fallback language. Signing the Protocol for legacy derivatives, may be viewed as a safety net if negotiations with counterparties for preferred terminology is not achieved.
- The UK's Financial Conduct Authority (FCA) announced on 5th March 2021 that the majority of LIBOR rates will either cease to be provided or, cease to be representative of their underlying market, either on 31 Dec 2021 or, for the main USD tenors, 30 June 2023. Despite the delayed USD timeline, transition efforts should continue.
- For derivatives covered by the ISDA Protocol or Supplement, the announcement fixes the Credit Adjustment Spread (CAS) that is added to the relevant risk free rates.
- A key aspect of legacy LIBOR negotiations for borrowings will be a focus on the calculation of the Credit Adjustment Spread (CAS) and how to achieve a fair outcome for all parties.
- To support the transition of legacy borrowings, there are a number of detailed conventions and calculation methodologies which need to be negotiated. This is expected to be a complex exercise.
- Different transition approaches to consider:
    - Restructure existing borrowings;
    - Insert/amend fallback provisions in loan/ISDA documentation; or
    - Adopt a wait and see approach;
- Should also have a Plan B for products which aren't able to transition.
- Some transition methodologies (e.g. interest calculation and payment terms) across derivative and borrowing products differ. It is important to understand and manage basis risk and associated tax and accounting consequences.

LIBOR Transition / Negative Interest Rates – Accounting and TMS Impacts

Along with the implications of LIBOR transition on accounting and treasury management systems (TMS), there is also the added risk of negative interest rates for corporate treasurers to consider.

Jamie O'Neill, Director Capital Markets & Treasury at Brookfield Asset Management, provided his practical experiences and different strategies for managing embedded zero rate floors in loan documentation. John Clarson from GTreasury and Stefanija Cubelic, Senior Manager at EY, presented the impacts on treasury management systems (TMS) and accounting.

Negative Interest Rates

- Until recently, the value of the embedded zero rate floors in loans was relatively low. However, there is more value attached now due to the low interest rate environment.
- Borrowers are selling the put option but, are generally not receiving any reward from lenders. Borrowers should engage with stakeholders and lenders to understand the commercial objectives to help with negotiation of mutually beneficial outcomes.
- A TMS needs to be able to accept negative rates and value interest rate floors, enable negative interest accruals and manage ineffectiveness calculations.
- Accounting considerations:
    - Measurement: embedded derivatives may need to be separately valued and accounted for.
    - Hedge accounting: any mismatch between loan and derivative causes ineffectiveness.
    - Modification and derecognition: if there is any substantial modification of debt instruments it may result in an extinguishment of the original contract.

LIBOR Transition

- Impact on TMS's from LIBOR transition include having to consider the following:
    - Daily rate sets and methodology for calculation of accruals and payments
    - Valuation and customisation of yield curves, access to and importation of market data
- Where only the reference interest rate is changing, hedging relief is expected to apply. However, hedge documentation still needs to be updated to reference the new risk free rate.
- The International Accounting Standards Board (IASB) require additional quantitative and qualitative disclosures to be made relating to the impact of LIBOR transition.

The opportunities real-time payments bring to corporate treasury

FIS Global

In a recent survey conducted by FIS about corporate liquidity, executive-level respondents ranked real-time treasury as a higher-priority digital initiative than robotic process automation and artificial intelligence. But in the wake of COVID-19, Andrew Bateman, executive vice president for FIS capital market solutions buy-side, says intraday and real-time liquidity reporting has become even more important as chief financial officers seek out more frequent and accurate reporting of working capital.

Here's a closer look at the impact real time has already had on corporate treasury functions and what role real-time payments could play in redefining what the future looks like for corporate treasury.

The opportunities real-time payments bring to corporate treasury

Despite all the opportunity that real-time capabilities can offer, Bateman says the typical corporate treasury function still operates on a 9-to-5 basis. While large global companies typically have a number of treasury centers in different time zones, these centers are focused on regional treasury activity. The introduction of real time in corporate treasury could transform the entire cadence and transparency of a treasury operation.

"They'd gain the ability to look at global treasury activity with changes in account balances and currency positions happening in real time across all regions. The on-demand nature of real time could mean a change to forecasting processes or daily cash processes, and they would need the ability to adapt and respond to changes in balances throughout the day," says Bateman.

While Bateman says real-time payments have been slower to emerge in corporate treasury compared to the business-to-consumer space, there are two business sectors—insurance and airlines—that have already put real-time payments to use in the claims payment process and issuance of refunds.

"We have a number of insurance customers looking at using real-time payments through our payment factory/hub solution. In this case, a policy holder making a lower-value claim could be assessed and settled in real time. We recently completed a project with a leading insurance company wanting to settle real-time claims for its business in Asia, where we integrated into the claims management process and used the local instant payment network to initiate a real-time payment into the client's account."

As real-time uptake increases, Bateman predicts that the next phase of emerging use cases will likely apply to the collections or accounts receivables process, particularly where instant payment terms could lead to a discount.

The role of real-time cross-border in treasury

Given the evolution of technology facilitating cross-border payments and opportunity for significant cost savings, cross-border payments also rank high on the radar for many multinationals. "From a treasury perspective, larger enterprises are complex. They have international business, foreign exchange, global operations, intercompany loans, external borrowings and interest rate hedges. That's where SWIFT gpi comes in," says Bateman.

"Our payments solutions teams partner closely with SWIFT and offer great tools such as GPI dashboards to provide greater insight into cross-border payments." He notes that mid and smaller-sized customers who are not using SWIFT could use FIS' Bankout solution, integrated with FIS' SaaS treasury solution, to facilitate real-time cross-border payment needse.

How APIs will influence real-time treasury adoption

For a corporate treasury to implement 24/7 instant payments, there is a need to invest in modern cash management technology that operates in real time, supporting real-time position updates, API connectivity for bank data and realtime cash positioning and forecasting.

"Treasurers expect treasury technology providers like FIS to offer solutions that optimize a cash forecast and help navigate continued market and economic uncertainty," says Bateman. "I believe this is a huge opportunity for treasury departments to contribute to the digital footprint and digital user experience of the company."

He explains that although all treasury departments know how to handle urgent transactions or wires, real-time payments are leveraging new technologies that are typically based on API connectivity, which is usually not supported by older payments infrastructure.

"Over the next five years, APIs will drive adoption of treasury solutions, like those from FIS, that provide the ability to have a real-time view. Wider adoption will provide the opportunity to take advantage of other API-based services.

Real-time payments are a natural opportunity to be able to respond to either high-value, urgent or B2C payments, if you're in an area where you need to satisfy customers' demand instantaneously or gain visibility of what's coming into your account," says Bateman.

How technology will drive real-time corporate treasury in the future

"Real-time payments have become a focus of the fintech market and this has accelerated the availability of B2C payment channels tremendously," says Bateman. "The fast pace of this market clearly is a driver for corporate treasuries to invest in payment technology to keep up. As a major technology provider, we naturally work with banking partners who serve the same corporate treasury customers to improve the client experience through real-time technology. We continue to see a growing number of banks maturing their API offerings."

Bateman predicts that APIs will be the biggest influence in the evolution of real time in corporate treasury and says their role should not be underestimated. "Some of the larger global cash management banks are driving this activity in partnership with the fintechs and these banks continue to expand their service offerings. There is a lot of work being done on integration and I think that's where there's an opportunity to be disruptive, with many providers focused on APIs and streamlining connectivity. Once you get that right, it makes everything else easier," says Bateman.

Just as we've seen in the consumer market, changing expectations for what a payment experience should be will also contribute to the prevalence of real-time payments in corporate treasury. "You can already see it from a small business perspective where you can make an instant payment and settlement, whether you're buying an ice cream or paying your plumber. It's just the question of when that expectation influences larger organizations," says Bateman.

Real-time adoption in corporate treasury may still be in its infancy, but it's not for a lack of interest or action on behalf of those who most stand to benefit from it. "The infrastructure that operates 24/7 is costly and makes the business case important. We have seen a rapidly increasing number of corporate treasuries embarking on digitalization projects supporting the digital end-user experience," says Bateman.

"Getting payments and infrastructure ready and up to speed seems critical in order to be best positioned to maximize the opportunities from a real-time payments world."

Corporate Hot Topics:

Supply Chain Financing and Partial Asset Sell-downs

Paul Draffin
Senior Director & Analytical Manager, Corporate Ratings
S&P Global Ratings

Supply Chain Financing: A Sleeping Risk

Recent financial difficulties at supply chain financier Greensill Capital highlight nascent risks associated with the use of supply chain financing (also known as factoring or reverse factoring). The sudden and unexpected withdrawal of these short-term financing arrangements can create a material working capital squeeze and pressure a company's balance sheet and credit quality. The rapid demise of U.K.-based construction company Carillion plc in 2018 was precipitated, in part, by the withdrawal of supply chain financing.

S&P Global Ratings may consider supply chain financing as debt where it accelerates the monetization of receivables or allows a company to extend its creditor payment credit terms to derive a material working capital benefit. This is because the working capital benefit arising from these arrangements will generally need to be refunded if the financing arrangement becomes unavailable.

Here's an example of how we may adjust debt for supply chain financing. (see chart 1) Let's assume the industry has standard creditor payment terms of 90 days. Any material working capital benefit derived by the customer from extending payment terms beyond 90 days may be added to the customer's debt. Similarly, any material working capital benefit derived from the supplier by receiving payment within 90 days may be added to the supplier's debt.

Chart 1

Example of Supply Chain Financing

Source: S&P Global Ratings.

Like other forms of short-term funding, supply chain financing is subject to refinancing and liquidity risks. If facilities are not rolled over or withdrawn, the supplier would be left with a working capital shortfall and would subsequently seek to reinstate shorter payment terms that existed before the supply chain financing facility was established. By doing so, the supplier would effectively transfer part of the working capital shortfall to its customer. The original benefit to customer and supplier would, therefore, unwind.

The risk of withdrawal of supply chain financing facilities is generally lower for more creditworthy customers and their suppliers. Although these facilities are often evergreen with no maturity date, financial intermediaries are generally under no obligation to provide ongoing supply chain financing.

Facilities are most likely to be withdrawn in response to a deterioration in the customer's credit quality. However, funding can also become unavailable for other reasons, such as problems at the financier (such as in Greensill's case) or broader credit market disruption.

Importantly, poor accounting disclosures can mask the existence of supply chain financing. This can obscure a company's underlying financial health and frustrate like-for-like comparisons. Accordingly, improved disclosures are encouraged to ensure that the risks are properly understood by creditors and other stakeholders.

Partial Asset Sell-downs–No Free lunch For Creditors

In recent years, a growing number of corporates have looked to divest a minority share of some of their most creditworthy businesses. This includes Telstra Corp., through its partial divestment of its telephone exchanges, and Ampol Ltd., through its partial divestment of its convenience store network. We understand that more companies are considering similar transactions, primarily to access the lower cost of capital of potential acquirers.

On the face of it, the idea seems compelling. Companies divest less than 50% of their best assets while continuing to consolidate 100% of the assets and associated cash flows. Voilà, the seller realizes significant cash proceeds from the sale while the financial statements and key credit measures remain intact. The cash leakage to minority interests is buried deep "below the line."

However, the accounting optics often bely the underlying economic reality of such transactions. Creditors are clearly worse off when part of the borrower's best assets are sold to third parties and the proceeds are, in some cases, distributed to shareholders. This is akin to you selling 49% of your mortgaged home and expecting your mortgage provider to be indifferent when you spend the proceeds on an extended holiday. This is particularly the case when you continue to occupy the entire house and are obligated to pay rent to the new minority owner.

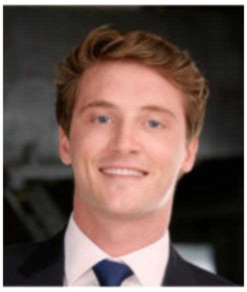
Our analytical approach attempts to capture the loss of ownership of these high-quality cash flows in various ways. Accordingly, we may partially deconsolidate the asset from the seller's financial statements to reflect a "true sale" of the monetized portion of the asset. Where a true sale best represents the substance of the transaction, we must also assess its impact on the seller's business risk or debt capacity. Consider, for example, a company that has two similarly sized business: one business is high risk and one is low risk. If the company permanently divests 49% of the low risk business, two-thirds of its future owned cash flows will be derived from the higher risk business, compared with 50% previously. Accordingly, these types of transactions can meaningfully degrade the quality of a company's future cash flows and therefore its debt capacity at a given rating.

In other cases, the substance of the transaction may not reflect a true sale. This is particularly the case where a company continues to control and substantially benefit from the cash flows generated by the monetized asset. Here, the partial sell-down is often structured more like a sale-and-leaseback or financing transaction. In such cases, we may leave the asset on the balance sheet and the business risk remains unchanged. However, we adjust the seller's financial statements for the debt-like lease obligation associated with the divestment. This approach was applied to Telstra's financial statements when it sold a minority interest in a portfolio of telephone exchanges.

We acknowledge that these types of transactions are often effective in maximizing shareholders' value. However, the risks to creditors can be material. Accordingly, we capture the substance of these transactions either via our credit metrics or business risk assessments. Neither is a recipe for a free lunch.

Treasury Management Systems

Steps to avoid having a failed system implementation on your watch!



Kevin Mitchell CFTP
Partner I Rochford Group

Thomas Alexander
Partner I Rochford Group

Treasury is often a lightly resourced business unit. Even with skilled personnel on board, there are numerous reasons why operational gaps still exist. This leads companies to seek external solutions, often in the form of strategic advice from treasury consultants or products from technology providers; the latter typically being a Treasury Management System (TMS).

These systems are exceptional at capturing and consolidating diverse data sources and storing them in a structured, secure format.

When working efficiently, they can boost your daily productivity, reduce overheads, and minimise the potential for human error.

However, investing in an 'off-the-shelf' third party cloud solution and expecting them to solve all your treasury problems is a common mistake that can cost your business hundreds of thousands of dollars.

Standard TMS processes may not be best suited to your company's specific needs or provide the appropriate output, which means you'll be forced to adapt to the system's shortcomings. **For example, in the last 12 months, an ASX listed firm had to pull their TMS implementation project completely just before going live, having already invested well over $300k in fees.**

With many software subscriptions costing well over $100k per annum plus initial professional services fees, often with minimum lock-in contracts of three years, it's a decision that requires considerable preparation, analysis and expert guidance.

How to choose the right Treasury Management System for your company:

Gain clarity on your business-specific processes first. From a design perspective, the external development of a TMS has been taking place for decades by treasury software companies, creating a wide range of operational outputs.

However, the technology also needs to offer purpose-built features to fully meet your business needs. So, before engaging with potential software providers, you first need to clearly articulate your end-to-end processes which the TMS needs to empower.

These processes should ideally be 'mapped out' in planning sessions and then nimbly developed. MS Excel is a great place to start; where you can refine the required steps, calculations, and actionable outputs. All treasury stakeholders should be involved in this step, as the size, flexibility and number of stakeholders interacting with the new system are key considerations in its efficiency, implementation and successful adoption.

Once you have documented your processes and business requirements, you should be able to identify any limitations they present and be well-positioned to define the non-negotiable functionality required from your new TMS, to resolve these issues.

As an example, operating an Excel-driven process where all stakeholders consistently input and then make decisions based on the outputs for 2-3 months, making slight (and low cost!) process improvements each month, could save years of misplaced license commitments. You may even conclude that the marginal value of making this commitment does not cover the marginal cost of licenses. In this way, you maintain commercial optionality while still progressing your treasury over the short term.

Selecting the right software for your process needs.

Once you are clear on your processes and have a working MS Excel example of what your TMS needs to provide, the next step is to choose the right software. It is easy to become distracted by the impressive functionality of today's treasury management systems, which is why your list of non-negotiable, custom-built processes are crucial in informing your decision.

You may consider engaging an experienced Treasury advisor for the selection process. With industry insight, they can assess your processes against the available

functionality of each TMS on the market, and shortlist suitable providers on your behalf. They can also streamline and optimise your processes, to ensure you're getting the most efficient output. This may even result in identifying an alternative option to a fully functional TMS (for example, combining a more refined Excel model within a lower cost cloud-based platform).

However, should a TMS be the best option for you, having an independent expert in the room during interviews will also enable more thoughtful and unbiased assessments of the treasury systems.

Implementation and on-going, proactive management.

Before making a final decision on your TMS system, other points to consider are the implementation process and how the system will improve the treasury operating environment on-going.

Implementation can be a time-consuming process, taking resources away from the day to day treasury operations. An external Treasury Advisor can assist as a 'technology partner', bridging communications between the software provider and your key stakeholders to:

- Manage a realistic timeline for implementation,
- Set clear expectations for the system,
- Help with contractual negotiations so you are adequately protected in areas like 'non-performance',
- Ensure all users are engaged and adequately trained with process notes as required,
- Minimise disruption to daily operations.

Often when implementation is complete, one of the common shortfalls with a new system is a 'set and forget' approach. It's important to ensure your TMS continues to deliver the appropriate output and address any new shortfalls that may arise. A Treasury Advisor can ensure the system is proactively updated to align with future commercial strategies and financial market movements while offering further guidance on enhancing your treasury processes.

Rochford is a global treasury advisory firm, specialising in financial risk management, hedge accounting and currency overlay services. With decades of experience, the Rochford team are trusted advisors to private equity, financial institutions, corporates and not-for-profits. They equip CFOs with 360-degree awareness of financial market risk on their business, enhancing cash flow and profitability.

To learn more about how Rochford can assist your organisation, visit: **www.rochford-group.com**

Why you should be paying closer attention to ESG

Sustainable business practices are imperative for future success

Iain Rolfe
Managing Director of C2FO Australia and New Zealand

The coronavirus pandemic has brought environmental, social and governance (ESG) factors into the limelight for corporates of all sizes as well as their investors. But a commitment to strong ESG initiatives has been an important component of companies' business practices for far longer.

The term ESG was first coined in 2004 in a landmark study titled "Who Cares Wins: Connecting Financial Markets to a Changing World." Facilitated by the UN Global Compact, the report was publicly endorsed by a group of 20 financial institutions with combined assets under management of over $6 trillion.

As evidence grows that ESG has financial implications, so, too, does interest from corporations and governments around the world. Put simply, companies that care about ESG will outlive ones that don't.

Environmental and social issues are becoming more important to your company's broad array of stakeholders, both internally and externally. Consumers and other businesses no longer trust companies that don't care about the environment and human rights. Over the last decade, environmental crises like the Deepwater Horizon oil spill and the Australian bushfires, along with social movements like the #MeToo and Black Lives Matter movements have turned a spotlight on ESG issues.

In response to the unprecedented uncertainties and disruptions that the coronavirus pandemic either brought about or has exposed, corporations have promised to become more socially responsible. And as consumers become more concerned – and more educated – on environmental and social issues, they'll continue to press companies to take stock of the impact they have on the world.

Incorporating strong ESG initiatives into your business operations is a powerful way to build internal value and loyalty. The majority of your customers will think it is important that a brand is sustainable or eco-friendly, whether they share these thoughts with you or not.

Even in the quest for talent, studies show that ESG practices benefit a company's current employees and play a significant role in attracting future talent. For example, a recent report from the global consulting firm Marsh & McLennan found that top employers (as measured by employee satisfaction and attractiveness to young talent) have significantly higher ESG scores than their peers.

The bottom line is that your ESG strategy is a window into your company's corporate values, organisational practices and risk management. It's not just a matter of ethics; it can have a profound impact on revenues, long-term value and business resiliency.

A C2FO worldwide survey of more than 6,700 small to mid-sized businesses (SMBs) found that about one-third of those businesses have already incurred substantial costs to implement new sustainable processes and to comply with a variety of different requirements from clients and customers.

However, companies that embed ESG into all aspects of their operations can actually lower their costs and drive performance. In a meta-study by the University of Oxford and London-based investment research firm Arabesque Partners of more than 190 academic sources on sustainability, 90% showed that diligent ESG practices lowered the cost of capital.

A report from the World Economic Forum found that companies that implemented sustainable supply chain practices increased their revenue by as much as 20%, reduced their supply chain costs by up to 16% and increased their brand value by 15% to 30%.

Momentum is building worldwide for companies to report ESG metrics in line with organisations like the United Nations' Sustainable Development Goals.

Today, 80% of the world's largest corporations use The Global Reporting Initiative (GRI)standards, an independent international organisation that helps companies understand their impact on social and environmental issues . More recently, the International Integrated Reporting Initiative (IIRC) and the US-based Sustainability Accounting Standard Board (SASB) have helped to advance industry-specific reporting.

There are many different ESG standards, frameworks and rating agencies. Each one has its own focuses and requirements. The lack of global consensus on ESG standards won't last long, though. Now is the time to assess your business and make sure you're prepared for regulations in the future.

Your company, and more specifically its financial leaders, should be evaluating ESG-related risks and opportunities to drive value and resilience for the long-term.

For more information on how your organisation can implement new technologies and programs to aid in sustainable growth and enhance support for your supply chain, read more about C2FO's Sustainability Program and initiatives at:

https://tinyurl.com/SustainableSupplyChain

Conference Reflections of the Virtual Past and into the Future for Face to Face

Ben Leaver, CEO - ACTA

The Annual Conference is our largest event of the year, and like so many, our 2020 Conference certainly presented some challenges for the organising Conference Committee.

The FTA (ACTA) Board made the early and clever call, that we needed to make the 2020 Conference a virtual only event, a big change from our signature face to face event. A virtual Conference was something that not only had we not previously done but nor had too many other organisations anywhere. Our aim for 2020 was for it to be as interactive as possible for our delegates and partners; for it to deliver content in a very user-friendly way; and to allow our attendees to participate and engage in the networking that is so vitally important to the Treasury Community.

The Platform worked as we had desired, with our presenters coming over professionally and our sponsors 'virtual booths' working well. Feedback on the platform was great, with people surprised at how good the experience was. In the end, our feedback showed that the Conference Committee put together an outstanding program, and a world class Conference.

I would like to take this opportunity to thank all our Conference Partners, especially the Commonwealth Bank and Earlytrade for their support in 2020; and to the entire Conference Committee, and to KE Creative Events a big thank you for your commitment in putting it all together.

BUT, it wasn't a face to face event, and our attendees and sponsors certainly indicated their excitement in getting back to face-to-face in 2021.

While we must be constantly vigilant on risks, we are now well into planning for 2021, back bigger and better than ever, and I am pleased to announce that the 34th Annual Conference will be held at the Melbourne Convention and Exhibition Centre, from November 29 to December 1.

The Conference Committee are working hard on building an exceptional program for 2021, to showcase a Conference that is all about the here and now – about needing to get

on with the job - preparing people to be Match Fit; to be able to perform in their roles to the best of their ability; adapting to new ways of working; influencing their business strategically; and leading business out of a difficult time and onto a prosperous future.

If you or your organisation are interested in supporting this year's Conference, I encourage you to reach out to me directly with your expression of interest, and to discuss how you can be a part of the 34th Annual Conference.

I look forward to seeing you there.

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