ACTA
AUSTRALIAN CORPORATE TREASURY ASSOCIATION

EXCHANGE MAGAZINE 2022

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

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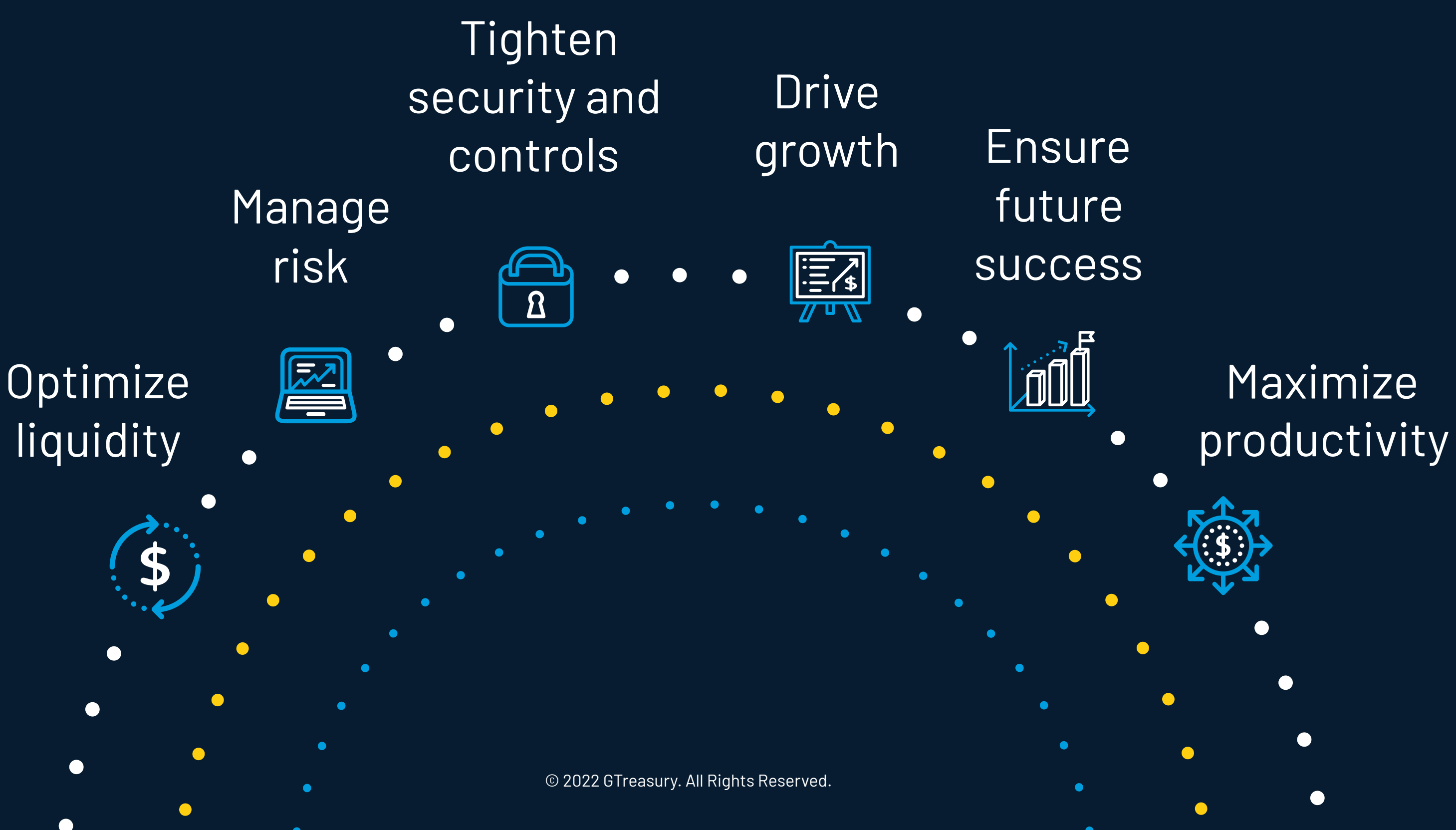

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Message From the CEO

Ben Leaver - CEO
Australian Corporate Treasury Association

Hi everyone,

I wanted first and foremost to just sincerely thank everyone who has had anything to do with ACTA over the past two years. Obviously many businesses have been severely impacted and ours is no exception. The support from our members and partners has been simply outstanding, and we hope we have repaid some of that support by continuing to offer our services over this time, albeit not as in person as we would like!

We are really well placed now to go forward – our Certificate in Corporate Treasury is up and running, something we are very proud of. We look forward to it earning its place in the profession as something that people aspire to do as less experienced or aspiring Treasury professionals, or those who are seeking to update or increase their skills in individual subjects.

Additionally we have updated our tech suite and offerings – you have hopefully seen our new website which also has an improved back end, and our webinars have continued to flourish. Adding a return to face-to-face networking and CPD to these will give us a great member offering that you can all be proud of.

Thanks again to everyone, we look forward to seeing as many of you as we can over the coming year!

Cheers

Ben Leaver

President's Message

Alice Van Der Geest CCTA- President
Australian Corporate Treasury Association

Welcome to our Annual Exchange Magazine, a publication we're really proud to release with much appreciation to everyone who has contributed.

It seems too obvious to say that it has been another big year, but as I know from my own professional life, we are now starting to see the signs of recovery – and no doubt that everyone in the Treasury community has paid a huge part in sustaining Australian business so that we can be at this point now.

We were so pleased to see so many of you at the 34th Annual Conference, and thrilled to bring this back in the face-to- face format we all love. Two and half years since the last one feels like an eternity.

I want to make very special mention of every partner that we have at the ACT – starting with our members who are the reason we are here, to our conference partners, our Corporate Members, our webinar partners, our CPD and networking hosts and anyone else who has played a part in helping us to continue to grow through this period. We could not have done it without you.

We are very much looking forward to the year ahead. Our Certificate in Corporate Treasury is now up and running, with the first students already working through the modules. We see this as a game changer for our profession, the first and only post graduate education in Treasury in Australia. This will see us lift the standards of professionalism of Treasury in Australia. With the backing of both the students and potential students, and the employers who will value this as a benchmark, we hope to see many of you undertake all or part of the program in coming years.

Hope to see you soon!

Alice Van Der Geest

ACTA was excited to introduce the ACTA Awards in 2022 as part of our Conference Gala Dinner.

Left to Right: **Philippa Campbell**, ANZ - **Jeff Etherington**, AMPOL - **Rodney Wallis**, NAB **Katherine Tapley**, ANZ - **Michael Singh**, Seven Group Holdings - **David Braham**, Electranet **James Conway**, HSBC - **Mike Hawkins**, CBA - **Greg Manning**, Qantas

The awards recognise the efforts of outstanding treasury professionals and teams, recognise vendors who strive for excellence and acknowledge Banks who show commitment to the Treasury community and its strategies.

At a time when we were all involved in so much over the previous years, it was never more important to recognise and celebrate these contributions.

ACTA Board and team give a huge congratulations to all who were nominated, and to the winners and listed below.

In addition, many thanks to our sponsors, we would look forward to this program continuing and growing over future years with your ongoing support.

The Awards certainly added buzz and excitement to the Gala Dinner, look forward to doing it again next year!

ACTA AWARDS WINNERS 2022

Treasury Team of the Year Sponsored by Treasury Talent	**Ampol**
Treasury Team of the Year (COVID Impacted) Sponsored by Treasury Talent	**QANTAS**
Innovation of the Year	**Chubb Insurance Australia**
MVP Team Member of the Year Sponsored by ANZ	**David Braham CCTA** Electranet
Influential Treasurer of the Year Sponsored by Commonwealth Bank	**Michael Singh** The Seven Group
Bank of the Year	**HSBC**
President's Award	**Lindesay Brine FCTA** Macquarie University
Peter Lee Associates - Most Trusted Advisor	**NAB**
Peter Lee Associates - Best Bank for ESG/Sustainability	**ANZ**
Peter Lee Associates - Market Leader for Transactional Banking	**Commonwealth Bank**

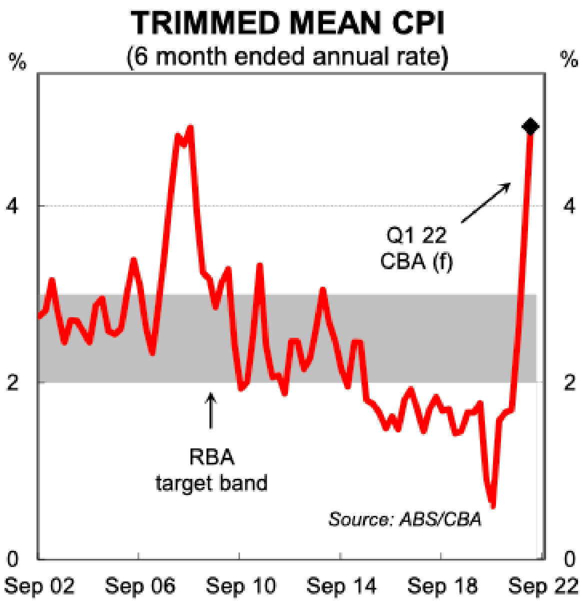
The end of the unconventional – Now for the conventional

Written Wednesday 11th May 2022

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

As Covid-19 spread around the world, governments and central banks acted swiftly to offset the impact of the mandatory health policies and lockdowns on the economy. In Australia, this involved a significant easing of both fiscal and monetary policy.

The Commonwealth government expanded the Budget from a balanced result in 2018/19 to a deficit of 6.5% of GDP in 2020/21. A deficit of 4.5% of GDP is currently estimated for 2021/22. As a result, Australia's net government debt is expected to jump to 37.4% of GDP by 2024/25 (or around $A915bn), up from 19.2% of GDP ($A374bn) in 2018/19. But this is money very well spent, as it has helped Australia avoid a much worse economic outcome than that which eventuated – especially for the labour market.



After contracting by 4.4% in 2020 (our first recession in close to 30 years), the Australian economy was growing at an annual rate of 4.2% at the end of 2021. For 2022 the outlook is even more positive, with economic growth for the year forecast at just under 5%.

Perhaps more significantly, as at January 2022 the unemployment rate was 4.2% - the lowest since 2008. Through 2022 there is now a very real prospect that the unemployment rate will move below 4% for the first time since the 1970s!

Monetary policy support from the RBA:

In addition to the fiscal policy support that the governments (of all levels) provided, the Reserve Bank of Australia (RBA) also provided substantial support to the Australian economy. In the words of the RBA Governor, the goal was to 'build a bridge' for Australian businesses, people and households to get them through the Covid-19 period without creating long-term damage to the economy.

The support policies implemented by the RBA can be described as both conventional monetary policy and for the first time in Australia, the use of unconventional monetary policy.

Conventional monetary policy refers to the use of the official cash rate to influence the level of interest rates for loans, ie. mortgage rates, business lending rates, in the economy as well as deposit rates. From 0.75% at the start of 2020, the RBA progressively lowered the official cash rate, so that by November 2020 the rate was at its historic low of just 0.1%.

These cuts in interest rates helped lower the costs of funds for many Australians and supported both household and business balance sheets. But the real action for the RBA was in the unconventional monetary policy space.

Unconventional:

Over the course of 2020 the RBA announced a number of unconventional monetary policy measures – these included:

i. Forward guidance. On 19 March 2020 in an 'emergency' meeting, the RBA announced that they would "not increase the cash rate until progress is being made towards full employment and it is confident that inflation will be sustainably within the 2%-3% target band." This forward guidance evolved over the course of 2020 and 2021 and for a time the RBA was indicating that they did not expect to see the necessary conditions to raise the cash rate until 2024.

ii. Yield Curve Control: On 19 March 2020 the RBA introduced a form of 'yield curve control' (YCC) where they would target the yield on the 3 year Australian government bond at 0.25% - which was the cash rate at the time. In November 2020, the YCC target interest rate on the 3 year bond was cut to 0.1% - as the cash rate was cut to the same level.

iii. Term Funding Facility: On 19 March 2020 the RBA introduced the 'term funding facility' (TFF) for authorised deposit-taking institutions (ADIs). Under the TFF scheme the ADI's could access 3 year funding at the 0.25% cash rate. This program was expanded in size in September 2020 and the interest rate cut to 0.1% in November 2020 when the cash rate was moved to this rate.

iv. Bond purchase program/QE: In November 2020 the RBA introduced a bond purchase program, also known as Quantitative Easing (QE), where they committed to buying $A100bn of government bonds with a maturity from 5 to 10 years over the next six months. This QE program was progressively extended, so that QE1 was $A100bn from November 2020 – April 2021, QE2 was $A100bn from April – August 2021 and QE3 was $A86bn from September 2021 – February 2022. All up, including QE and YCC the RBA purchased approximately $A360bn in Commonwealth and state government bonds.

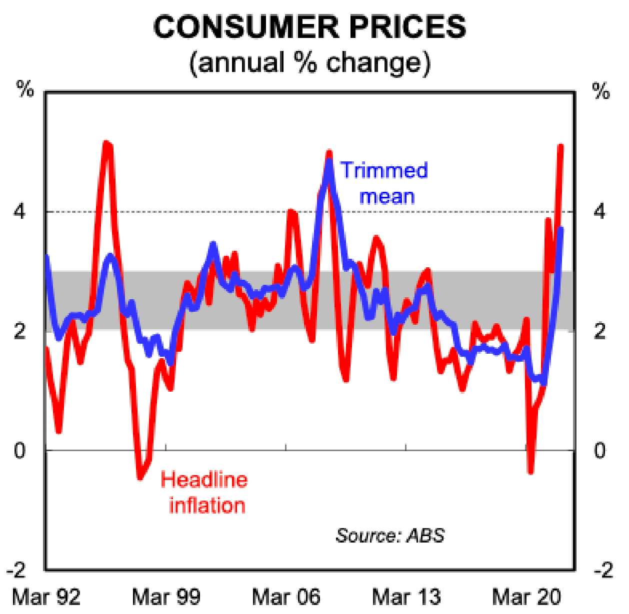
The end of the unconventional:

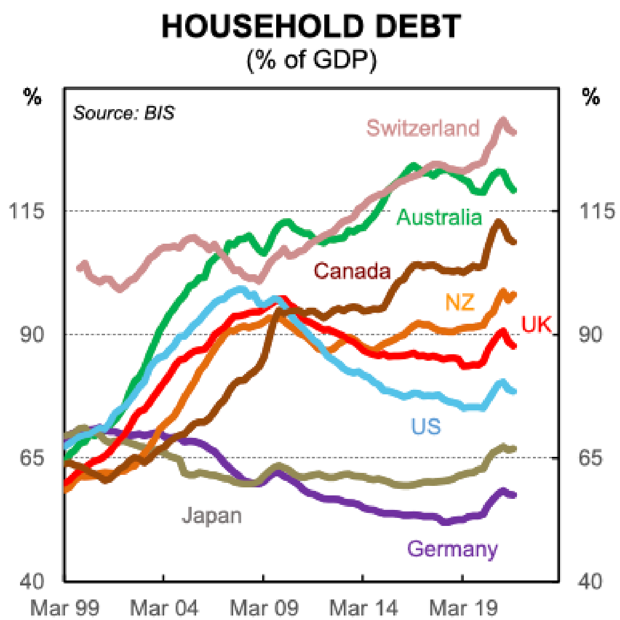
As the Australian economy recovered from the worst of the Covid-related weakness, the RBA has taken the opportunity to bring to an end their unconventional monetary policy settings.

The RBA's forward guidance has evolved in recent months. In both their official statements and public presentations, the RBA leadership has shifted their guidance on when official interest rates might rise in Australia. From initially signalling that a cash rate rise was unlikely until 2024, the RBA then stated that a rate hike was 'plausible' in 2023 and now they can envisage a scenario where rates rise this year. In the March RBA Board meeting, however, the Governor noted that the Board "is prepared to be patient as it monitors how the various factors affecting inflation in Australia evolve."

On YCC, in July 2021 the RBA made the decision to keep the April 2024 bond as the target for its YCC program, at 0.1%, rather than shift to the next benchmark 3-year bond, the November 2024 maturity. However, by October 2021 the yield on the April 2024 bond had pushed up well above the 0.1% target as higher-than-expected inflation data brought into question the RBA's commitment to keep the cash rate on-hold into 2024. Indeed, by late October 2021 the April 2024 bond yield had jumped to 0.8% and at the early November Board meeting the RBA subsequently abandoned its YCC program.

The RBA's TFF program facility closed to new drawdowns on 30 June 2021. From its announcement in March 2020 to its completion in June 2021 a total of $A188bn was accessed by ADIs through this program. By early 2022, the final remaining unconventional monetary policy still in place was the RBA's bond purchase program/QE. However, given the rise in inflation evident in the Q4 21 CPI data, released in late January, at the February Board meeting the RBA took the decision to end its QE program. The last RBA bond



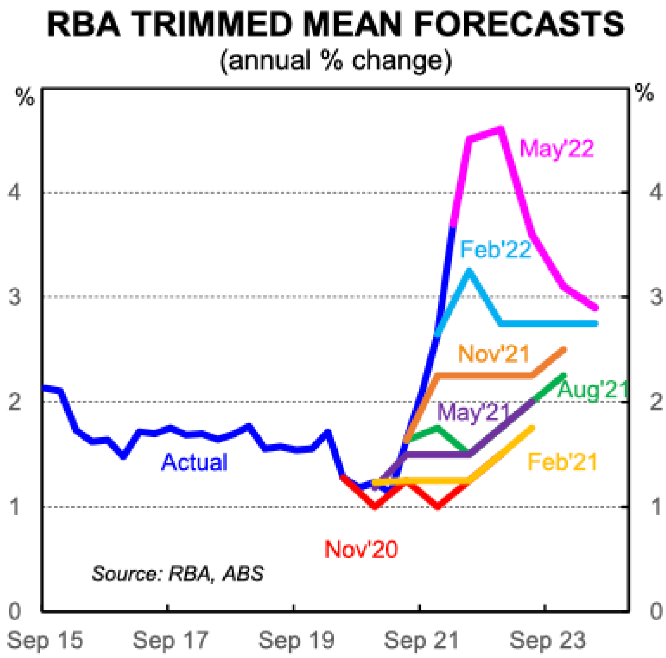


purchase was held on 10 February 2022. Over the period of the QE and YCC programs the RBA purchased a substantial $A360bn in Commonwealth and State bonds – helping to hold down borrowing costs for not just the governments, but interest rates across the economy.

The start of the conventional:
Now that the unconventional monetary policy settings have ended, the RBA will need to turn to the conventional – that is, the cash rate target.
At the March Board meeting, the RBA stated that "the Board will not increase the cash rate until actual inflation is sustainably within the 2%-3% target range. While inflation has picked up, it is too early to conclude that it is sustainably within the target range. There are uncertainties about how persistent the pick-up in inflation will be given recent developments in global energy markets and ongoing supply-side problems. At the same time, wages growth remains modest and it is likely to be some time yet before growth in labour costs is at a rate consistent with inflation being sustainably at target."

It is our view, however, that upcoming inflation and wages data will clearly indicate that inflation is not simply within the 2%-3% target range, but above, and that labour costs (ie. broader than just wages) are rising. We expect the Q1 22 CPI reading, due 27 April, to show the underlying inflation rate (trimmed mean) jump from 2.6% in Q4 21 to 3.5%. Such a reading would be well above the RBA's 3.25% expectation. Over the course of 2022 we expect underlying inflation to average around 3.5%-3.75%, ie. well above the RBA's target range.
On 18 May we then receive the Q1 22 Wages Price Index data. We expect this data to show that wages growth continues to accelerate, but more importantly, broad labour costs, ie. including bonuses etc, are growing more strongly as the labour market continues to tighten.

As a result, we expect that by the June Board meeting the RBA will have ample evidence to support the view that inflation has met their goal of being 'sustainably inside the target range'. We, therefore, expect the first rate hike from the RBA in June, taking the cash rate from the current 0.1% to 0.25%.



From there, we then expect the cash rate to be progressively increased to 1% by the end of 2022 and to 1.25% by early 2023. Such as profile is similar to that priced into financial markets. However, where we differ from the consensus if our expectation that the cash rate will peak at 1.25%. This is below the 1.5%-2.5% cash rate that prevailed through much of the pre-Covid period from 2015-19 and well below the peak of 4.75% the last time the RBA actually increased the cash rate in 2011.

This lower cash rate peak reflects the increased indebtedness of Australian households since that period – making them more sensitive to higher interest rates. In addition, one of the key features of the surge in house prices and home lending in recent years has been the sharp increase in fixed-rate mortgages – which jumped from around 15% of all mortgages pre-Covid to as high as 50% of new mortgages through 2021. A large number of these fixed rate mortgages are due to mature through the second half of 2022 and, especially through 2023 – likely increasing the impact of the RBA monetary policy tightening as these mortgages are refinanced at higher interest rates.

A Treasurers spotlight on the utilities sector

Diane Crossley CCTA
Treasurer; CitiPower, Powercor, and United Energy

Justin Shaw CCTA
Group Treasurer, Electranet and ACTA Board Director

Business partnering is a commonly used term, but not always executed well in practice. How does your treasury engage with the broader business, especially operational functions, to obtain crucial information, contribute to the value-chain, and take leadership on key issues such as establishing a primacy of cash culture?

Diane: There has always been lots of engagement between the wider business and treasury. In treasury we make it our business to proactively reach out and network in the business. Processes are in place to capture material cash flow and risk management activities. Having a great understanding of the material issues and strategy is also key to providing investor updates.

Justin: Within ElectraNet, our Treasury business group provides both treasury management and corporate finance strategic advice, along with financial markets transaction execution services to the Company. We take an 'enterprise-wide' approach when engaging across the business, which ensures all our activities, interactions, strategies and deliverables demonstrate added value to overall business objectives.

In producing the target financials and credit metrics for the annual 5-year business planning and valuation cycle, the team is charged with engaging key stakeholders from across the business to consider, and present financial risk and capital structure scenarios and strategies. The Treasury team must be inquisitive and have strong relationships across the business to support the work in collating and producing information and marketing materials for investor relations / capital raising roadshows, credit rating surveillance and Treasury performance and compliance reporting. Most recently our presentation capabilities and collateral were utilised in insurance roadshows, with underwriters providing direct feedback on the high standard of quality and transparency in materials presented.

Ongoing engagement and access to working capital and protection of financial outcomes is critical to our business as changing operating and economic environments are guaranteed.

As Group Treasurer, I attend Treasury Committee meetings and am regularly invited to Board, Business Planning, Strategy and Shareholder working group Board sub-committee forums to provide specific advice and insights around internal and external financial risks and opportunities.

CFOs have indicated in industry surveys that they expect more strategic contributions from Treasurers and the treasury team. Is this your experience in practice? Are you involved in designing scenarios for corporate strategy development; cascading strategies to business plans and budgets; developing funding plan options for all scenarios that maintain the target credit rating and deliver desired earnings performance? Are there other contributions not mentioned?

Diane: Yes, whilst each treasury team is unique within its finance structure and focus our treasury team work very closely with the wider finance function to ensure that funding strategies are developed to take into consideration many factors including (but limited to) budgets, business plans, cost minimisation, credit rating metrics, treasury policy and compliance.

VPN looks after over A$7.5 billion of debt across several entities and being an active player in financial markets allows treasury to accumulate a wealth of financial market knowledge and experience to deliver optimal financial outcomes.

There have been many opportunities for treasury to also get involved in other more bespoke corporate strategy working groups. In more recent times I have been a subject matter expert in regulatory matters and sustainability working groups.

Justin: The Treasury and Corporate Finance team plays a significant role in supporting and partnering with the CFO to provide strategic financial, credit and market risk advice to the Board, Executive and the business. With the support and delegation of the Board and Executive, the team faces external financial markets, rating agencies, senior creditors and key service providers to execute and maintain transactions that underpin the Company's activities in global capital and derivatives markets. Agility is a key requirement of the team to proactively manage and balance the business' operational needs alongside evaluating global financial market opportunities and risks to provide capital funding in a cost effective and efficient manner.

Over the past four years, the Treasury team has been privileged to work closely with ElectraNet's Executive and key sub-committees of the Board, to position the capital structure alongside a period of securing and executing a material level of capital expenditure, totalling ~A$1.3bn. The Treasury team developed and led internal and external stakeholder working groups to create and execute strategies to underpin funding and liquidity during a period of condensed material expenditure, along with 'future proofing' for sustainability and growth opportunities across the business. Key strategies focussed on restructuring and modernising the senior debt financing platform, developing access to new debt capital markets, aligning financial risk management policies along with enhancing treasury and investor relations systems to support an 'agile and best for business' capital structure. Using the treasury reporting and shareholder business planning frameworks, Treasury can demonstrate how optimising the capital structure delivers cost effective funding and stable credit metrics to underpin financial operations to support the business in delivering customer and shareholder value.

> *"More recently treasury has been a key contributor in developing the companies Sustainability Strategy framework. ESG is a hot topic amongst many of our stakeholders including credit rating agencies."*

Specific examples of additional contribution include advising our Regulatory team on inflation, market costs of capital and key financial market risks related to revenue determinations under the regulated framework. Or alternatively, developing knowledge and capability in the capital projects and maintenance teams around the benefits of efficient cash management that can be redeployed to them or other parts of the business for investment in customer outcomes, or as returns to Shareholders. Through knowledge sharing forums and the business' high-quality finance performance reporting, key credit and financial metrics are discussed and deliberated. The key credit metric of 'Free Funds from Operations (FFO) / Debt' is well understood and a highly visual metric across the business.

Sourcing and structuring capital is a key responsibility of treasury. Does your treasury 'own' and proactively manage the company cost of capital? Does your treasury ensure allocative efficiency by providing separate business unit costs of capital that are dependent on business unit financial risks? Is capital optimised by presenting divestiture as well as acquisition options?

Diane: As a regulated business the regulatory cost of capital (including cost of debt) are components in the building block approach that determines the revenue allowance for each regulatory period. The implied regulatory cost of debt is monitored on an ongoing basis and compared to any indicative and or executed strategies in this regard.

Justin: Treasury develops capital structuring, management and execution strategies with insights and oversight from the Board Treasury Committee, ensuring the Board and management are aligned to company and shareholder objectives. This work is underpinned by strong policies and governance protocols to deliver and protect financial outcomes, particularly when facing global financial markets.

ElectraNet's Corporate Finance Team has developed a 'portfolio view' of the asset portfolio and approach to new projects with respect to financing options and the cost of capital. This approach is focussed on the unique risk and financial profiles within the core regulated business and contracted (non-regulated) business. Minimum cost of capital hurdles is established and tested as part of the annual business planning process. New projects are benchmarked against hurdles on a 'stand-alone' basis under the regulated and contracted business assumptions, recognising both have different risk profiles due to the end customer and project commercials. Providing projects meet hurdles on this basis, the group capital structure is then tested to further optimise financing outcomes that in turn provide the business opportunities to enhance the overall project outcome for customers and shareholders.

> *"ElectraNet is a key participant in the energy supply chain and continues to support the development of renewable energy generation projects"*

Treasury is entrusted to provide advice and insights on the external financing landscape with respect to building up cost of capital assumptions and internal rates of return (IRR) for investments. A regulated project for example, will receive a guaranteed revenue stream under the regulatory framework. A contracted transmission line for a mining customer however will have a different risk profile and therefore attract a different cost of capital and IRR hurdle. The portfolio view provides the business with decision making tools to efficiently and effectively allocate capital across projects based on 'risk vs. return' metrics from a financial perspective, while also considering operational, customer and shareholder objectives.

Divestment is a capital structure lever, but is rarely considered due to the 'majority highly regulated' long-term nature of the Company's asset base and associated revenue streams that attract strong capital flows from domestic and offshore investors. New projects and acquisition continue as a strategic consideration for growth opportunities, and current 'flagship' projects such as 'Project Energy Connect' and 'Eyre Peninsula Link' underpin ElectraNet's lead role in Australia's renewable energy transformation.

ESG is on everyone's radar. Is treasury involved in your company's ESG policy development? Are you seeing ESG issues now creeping into 'normal' credit rating assessments?

Diane: More recently treasury has been a key contributor in developing the companies Sustainability Strategy framework. ESG is a hot topic amongst many of our stakeholders including credit rating agencies.

Justin: Treasury is an integral member of the core ESG working group within the Company, providing key capital market, credit and investor relations insights. Our current focus is to leverage the ESG deliverables and reporting across the business to build on our strong credit strategy and investor reporting.

ElectraNet is a key participant in the energy supply chain and continues to support the development of renewable energy generation projects and large industry investment into grid stability and reliability. With active ongoing investment in ESG improvements that underpin the overarching 'sustainable' nature of managing the core transmission assets for South Australia, we continue to be well positioned to leverage for opportunities into capital markets and maintain a strong credit rating that now incorporates ESG profiling and factors for credit ratings.

ElectraNet currently holds a single credit rating with Moody's. ESG considerations within Moody's ratings surveillance have now been elevated to provide more transparency and detail into already embedded ESG factors within the credit analysis and ratings surveillance. Under Moody's methodology, ElectraNet is scored as CIS-2 (CIS-5 being highly negative and CIS-1 being positive), representing the 'ESG attributes are overall considered as having a neutral-to-low impact on the current rating. Recent capital markets issuance has demonstrated an increased level of enquiry from investors on the company's approach to ESG principles and KPIs, with 'green' and 'sustainability' linked structures likely to provide future alternative debt capital raising opportunities.

Cash is king. Traditionally, treasuries forecast cash and manage cash and working capital to ensure that cash is available to meet commitments. However, value requires cash flow to increase. Does your treasury actively identify and pursue opportunities to increase cash flow?

Diane: We have a treasury risk management system, processes and reporting in place to actively manage this very important requirement. Along with available cash balances we have committed and flexible bank facilities (including working capital facilities) to utilise as required. The additionally liquidity threshold requires from treasury policy guidelines and credit rating agencies creates an adequate liquidity buffer and naturally increases the available cash flow.

Justin: As a fundamental 'treasury management' principle, seeking funding internally through efficient cashflow management should generally deliver the cheapest form of funding as opposed to facing external capital markets. As a predominately asset management company, we focus on deploying as much 'free cash' as possible to then 're-invest' into the business to drive optimal customer outcomes and returns on shareholder capital.

The key credit metric of 'Free Funds from Operations (FFO) / Debt' is a well understood and priority KPI for the business as we manage through a period of material capital project expenditure. Treasury has developed an organisation-wide engagement profile through presentations and education sessions across each Division to demonstrate how key internal stakeholders can have a direct impact on delivering optimal working capital outcomes through efficient working capital management. Cash flow for project and maintenance expenditure is material, with project managers and procurement business partners requiring certainty around financial commitments and timing being met in order to lock in commercial outcomes and mitigate delivery risks.

Considerable analysis and structuring are undertaken by the treasury team to mitigate settlement risks and ensure material cash flows are matched to reduce financing costs and financial market facing risks. Alignment of debt capital facilities along with the overlay of currency and interest rate derivative transactions are a priority to avoid surprises that can materially impact financial outcomes and the credit risk profile

Specific to Electranet and Powercor. The Australian Energy Regulator effectively specifies the tariff you are allowed to charge to recover your expenditure and earn a margin. What is your approach to financial risk management? Do you give priority to minimising regulatory risk (hedging to lock in the regulatory WACC) or to minimising the actual cost of capital?

Diane: Powercor, CitiPower & United Energy's approach to interest rate risk management is to fix interest rates around the same time as the regulatory reset period to align as closely as possible the setting of the regulated revenue allowance and the AER implied cost of capital allowance (including the annual updating to the cost of debt component). Refinancing strategies are also cognisant of the most recent actual setting of the cost of debt and the implied credit margin.

"We have a treasury risk management system, processes and reporting in place to actively manage this very important requirement."

For any refinancing all available funding sources are compared taking into account diversification, tenor and pricing considerations. Minimizing the actual financing costs whilst adhering to all treasury policy guidelines and objectives is a key objective. This approach is also cognisant of the fact that the AER methodology is used as an overlay to the actual and existing debt portfolio and swaps of each business.

Justin: ElectraNet maintains a strong level of engagement with the AER, industry and consumer groups to support reform and ongoing delivery of cost-effective and efficient energy transmission services. A great example over the past several years has been the collaboration on reform under the ‘Rate of Return’ framework. The cost of debt return is a major component. The treasury team joined internal and external working groups to deliberate on improving the framework, including support for the ‘trailing average’ cost of debt revenue determination rules. Our team has members in the Energy Networks Australia Committee who liaise with other industry participants, the AER, shareholder and consumer groups.

Our Treasury Policy prioritises protecting the regulatory allowance and minimising regulatory risk which is managed internally partnering with the regulatory group within our Asset Management division. Management works closely with the Board Treasury Committee to manage refinancing, credit pricing and base interest rate risks. Annually, both hedging and funding strategies are reviewed, and recommendations made to consider both business objectives, regulatory and commercial operating conditions, and importantly financial market and economic conditions. Treasury must be proactive in looking ahead to understand business requirements along with constantly changing financial markets and economic environments.

Given the long-term nature of the company’s core assets, balancing diversification of funding sources with a maturity profile to deliver an efficient cost of capital is an ongoing objective to protect and enhance customer outcomes, business operations and shareholder value.

“Our Treasury Policy prioritises protecting the regulatory allowance and minimising regulatory risk which is managed internally partnering with the regulatory group within our Asset Management division.”

The year of inflation: How it will impact sector supply chains

AUSTRALIAN SUPPLY CHAIN SCORECARD, powered by Earlytrade

This article is a summarised version produced for the ACTA. The full report can be viewed at earlytrade.com

Sam MacPherson MCTA
Head of Treasury, Earlytrade

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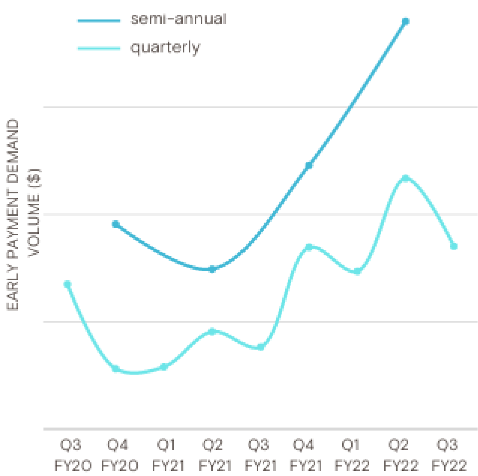
As Earlytrade's September and December Supply Chain Scorecards flagged, rampant inflation across sectors and under-capitalised SME suppliers will continue to hamper the productivity of already disrupted supply chains well into 2022 and beyond.

With the war in Ukraine pushing up oil and fuel prices, the RBA raising interest rate, and China's zero COVID policy choking shipping freight, Australian businesses are – as they did at the start of the pandemic – turning to homegrown tech to solve old supply chain and procurement problems.

During the March quarter, new businesses registering with the Earlytrade network increased by 25% versus the prior comparable period, highlighting the desire to gain greater flexibility on accounts receivables with large customers. Early payment volumes also continued to exhibit strong growth in Earlytrade's working capital markets, more than doubling from the prior comparable period in FY21 (+122%), as businesses of all sizes continued to diversify their working capital options. However, the degree of cost and disruption pressure differs from sector to sector.



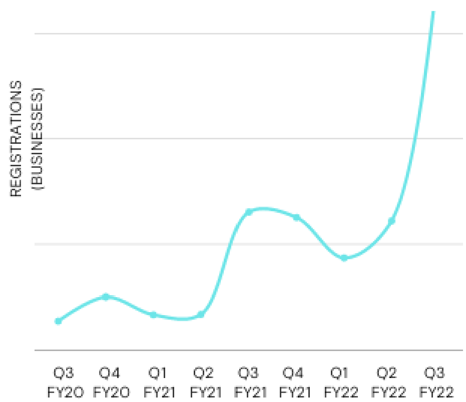
Y-o-Y, early payment volumes continue to exhibit strong growth, more than doubling from the prior comparable period in FY21 (+122%)

Construction & infrastructure supply chain

Builders keen to collaborate upstream and downstream to fight inflation

As Earlytrade's previous Scorecard predicted last quarter, cash flow stress in the construction industry continues to pressure firms with low cash holdings and a high proportion of fixed price contracts, highlighted by the collapse of Probuild and Condev in Queensland. The impact of these liquidations has been well documented in the media, with small and medium subcontractors and material suppliers showing the most significant signs of stress.

The cost of essentially every material and service required to deliver a building has increased, with the rate of total cost inflation expected to be the same in 2022 at 7% as it was the previous year.



Construction business registrations reach record highs, with 306.9% more registrations compared to previous quarter

Earlytrade data shows that subbies are looking to bring cash in quickly from their most reputable and trusted head contractors. Early payment demand continued to grow strongly in the March quarter from subbies, increasing by 190% QonQ, on top of the 150% increase the December quarter.
Year-on-year this represents a 500% increase in demand for early payments, while early payment volumes are already 6.3 times higher compared to FY21, underscoring the case for technology to unlock liquidity in project supply chains, turning the tide on inherently challenging working capital pressures.

Food and beverage supply chain

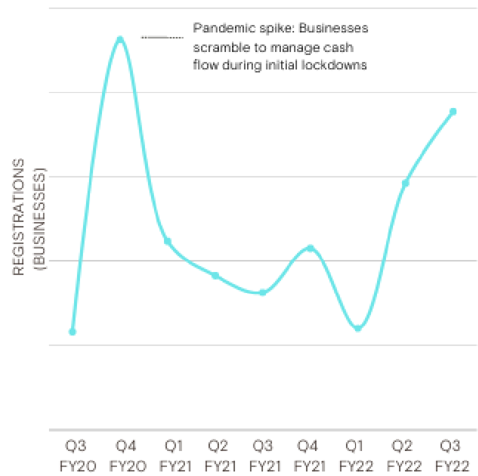
Lack of liquidity may prevent SME suppliers from industry shift to just-in-case procurement

The supermarket giants, major suppliers, and industry bodies were all vocal in the national media about the cost burden of inflation, fuel prices, and other supply chain issues, with some looking to finance shifts in procurement models to just-in-case supply chain strategies.

Such changes are more difficult for small and medium suppliers, who lack sufficient capital and warehousing to stockpile additional produce and goods, especially those who saw 2022 as the opportunity to come up for air after nearly 24 months of rolling lockdowns.

Early payments were a critical liquidity source for suppliers in the Earlytrade network, who were able to first weather the storm in 2020, and then accelerate new product go-to-market strategies to secure lucrative supply agreements through 2021.

The trend continued in the March quarter, with year-on-year early payment volumes remaining robust with a 58% increase from FY21. New registrations also surged during the quarter, up 132% year-on-year, largely driven by a 231% increase in March.



New registrations surged during the quarter (+132% YoY) to levels near lockdown peaks in

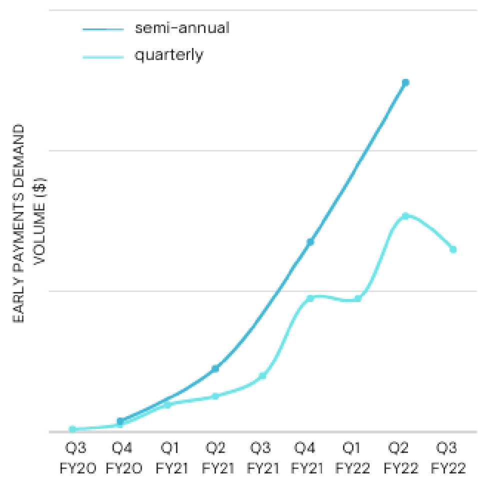
Industrial services supply chain

Consolidated early payment market offer hedge against rate rises for large and medium suppliers

Despite rising fuel costs squeezing margins in transport and logistics, industrial services businesses experienced relatively stable cash flow demands. Early payment demand remained flat QonQ (-5%), following a strong Q2 (+62%), which is a smaller reduction than expected given the supply chain is typically cyclical. Year-on-year, demand for early payments from the industrial sector was strong, up 264%.

Particularly in NSW and Victoria, where provision of highly specialised industrial services is concentrated among a pool of suppliers for the similarly smaller number of corporate buyers, Earlytrade's consolidated early payment marketplace allowed suppliers to bring forward cash from multiple customers at once.

Consequently, during the quarter, average early payment amounts increased by 18%, indicating those large and medium-sized suppliers were diversifying their working capital and liquidity options with Earlytrade as the RBA flagged rate rises within the year.



Average early payment amounts increased by 18% - indicating that large and medium sized

Essential Treasurer Recap (2021)

Dane Birdseye FCTA
Director - Treasury Services | Ernst & Young

In Nov 2021, the ACTA ran the Essential Treasurer event via a virtual format due to the COVID restrictions in place and lack of mobility of presenters. Although, there was a gathering of approximately 20 people at the EY Adelaide office, which hosted the local treasury community. The following article outlines the key learnings from the 4 topics presented on the day.

Two of the hot topics observed over the past year were the continued interest in digital currencies and sustainable finance. The ESG related topic and the 'digitisation of all things' theme have definitely increased their profile over the past few years and the organising committee decided to include these specific topics in the program to provide more information to the treasury community.

Another perennial topic (for the past few years at least) was the issue of LIBOR transition. This topic seems to have raised its head up and back down again like a distant ship on the ocean, always getting nearer and growing bigger but, sometimes disappearing as other issues ie; COVID-19 (market volatility and ensuring sufficient liquidity), became priorities over the past two years. As such, a timely update was required as the end of many LIBOR rates was imminent (ie: 31 Dec 2021 for the majority of published rates).

Our newly appointed Technical Director, Kurt Smith, took control of proceedings and guided attendees through the event with aplomb. His 'direct to the heart of the issue' questions allowed the presenters to elaborate further and provided the audience with deeper insights on these topics.

Digital Currency – Central Bank Digital Currency (CDBC)

Tony Richards, (since retired) was Head of Payments Policy at the Reserve Bank of Australia where he was responsible for the Bank's analysis and advice to the Payments System Board on improving the safety and efficiency of the Australian payments system and the Bank's oversight of Australia's clearing and settlement facilities.

Tony provided the audience with insights into the emergence and major developments for digital assets, crypto currencies, stable coins and central bank digital currencies (CBDC's). He explained the different types of digital assets, key features of each, what future roles they can play and policy issues they raise.

The significance of crypto currencies as an investment product has increased dramatically over recent years, boosted during COVID when people were spending more time at home and taking up trading activities.

The key characteristics of the three main forms of digital assets are outlined below.

- **Crypto**
  - Privately issued digital assets with their own currency units ie: they are not pegged to a fiat currency or commodity.
  - Can be used to record and store transactions via a distributed ledger ie: not operated by a central party.
  - Have no intrinsic value with no asset backing.
  - Rely on the trust of market players and software protocols for controls.
  - Cannot yet be labelled as a form of money as they do not have all the key attributes ie: they are not widely accepted as a means of payment currently, not used as a unit of account and their prices can be very volatile
  - Examples include Bitcoin and Ethereum.

- **Stable Coins**
  - Represented by a token pegged to a sovereign currency, which is designed to minimise volatility.
  - Used as a store of value however, this is dependent on the issuer holding the requested amount of underlying sovereign currency, so that it is sufficiently 'asset backed'.
  - Tether is the largest by market capitalisation, supposedly pegged to the USD. However, it was recently fined USD$41M by the CFTC for misleading statements regarding the coins being fully backed.
- **Central Bank Digital Currencies (CBDC)**
  - A potential new form of digital money, effectively a digital version of existing currency but, without physical cash.
  - Issued and controlled by central banks which creates a liability or claim against the central bank.
  - Fully convertible on a 1:1 ratio with physical cash.
  - There may be a 'retail' or a general purpose CBDC, presumably accessed via digital wallets on smart phones or purpose-built devices, such as smart cards. There could also be a 'wholesale' version which would be accessible only to limited participants.
  - Many central banks have launched programs to establish their own CBDC, with the central bank of Bahamas being the first to issue a CBDC.
  - Multiple central banks are expected to follow this path to improve financial inclusion.
  - The RBA is conducting several proofs of concepts and projects related to CBDC and will release the results shortly.

Tony also foresaw the potential benefits arising from the development of digital currencies, which was the application of distributed ledger technology (DLT), the underlying platform technology over which these assets are transacted. This included benefits such as; improved resilience from having a decentralised, rather than centralised, ledger, and; improved efficiency of transfer of information/data from inefficient legacy business processes.

The RBA is working on a regulatory framework for digital assets, including stable coins, and is closely monitoring regulatory developments from other countries. The RBA is not yet convinced of a need for a CDBC here in Australia, primarily because Australia's current payment system provides fast, convenient and cheap payment solutions. In particular, the establishment of the New Payments Platform (NPP) was a major upgrade to the payment system and is still to realise its full potential with business. However, there could be potential benefits arising from central banks issuance of a CBDC and central banks globally are stepping up research on the topic.

Following this ACTA event, there were two news articles providing some interesting perspectives which appeared. These articles can be found at the following locations:

Cryptocurrencies: RBA warns of 'faddish' crypto crash (afr.com)

Financial Services Minister Jane Hume says cryptocurrency luddites will hold Australia back (afr.com)

Sustainable Finance

Sustainable finance has evolved over recent years from what was once a unique newsworthy story of a company's cutting edge approach to funding through to today, where it may appear to be the preferred funding option to satisfy shareholders and debt investors. To provide more insight on this topic a panel discussion was held with Blathnaid Byrne (Director, Sustainable Finance & ESG, Commonwealth Bank of Australia), Mark Robinson (Sustainability Services Manager, DNV) and Stuart Cormack (Partner, Gilbert & Tobin).

The session began with an explanation by Blathnaid of what the umbrella term 'sustainable finance' actually means and the various types of borrowing structures that form this class of debt funding.

The first structure is termed 'use of proceeds', which is similar to a project finance style of borrowing where the funds are to be allocated for a particular identifiable purpose and so the use of the funds have restrictions placed on them. This style of funding can be labelled as 'green', 'social' or 'sustainability' and 'transition' which are each governed by a set of principles.

The second structure is termed 'sustainability linked'. There are no restrictions placed on the use of funds and so can be applied to general corporate funding requirements. The company would set ESG related goals or targets that they intend to achieve.
Upon achieving these targets, which requires assurance of them being met, the company would receive discounted pricing on its borrowings.

Sustainable finance has seen exceptional growth in Australia in both the debt capital markets (bonds) and the bank loan market, which Blathnaid viewed as the local market catching up to Europe and the rest of the world.

Green labelled debt has been around for over a decade now and is the style of debt which continues to achieve the highest volume of issuance. However, 'sustainability linked' debt is growing at a faster pace now. Blathnaid says this is because of the nature of this style which is far more accessible to most corporates. Expectations are for this type of debt to continue to grow.

The main drivers for why sustainable finance is growing in interest was stated by Stuart and Mark as being:

1. The margin incentive ie: discounted pricing of loan interest rates which provides a tangible cost / benefit for taking ESG related actions. The panellists noted that this discount was typically observed to be around 5 basis points.

2. Stakeholders (equity and debt investors, employees, customers) of companies are now expecting these products to be used, which evidences that the company has robust ESG policies in place. It allows the borrowers to market themselves as good corporate citizens when this type of finance is utilised.

3. Allows access to a new class of debt investor focused on sustainable finance lending which enables diversification of sources of funds.

In order to access sustainable finance, it is important to know that an organisation initially needs to have an ESG strategy and policy in place. Stuart explained that loan documentation is the last step in the financing process as companies are required to have a very detailed ESG framework, policies, procedures and reporting in place and in such a way that is easily communicated to lenders.

New financial terminology was also introduced which was the 'greenium'. This was defined as being the difference between the price of debt based on a non-sustainable finance loan, compared to a sustainable finance style loan. This was difficult to practically determine at any point in time due to a number of factors including market conditions and debt investors interest in the business.
Corporate treasurers should take heed that corporates are being rewarded now for showing their ESG intentions however, Blathnaid's view was that the market is gradually moving to a 'if not, why not' attitude. If you are not using this style of funding, then questions will be asked by lenders and credit rating agencies as to why the business is not committing to improving their ESG credentials. Credit rating agencies are including in their review of the credit risk of a business their ESG strategy and credentials.

Blathnaid expects that access to capital for those not on the ESG improvement journey will gradually reduce over time and debt pricing will become more prohibitive for those borrowers not accessing these debt structures for their funding needs. As such, funding risk management now includes a new component, being ESG strategy risk.

Treasury Governance

Following on with the ESG theme, the organising committee decided to take a deeper dive into the topic of Governance. G for Governance in the ESG framework is something that can relatively easily be improved upon and is in the control of the treasury team.

There were 2 aspects to treasury governance that were presented by Dane Birdseye, Director of Treasury Services, and Jing Zhou, Senior Manager, from EY. The first was related to the role that internal audit reviews of the treasury function played in the oversight role that Boards were responsible for as well as a tool to monitor the control environment ensuring that operational risks were minimised.

The Treasury function is often viewed by Board's as a relatively high risk area that deserves a regular review, to ensure that it is operating in compliance with its own policies and generally accepted internal controls. There are plenty of well documented cases where companies have incurred significant losses and even become insolvent, or close to, from the activities of individuals operating in the treasury or market risk management department.

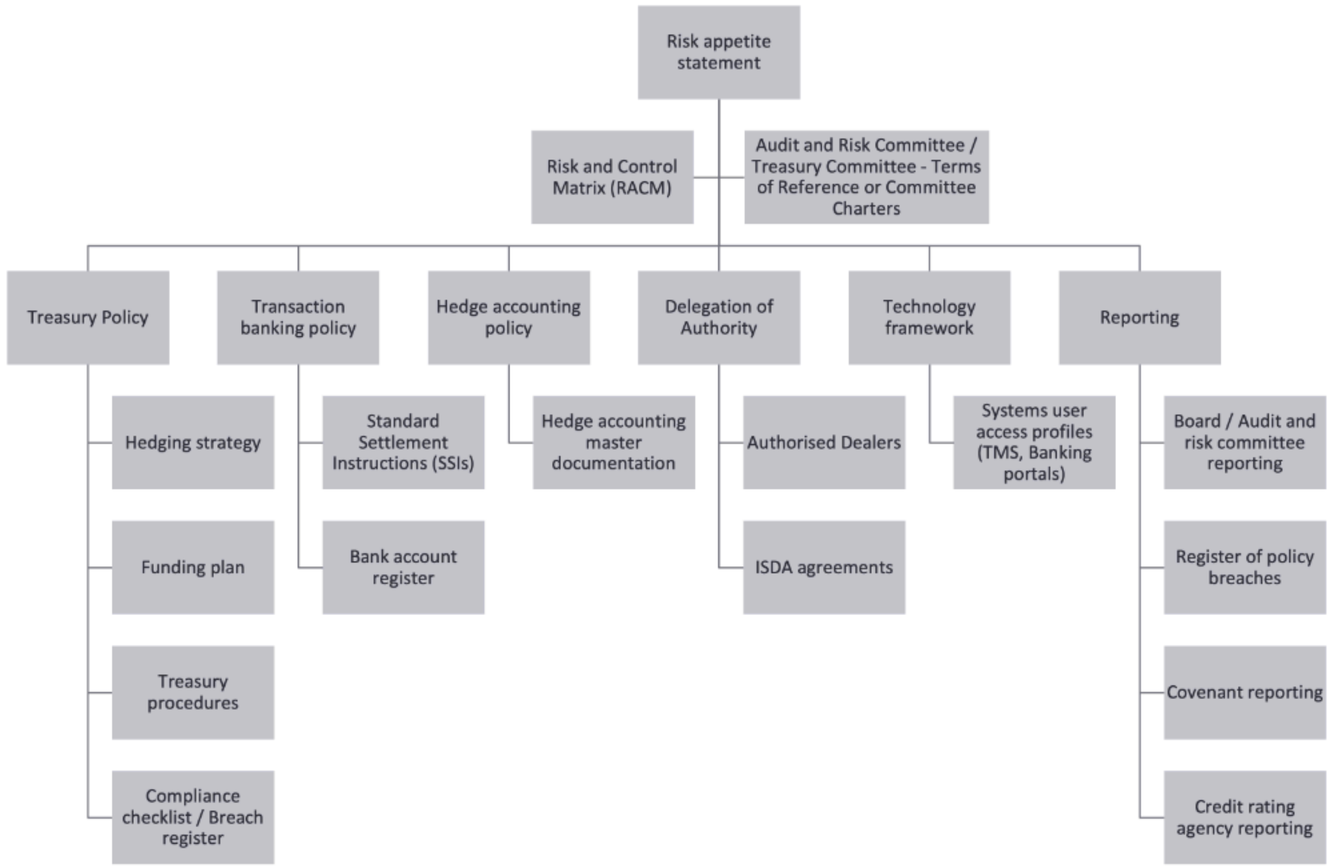
The second aspect of treasury governance related to the array of treasury documentation, and the role and purpose of each of these documents. Dane and Jing provided examples and explanation of what each document was used for and how good documentation not only provides guidance but, also acts as a control tool for the business.

In regard to treasury internal audit's Dane provided a list of the top 11 findings that were observed from numerous internal audits conducted, which were as follows.

1. Lack of documented procedures
2. Unclear or lack of specificity for delegation of authority
3. Unclear or undefined roles and responsibilities
4. Poor segregation of duties (including in TMS and banking portals) where there are overlapping roles
5. Lack of linkage between risk appetite statement and policy settings
6. Cashflow forecasting only being for a very short term
7. Banking authorised signatories not up to date
8. Reporting not reflecting compliance with policy settings
9. Insufficient guidance within policies
10. Treasury system not capturing all financial instrument transactions
11. Counterparty credit risk exposure measurement not performed according to APS 180 standard

In regard to the treasury documentation required to run a mature treasury function, these were outlined in the following diagram.

Treasury governance documentation



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Treasury teams may consider their own position in regard to the top internal audit findings as well as whether they have the full range of documentation. Identification of gaps with their current operations may lead to improvements through developing documentation or seeking improvements in controls. Overall, a well governed treasury function may result in favourable views from the CFO/CEO and Board as well as external financiers.

LIBOR / Benchmark Rate Reform

As the long and winding journey for the transition away from LIBOR reaches its heralded climax, the organising committee thought a timely update on the status of the market was needed.

As you may be aware, the Financial Conduct Authority (FCA) announced in March 2021 that 30 out of the 35 LIBOR settings will either end or, become non-representative on 31 December 2021 (all GBP, EUR, CFH, JPY and USD 1-week and 2-months). The end date for certain tenors of USD LIBOR was extended to 30 June 2023 as they realised the market was not prepared for USD LIBOR ending in 2021.

To provide the update, the ACTA called on a very experienced panel of presenters who have been knee-deep in LIBOR transition for the past few years. Andrew Bangura (Director, Risk Advisory, Ashurst) and Damien Jones (Partner, LIBOR Lead APAC, EY) lead the presentation with Edward Ng (Director, International Tax and Transactions Services, EY) providing insights into the tax implications arising from the transition.

The purpose for the worldwide project to replace LIBOR with Alternative Reference Rates (ARR's) was to ensure that benchmark interest rates were more robust and less vulnerable to manipulation. Andrew pointed out that this goal of robustness had come at the cost of fragmentation.

There are now alternative benchmark 'risk free' interest rates to LIBOR in all major currencies (USD, GBP, EUR, CHF, JPY). These are all overnight rates, which by their nature reset daily. The overnight risk free rates are: SOFR (USD), SONIA (GBP), ESTR (EUR), SARON (CHF) and TONAR (JPY).

Some 'risk free term rates' were also developed by other organisations, being the CME Term SOFR (USD), ICE Term SONIA Reference Rates (GBP) and Refinitiv Term SONIA (GBP) as well as the Tokyo Term Risk Free Rate (TORF) (JPY).

In addition, some 'credit sensitive' USD interest rates have arisen, namely AMERIBOR (American Interbank Offered Rate), BSBY (Bloomberg Short-term Bank Yield Index), CRITR (HIS Markit USD Credit Inclusive Term Rate) and BYI (ICE Bank Yield Index). These were viewed as predominantly useful to the US mortgage market providers and US banks and not necessarily for Australian corporate borrowers.

All these different rates make a far more complex environment for determining appropriate interest rates to refer to as well as risk management practices.

The fragmentation that has resulted from the change to ARR has meant that the well-known approach to the administration of LIBOR has been replaced by a far more fragmented, complex world.

LIBOR rate-setting involved a single process with a standard methodology across all relevant currencies, it was administered by a single administrator (Financial Conduct Authority), set the same time each day (11am London) and there was a simple term structure (1-12months). The move to ARR's involves different calculation methodologies for each ARR, with multiple administrators (one in each country), different rate set times across time zones and with different interest accrual mechanisms between financial instruments for the same currency. For example, the interest accrual calculation methodology can involve a mix of the following:

- Term vs daily simple, compounded-in-arrears
- Cumulative vs non-cumulative compounding
- Lookbacks (lags), observation period shifts and lockouts

Overall, this change has many implications for a company that has foreign currency (non-AUD) financial instruments, e.g., instrument valuation, accounting, tax and operational management.

After 31 December 2021, if your business has 'legacy' exposure to LIBOR then whatever fallback mechanism is in place in the legal documentation covering the financial instruments (eg: debt and derivatives) will be triggered. Any new trades entered into will reference an ARR.

The key messages from Andrew were:

- Banks are unlikely to be willing to transact in USD LIBOR products after 31 Dec 2021, although drawdowns from existing facilities may be permitted.
- Any new USD floating rate funding facility will need to reference either SOFR or the CME Term SOFR.

Damien provided an explanation of the 'credit adjustment spread' ('CAS') which is the difference between the 3 month LIBOR rate and the ARR for each currency. For the purposes of ISDA related instruments ie: derivatives, this spread was set on the 5th March 2021 when the FCA made the announcement that LIBOR would cease being published, for those 30 applicable LIBOR rates, from 31 Dec 2021. The CAS was determined based on the 5 year median spread between the relevant LIBOR setting and the corresponding ARR (overnight risk free rate) at that date.

For new borrowings, a corporate may accept the predefined CAS margin or it may be able to negotiate their lending CAS with its lending banks, but you would need to keep in mind the impacts on hedge accounting (i.e., de-designation event). Any difference between the CAS margin defined on derivatives and the CAS margin set in underlying loans would create hedge ineffectiveness.

For hedge accounting, changes required by LIBOR reform must be made without discontinuing hedge accounting. There will be a need to amend hedge documentation related to cross currency swaps as the hedge designation will change from LIBOR to an ARR.

Edward finished off the presentation with some tax implications arising from the LIBOR reform. Of note was that any amendments to a legal contract (ie: to change LIBOR to an ARR) may trigger an assessable gain or deductible loss for tax purposes. Also, consider transfer pricing in regard to intercompany loans with offshore entities, as any changes to the loan agreements should reflect what would have occurred with an arm's length borrow/lender relationship.

Summary

Over the course of the day, we heard from a number of knowledgeable and experienced practitioners on some of the most relevant topics for the treasury community to be aware of and learn more about. Hopefully, this article may act as a resource to assist you with your journey to a more strategic treasury function. For further information or discussion on these topics please reach out to the presenters.

Perfecting the Cash Forecast

Bob Stark
Global Head of Strategy
kyriba

The number one treasury issue that causes CFOs the most potential concern is unreliable cash visibility and forecasts, according to a Nov. 2018 CFO Publishing survey, "3 Key Areas Where CFOs Say Treasurers Need to be More Strategic."

Every organisation talks about forecasting more effectively, but few allocate sufficient people, time, and technology to build an effective programme. Understanding the importance of an accurate cash forecast that can be relied upon for key financial decisions is critical to making the right investments in forecasting. While there are many reasons to forecast, such as protecting against currency volatility, there are a few key areas that should be addressed to help CFOs and treasurers further make the connection between accurate cash forecasting and bottom-line financial performance.

So, what is cash forecasting? Cash forecasting, when performed accurately, enables greater certainty of projected cash balances. Longer term investing, reduced borrowing costs, more effective hedging programmes and better mobility of global cash, cash positioning is concerned with today and often the next five business days. The purpose is to manage daily liquidity to ensure shortfalls are covered and surpluses are concentrated to earn some yield on excess cash.

Cash budgeting is performed by finance teams such as FP&A and is more focused beyond one year – although with increased emphasis on free cash flow guidance, the reconciliation of indirect budget-based forecasts with direct cash flow forecasts is increasingly managed quarterly.

Cash forecasting typically extends cash positioning with horizons anywhere from one week to one year. Forecasting leverages multiple data sources to increase confidence in the projected cash balances so that better cash decisions can be made. The value of forecasting is based upon the value of those better decisions.

So why forecast? Ineffective cash forecasting costs money and impacts shareholder value. A poorly executed programme drives a number of negative consequences so it is critical to understand the link between effective cash forecasting and bottom line financial performance. Excuses such as "we're cash rich" or "interest rates are too low" no longer satisfy investors who demand that cash be deployed or returned to them. Without adequate visibility of forecast cash and where cash needs to be deployed to meet growth targets, CEOs and CFOs risk looking foolish in front of shareholders and analysts.

The volatility in global currencies shows no signs of abating, meaning that the pressure on CFOs to maintain the value of foreign cash inflows and outflows persists. Companies can experience earnings per share losses from unexpected and unhedged currency impacts or have difficulty in maintaining (let alone increasing) return on cash in a post-Basel III environment.

Forecasting cash will allow segregation of operational and non-operational cash into time buckets as well as deliver the needed accuracy to allocate cash to longer duration investment strategies. This will help preserve previously realised investment returns or help to find an alternative for cash balances that are no longer wanted by your bank!

Certainty in projected cash balances drives the CFO's ability to anticipate and prepare for corporate actions and strategic investments. For example, without confidence in cash forecasts, the CFO and treasurer are not relied upon to contribute to key M&A decisions such as providing guidance on the components of cash, debt and equity to calculate a total acquisition cost.

When cash is held globally, share buybacks or dividend hikes are a challenge. Often CFOs find it cheaper to borrow cash domestically than repatriate funds – yet this analysis requires certainty into projected cash balances. Confidence in the forecast is critical to optimise business value; CFOs need an effective cash forecast in order to make commitments on how to reinvest cash to meet organic growth targets. Lack of confidence will lead to unnecessary borrowing or equity financing.

Consolidation of data – Finding the right information and determining the most efficient (i.e. automated) way to integrate it into a consolidated forecast system is key.

While automation is important, data quality is also paramount to success. When building the forecast, each line item may be sourced in different ways. The source of the information will determine the best way to build the forecast for each line item. For example, many treasury teams prefer to import accounts payable data directly from the ERP while for receivables information they may wish to extrapolate historical data and model using a linear regression. For treasury teams to be effective, it is important that all methods be fully automated and secure so that initial setup, maintenance, and daily execution to build the forecast are easy and can be maintained by the user (and not require re-programming).

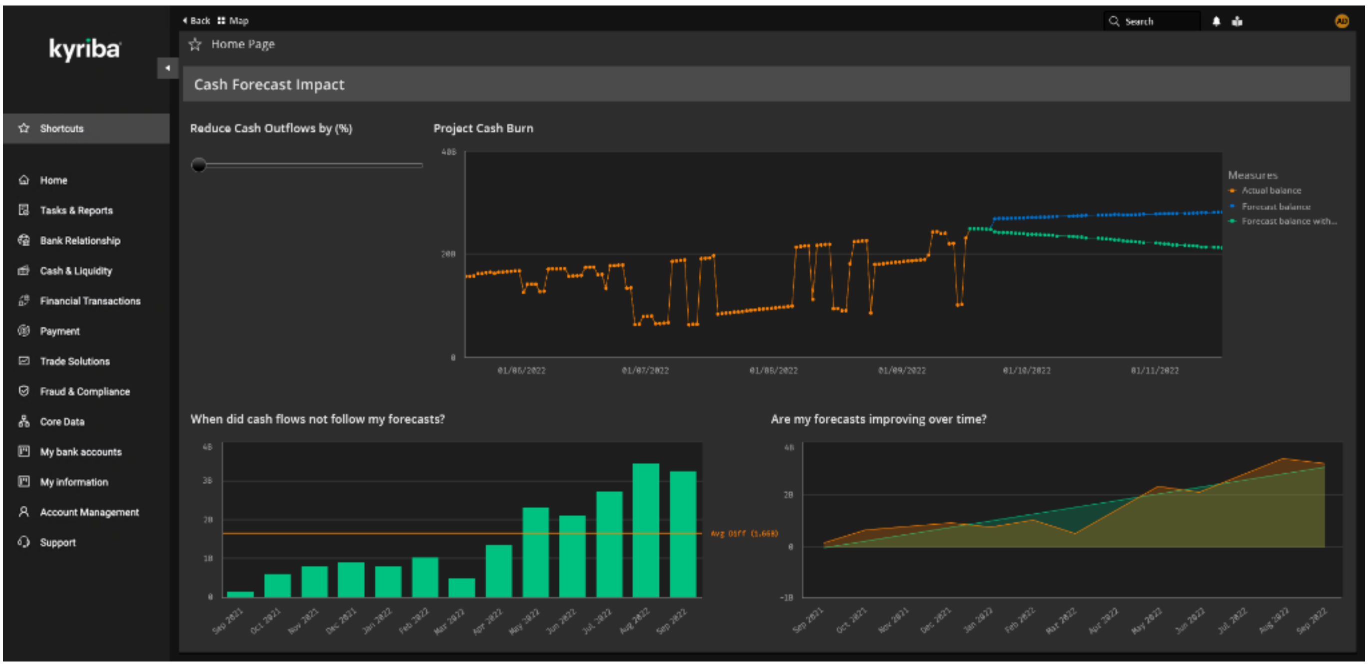
Collaboration – Making decisions on the best data to build the forecast also requires determining who to collaborate with to smoothly access that key information. In many cases, treasury does not have direct authority over the people that own systems and/or business responsibilities that offer that data Yet, treasury relies upon this outside information to build a comprehensive forecast, so good internal communication skills are critical to receiving quality information in a timely way. Accounts Payable, FP&A, IT, Regional Controllers all forecast projections for decentralised organisations. Many treasury teams plan, with their CFOs, a top-down collaboration model that builds effective cash forecasting into the team's objectives and compensation. This draws attention to the forecasting objectives and motivates each team to fulfill their roles.

Measurement – The most important – and often overlooked – step is the measurement of forecast accuracy. Implementing a process to measure forecast accuracy at a detailed level to identify the source of variances is critical to improving quality and ultimately reducing forecast variances. Equally important is implementing a feedback loop – to systems and to people – that ensure that forecast data is improved based on variances that were identified. The feedback loop is especially important when non-treasury resources are contributing to the forecast to ensure that the right behaviours and cash forecast numbers are positively reinforced while opportunities for improvement are well communicated. This is especially effective when feedback is aligned to KPIs and quarterly objectives of those outside of the treasury team.

Key to success – A forecast variance analysis should be detailed with multiple 'snapshots' taken. If only a summary picture is reviewed (e.g. how effective was forecasting over a 3-month period) then a lot of the variability is hidden within that timeframe. Measuring daily, weekly, or bi-weekly will help uncover the ups and downs between forecast and actuals that might otherwise go unnoticed. Fortunately, the business intelligence features of a TMS such as Kyriba offers the data visualisation and analytics required to offer this level of detail. Cash forecasting is especially important if you are "cash rich" with a high percentage of non-operational cash deposits. Multinationals with significant foreign revenues must forecast better, so they can hedge effectively and deliver cash predictability to their stakeholders. The key to forecasting is flexibility so that you have many options to model the different streams of forecast data. The accuracy of your data will determine if importing, regressing, extrapolating, or other methods of calculations are needed to build your forecast effectively.

Without measuring forecast accuracy, it is impossible to know if you are good at forecasting. Data visualisation helps focus on important variances – whether by category, time bucket, or geography – and isolate what data needs to be improved for future forecasting. ROI of cash forecasting is very high.

In summary, the value of forecasting is driven by what your organisation can do with additional cash. The value of cash can be measured by investing longer with higher returns on cash, repaying debt, earning yield from early supplier payments, or investing in new organisational projects. Perfecting the cash forecast means freeing up cash from working capital and directing towards these higher value uses.



CERTIFICATE IN CORPORATE TREASURY

ACTA
AUSTRALIAN CORPORATE TREASURY ASSOCIATION

MACQUARIE University
SYDNEY·AUSTRALIA

PwC Global Treasury Survey insights from the Australian perspective

Kevin Yeo MCTA
Director - Treasury Advisory
PricewaterhouseCoopers Australia

Shehan Fonseka CCTA
Partner - Treasury Advisory
PricewaterhouseCoopers

"Never let a serious crisis go to waste. And what I mean by that is it's an opportunity to do things you think you could not do before." Rahm Emanuel

As recent global events continue to unfold, emerging opportunities continue to present for treasury functions to reimagine its operating model for efficiency gains, raise its strategic partner role within the wider organisation, and respond to new risk horizons as the organisation's risk manager.

In this article, we have taken a fresh look at 5 key trends shaping the treasury landscape based on our recent survey conducted on the global treasury community.

5 Key Trends

Treasury as Strategic Business Partner

Globally the trend indicated treasury functions are rapidly expanding their mandate, intersecting with other parts of the business such as accounts payable / receivable, sales and procurement, driving strategic initiatives to optimise liquidity, payment cycles and sharpen product pricing.

With that in mind, strategic thinking is viewed as a critical skill with technology affinity and business partner capabilities ranked high up on the skills demand list by global treasurers.

We believe business partnering will continue to be a top priority for Australian treasurers with the focus shifting from operational (cash management, funding and hedging) roles into strategic partnering roles with wider business units to optimise cash, drive digital and ESG strategy and navigate through volatile market conditions.

Cash is still king!

The impact of business and supply chain disruptions prompted organisations to rethink the way they approach cash management. Participants told us that cash optimisation remains a top priority for treasurers and CFOs with treasuries continue to drive strategic initiatives to consolidate bank accounts and banking relationships, offering organisations the opportunities to increase visibility over cash holdings, centralised cash management and reduce operating costs.

To that end, we expect cash management to remain the top strategic priority for CFOs and treasurers, with further opportunities for Australian treasury teams to integrate with accounts payables and receivables teams, promoting technology solutions and data driven initiatives to optimise cash management.

Financial Risk Management Priorities

Considering the current headlines around inflationary pressures, inverted yield curves and surging commodity prices, FX, interest rates and commodity price risks are likely to remain high on the treasurer's agenda.

Our survey revealed most corporate treasuries are adopting a ‘wait and see’ approach to LIBOR transition with the majority only monitoring the development of this space, with little teams having a clear transition roadmap in place.

This area will likely gain traction in 2022 as we approach the deadline with corporate treasuries focus on preparing for contracts remediation, consider wider impacts on financial reporting, taxes, internal processes including capability of treasury management systems to handle the new risk-free rate.

Setting ESG goals for treasury

ESG continues to dominate the board agenda as a top priority given the increased pressure on organisations to tackle climate risks, sustainability and governance issues.

This presents an opportunity for treasury functions, as the gatekeeper for funding and investment decisions, to be a strategic partner to the CFO by embedding ESG practices into treasury activities.

Our survey found 81% of Australian treasuries have policies addressing ESG who are ahead of global participants (only 39%).

When it comes to investment decisions, only 10% of Australian companies and global participants believe ESG is a significant factor when investing excess cash.

Some initiatives we have seen recently are financing decisions using sustainability linked loans or ESG linked derivatives, prioritising investments for ESG aligned projects, and driving supply chain finance programs to provide sustainable working outcomes. Furthermore, companies face challenges to reduce carbon emission targets through their own abatement and may need to look into procurement of carbon offset units to manage the risks. This will present opportunities for treasury teams to manage the pricing uncertainties associated with carbon units.

Driving a digital-savvy treasury

The pandemic has accelerated the need for more real time and data-driven reporting from treasury departments which has necessitated the need for a well-connected treasury technology ecosystem (generally centred around a treasury management system).

Treasury reporting has been as a challenging area, commonly due to poor data quality or lack of integration between applications. Treasury teams have also experienced challenges in creating bespoke reports within a Treasury Management System (TMS) (although vendors are getting better at this) to provide more timely analysis and insight, in facilitating the decision-making process by the Board and C-suite. Complementary technologies such as data visualisation (e.g. Power BI, Tableau, etc.) tools and Robotic Process Automation (RPA) solutions have been deployed to bridge this gap, by removing repetitive tasks with machine learning (sometimes mistakenly referred to as AI) replacing the monitoring role, thus freeing up resources.

These technologies are seen as a tactical solution to enhance the existing treasury ecosystem as treasurers have cited budget and resourcing constraints as common roadblocks. However, this in turn has created the need for treasury to employ more digitally savvy individuals, to get better at justifying the spend on technology (i.e. build better business cases) and for digital focused Treasurers to develop a digital strategy in delivering the outcome.

About the survey

PwC's 2021 Global Treasury Survey showcases the views of 340 Treasury departments, over 30 countries and across 22 industries compiled by PwC Global network. The survey results are compiled and analysed by our global network of treasury consultants.

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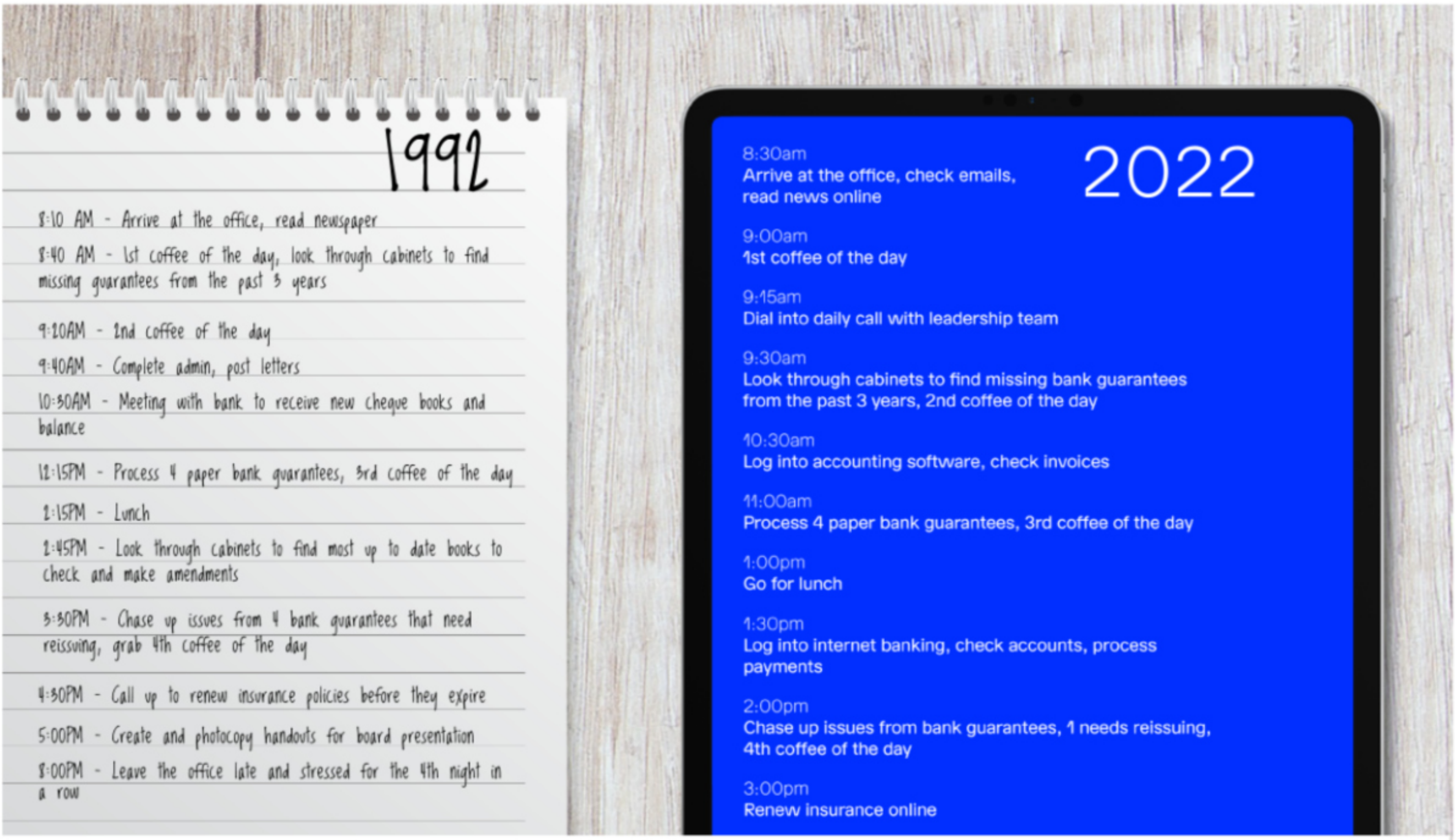
A day in the life of a Treasurer



In the last 25 years, there have been huge advancements in technology that have helped the average Treasurer become more productive.

Internet banking saved hours of writing cheques and trips to the bank, and the rest of the internet made many paper-based, manual processes obsolete.

However, not everything has improved.

Treasurers far and wide are still spending countless hours processing paper bank guarantees (and regularly exceeding the recommended daily amount for caffeine) just as they were back in 1992.

That's why we're here.

Lygon Arc is a platform for digital bank guarantees. We have streamlined the paper-based bank guarantee process so you can issue, amend, demand, and cancel your guarantees all in one place.

We were formed with the backing of ANZ, Westpac, CBA, and Scentre Group to solve the decades old inefficiencies that exist for all that handle paper based financial contracts.

Our platform allows treasurers to reduce the time they spend on managing bank guarantees, the same way internet banking did back in 1995.

Learn more at Lygon.com

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Carbon Price Risk Management

The Next Treasury frontier

Vic Jansen
Director, Treasury Services
KPMG Australia

The recent Australian and Global commitments to Net Zero carbon emissions following the 26th United Nations Global Climate Change "Conference of the Parties" (COP26), has seen the speed of change for Governments and Corporations seeking to transition and respond gaining pace, with Treasurers often playing a pivotal role. Organisations are increasingly focused on strategies to support and play a part to support the global shift towards net-zero emissions.

Whilst direct decarbonisation should remain the priority, carbon offsets are a vital tool to support both hard to abate emissions as well as to play a key role in supporting countries to meet their nationally determined commitments (NDC's).

Australia's participation within the region is also set to grow, with developments announced across the Indo-Pacific Carbon offset scheme development as well in improving global coordination to strengthen international transfer and trade of carbon units. Paving the way for an exciting period ahead.

Supply & Demand dynamics have begun to play out in the local marketplace. New and existing Australian Carbon Credit Units (ACCU's) issued by the Clean Energy Regulator and administered through the Australian National Registry of Emissions Units having been in high demand. This is measured against a backdrop of slower to market development timelines for new project ACCU generation. This had led to ACCU price spikes during 2021 as the disconnect between fixed contracts and spot pricing supported increasing overall volatility of ACCU price.

Since late 2020 the ACCU Spot price traded from lows near A$16/ACCU before rising to near A$57/ACCU. The recent Federal Government announcing "ERF (Emissions Reduction Fund) projects with fixed delivery government contracts will be able to purchase an option to sell their ACCU's on the private market" has seen the Spot price move back down towards A$30/ACCU in 2022. Since March 2020, the Clean Energy Regulator has offered optional delivery contracts to ERF participants, whereas prior to March 2020 project proponents were only able to enter in to fixed delivery contracts with the Commonwealth. The ERF announcement seeks to provide even greater flexibility and optionality in a continuously evolving marketplace.

How may this impact a Corporate Treasurer?

Treasurers are tasked with many financial challenges within an organisation and at the heart of these challenges lies the management of financial risk. As organisations increasingly become more aware of the need to use Carbon offsets in order to reach net zero or carbon neutral targets, (but not at any cost to participate), we anticipate Treasurers will be in search of ways to manage Carbon offset price risk within their Treasury Risk Management Framework.

Technically, Carbon Price Risk Management may fall under Commodity Price Risk more broadly within an existing Treasury Policy document. However, its wider and further reaching implications towards the organisation's ESG (Environmental, Social, Governance) targets, either actual or aspirational, may also see it separated out or embedded under the wider ESG remit. In either scenario the risk management of Carbon Price and the access to suitable ACCU's and/or eligible International Offset Units becomes a real issue requiring consideration.

A developing ACCU market

Many participants have entered the market and for a variety of reasons including project proponents and heavy emitters.

Project proponents have been feeding new supply of ACCU's derived from both traditional means, such as Nature based, Wind and Solar methodologies as well as newer ERF developed methodologies announced in late 2021, including Transport, Hydrogen and Integrated Farming.

Heavy Carbon emitters have been developing strategies for both reducing their footprint, through direct decarbonisation and assessing ways to access ACCU supply to support offsetting hard to abate emissions (achieve carbon neutrality in the shorter term). Relatively low emitting industry participants have been seeking additional ways to bridge the gap, either directly seeking ACCU or Eligible International Unit's to offset their footprint.

Several intermediaries have emerged offering both a broking service to support the purchase of available

Carbon Units (both Local and International Units) and ancillary advisory services.

Major banks in Australia are at varying stages of development, function and capability within this Carbon market sector, performing a vital role of financing new projects, ultimately supporting to bring new ACCU supply on to the market.

The Clean Energy Regulator, established by the Clean Energy Regulator ACT 2011 and is a non-Corporate Commonwealth Government entity, in 2021 announced plans for the establishment of the Australian Carbon Exchange. The intent of the exchange will be to facilitate increased market transparency, pricing, lowering of transaction costs, support faster delivery of ACCU's to market and support secondary trade amongst both business and individuals. External development proposals are currently being assessed to support the market launch, estimated for 2023.

Why is this development timeline important?

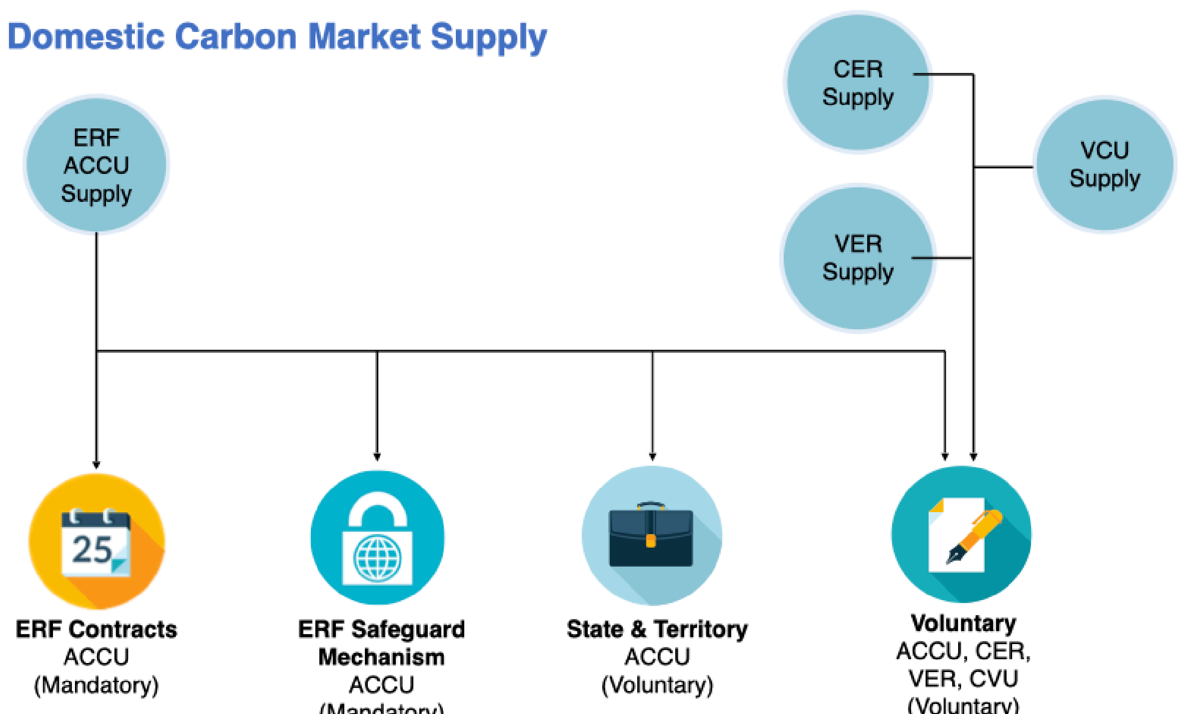
The derivatives markets typically rely, for efficiency and transparency, on a visible underlying market observance of price and trading activity. The formalised Australian Carbon Exchange is likely to provide the platform for pricing an array of associated derivative products and benchmarking tools to support a Treasurer in managing Carbon Price Risk.

The benchmark tools are also likely to display duration, again allowing the Treasurer to consider both their organisation's immediate focus for Carbon Price Risk management and to forecast. The platform also allows the ability to manage emerging needs or alternatively assess a reduction in requirements. Selling or reducing existing positions becomes more efficient when referencing an exchange mechanism.

Differing needs and objectives

Project proponents of ACCU creation activities (at their core), are seeking to achieve as high a price as possible for their ACCU's. They will sometimes assess whether to enter fixed price or variable price arrangements with an offtake partner. On the other hand, buyers of ACCU's seek to have certainty of supply and potentially also lower or even certainty of price. This difference in objectives could be solved within an efficient derivatives market, benchmarked to contracts issued on an exchange, to support price risk management transactions for fixed to floating or floating to fixed desired price outcomes.

An efficient derivatives market provides both parties the opportunity to manage its Carbon risk and benchmark activities in a more personalised or structured way which incorporates their own unique strategic objective. A separate consideration for Carbon Price risk management by a Treasurer may involve counterparty risk, whereby a Treasurer may prefer to apply a project risk assessment to where the ACCU supply is generated. The risk of project failure may be better spread across a multiple of sources and treated as a portfolio of ACCU supply projects when sourcing ACCU's directly. This ensures the project remains an eligible supplier and counterparty. Under this scenario the Treasurer's associated risk may hold both Financial (price determination of the ACCU's) and non-Financial implications (risk of failure of the project to be able to continually supply the contracted ACCU's due to seen or unforeseen circumstances).



Source: Carbon Markets Institute

CERTIFICATE IN CORPORATE TREASURY

ACTA
AUSTRALIAN CORPORATE TREASURY ASSOCIATION

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AN INTROVERT'S INTROSPECTIVE ON NETWORKING

Like a lot of treasury professionals, I am an introvert. The prospect of entering a room full of people I do not know, huddled in small cliques talking and laughing as I drift by unseen and unheard, was sufficient for me to find an excuse not to attend. Being too busy was an easy 'go to'. It is fair to say that when I did eventually venture out to corporate events, it inevitably led to my striking up conversations with wait staff (who were somewhat obligated to humour me) and striking out with my peers (who were not).

It is also fair to say that it was not everyone else's fault, nor even anyone else's fault. I was not only an introvert who was woeful at networking in practice, I was so against the concept of networking that I did not want to be good at it. My albeit anecdotal experience with active networkers was that they were not talented. They stole ideas off talented people and passed them off as their own - old school plagiarism wrapped up in MBA management speak. As someone with a deep academic background, plagiarism is as bad as it gets.

Not an auspicious start.

I am now, among other things, the Vice President and Technical Director of the Australian Corporate Treasury Association **(ACTA)**. I am also either a colossal hypocrite or a late convert to networking. I admit to being a late convert. I leave judgements about my hypocrisy, colossal or otherwise, to others.

Why did I become a late convert?

Before I became a treasury professional, I was in both buy- and sell-side financial market roles. As a sell-side FX option trader there was very little need for conversation, let alone developing a network. I lifted asks and gave bids by shouting down squawks or typing into the 'toy' (for nostalgia buffs, starting with HIHI FRDS and ending with BIBI FN). As a buy-side macro fund manager, I was feted by financial market salespeople whose job was to make me feel at ease. I did not have to develop these skills, so I didn't.

Expectations of a treasury professional are much greater. Financial market traders tend to specialise, gaining deep expertise and experience in a relatively narrow field. Treasury professionals, on the other hand, are expected to have much broader expertise and experience, which means they will be veterans in some fields of specialisation and rookies in others. Clearly, this provides an opportunity for win-win networking.

Being truly honest, my late conversion to networking was more like an intervention. I attended my first ACTA conference (or FTA as it was then) with the game plan of attending as many technical sessions as possible and avoiding all networking opportunities. As it happens, everyone made me welcome, introducing themselves and putting me in contact with others. I shared experiences over coffee, beers, breakfast, lunch and dinner. I was still an ordinary conversationalist, but others were accepting, open, forgiving and generous.

My transition from intervention to conversion was down to two personal commitments:

- deciding to be all-in
- having the right goal.

Because I am acutely aware as an introvert that people are not going to gravitate to me naturally, I decided to force myself to be an active member. Instead of passively turning up to the occasional event, I turn up to every event. I also decided to volunteer for ACTA, becoming over the years a conference committee member, Chairing the WA State Committee, then becoming a Board member. Each committee requires engagement with other members, both in and outside of the committees, dramatically increasing your network. I also committed to respond affirmatively if possible if I was invited to speak at events or be MC for a session / webinar. I wanted to share knowledge and get feedback, but you would not believe how many times people come to me and say "*I was at your session and wanted to ask…*" – a natural icebreaker. While these decisions and commitments take time and effort, they have been worth it.

My approach to networking has matured. It is not about me and what I want, it is about how can I help others. As well as feeling good about being altruistic, this has the additional benefit of taking the stress out of individual encounters, as the encounter is enough. It is heartening that by being generous with others, they tend to be generous in return. In that sense I have come full circle. I am simply doing what those interventionists did for me all those years ago. Not as well, but I am trying.

Those who know me know that I am still introverted. Those who don't know me are welcome to reach out. I cannot promise an immediate tangible benefit, but I am happy to invest in the intangible. Are you?

About the author

Kurt Smith CCTA is the Vice President and Technical Director of the Australian Corporate Treasury Association; a Director of Marengo Capital, a corporate advisory company; and an Associate Director of Global Business Partners, a business advisory company. Kurt has over 25 years' experience in creating and managing for value in banking, funds management, private equity, fintech, utilities and mining services. Kurt has a Ph.D from the University of Western Australia, and an M.Phil. from the University of Cambridge.

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