# Rethinking Treasury: The road ahead

## 2021 Corporate Risk Management Survey

HSBC

# Contents

# Foreword

In 2018, we surveyed Chief Financial Officers (CFOs) and treasurers from around the world to determine whether they were rising to the increased risk management challenges they were facing. At the time, CFOs were being given expanded responsibilities – from risk mitigation to strategic execution – and the treasury was expected to raise its game.

Three years later and COVID-19 has both pivoted and grown those challenges, pushing CFOs and the treasury even closer together. The treasury is now more widely included in the company's plans for growth, while also implementing even more rigorous risk management across the board.

The 2021 HSBC Corporate Risk Management Survey explores this evolving relationship and highlights the trends that are driving change through the finance function:

- **CFOs acknowledge that the treasury has earned a seat at the strategic table – especially in the Western part of the world.** The treasury is now expected to offer counsel on decisions being made at the executive level. Communication is key to this process – a fact acknowledged by CFOs and treasurers alike – alongside careful resource allocation, whether people or technology.
- **Cash has become king once again, which means "traditional" treasury tasks remain vital.** Treasurers are taking this on board, treating cash flow forecasting and monitoring, FX risk management and liquidity management as priorities. At the same time, there is work to be done. A lack of hedging continues to cause issues, though progress has been made since our 2018 survey. New risks have also come to the fore, including supply chain disruptions, liquidity issues and potential interest rate rises, but most CFOs are confident that their treasury is well placed to cope.
- **Technology has moved from "nice to have" to a key differentiator for the treasury.** Automation and digitisation are opening doors to outsource more financing functions, giving treasury greater freedom to consider the best way to fulfil their company's strategic objectives. Digitisation is also expected to give business models a significant boost in the next few years, and financial partners need to catch up to meet digital demands from corporates in areas like FX. And most agree that blockchain has a future in their business – though what that may be is not uniquely defined.
- **CFOs are optimistic about a return to growth, with sustainability a necessity on the way.** Environmental, social and governance (ESG) criteria are high up on the CFO's agenda, with a switch to ESG-linked financing on the cards for most – though treasury is still catching up. Emerging markets are also on the CFO's radar, topping the list of trends they expect to significantly benefit their business model. And as protectionism and the prolonged impact of the pandemic remain global concerns, the treasury will be trusted to navigate around all obstacles.

Ultimately, the relationship between the CFO and treasury will continue to evolve even as the world moves beyond the pandemic. The hope on both sides is that, by working even more closely together, they will drive beyond their current targets.

# Methodology

In Q3 2021, Acuris surveyed 200 CFOs and their equivalents (the most senior member of a finance department) from multinational corporates across a range of sectors. Of those, 100 corporates had revenues of $1-5bn, while the other 100 had revenues of $5bn+.* Within each of these two revenue groups, 40 respondents were located within the EMEA region, 20 within the Americas, and 40 were from Asia.

HSBC's survey includes responses from 433 senior treasury professionals from multinational corporates across a range of sectors. The survey was conducted in a multiple-choice, online format and was open for a six-week period until 30 July 2021. The EMEA region generated 47% of participants, with 40% from APAC and 13% from the Americas. Some 37% of participants generated annual revenues of less than $1bn in their latest financial year, 33% recorded revenues of $1-5bn and 31% more than $5bn.

* *$ denotes USD throughout*

# Key findings

These are interesting times for CFOs and their counterparts in treasury, as the world looks to a post-pandemic future while still dealing with its impact. How are CFOs and treasurers working together to set the stage for growth amid ongoing uncertainty?

**The strategic evolution of treasury**
Most CFOs agree that the treasury is becoming an increasingly important part of their company's strategic journey, particularly those in EMEA – though Asia is still catching up.

**Treasury role has changed (again)**

82%
of CFOs overall agree that the role of treasury has changed dramatically during the pandemic, rising to 93% in EMEA.

**Effective communication**

61%
of CFOs state their communication with treasury has improved in the past three years and 58% of those in EMEA rate the current level of communication between their treasury department and C-suite as highly effective.

**More resources on the horizon**

74%
of CFOs expect the level of resources (for both employees and technology) within their treasury department to increase in the next three years, bridging the gap between wider responsibilities and aspiration.

**CFO risk focus today**
For corporates, cash has become king once again during the pandemic and, for most companies, treasury has responded well to the challenge.

**What works for CFOs?**

74%
of CFOs rate their treasury's cash flow forecasting and monitoring as "best in class", with 58% saying the same about liquidity management.

**Supply chain issues demand solutions**

78%
say they have moved production and logistics centres closer to customers, as supply chain-related risks rank near the top of the agenda for CFOs in 2021.

**Room for improvement on FX risks**

57%
of CFOs say they suffered lower earnings in the past two years due to significant unhedged FX risk (rising to 77% in EMEA) – a failure to address all facets of FX risk management efficiently continues to have an impact on corporate results and only 23% of CFOs view their treasury as "best in class" in this area.

## Technology as enabler and differentiator

Automation and digitisation[*] are becoming even more integrated into day-to-day finance processes and are influencing outsourcing decisions for CFOs.

### Digitisation has arrived in treasury

81%

of CFOs believe the digitisation of treasury processes has increased in importance in the past three years, while 70% of treasurers say the same.

### A bright digital future ahead

53%

of CFOs overall say that digitisation will give their business model a "large boost" in the next three to five years, while just 1% expect it to produce a negative impact.

### Blockchain technology is on the doorstep

97%

of CFOs expect to see a future use case for blockchain technology in their company, with easier and leaner trade documentation, payment security and FX management at the top of their list.

### Outsourcing is freeing up the treasury's time

44%

of CFOs in larger companies (with revenues over $5bn) have outsourced some of their day-to-day treasury functions due to increased process automation and/or digitisation, while a further 29% are at least thinking about outsourcing some functions.

### Digital platforms are becoming the norm

55%

of treasurers overall say that, when executing transactional FX hedges, they use digital platforms most frequently, rising to 71% in EMEA.

## The road ahead: New frontiers and themes

The environmental, social and governance (ESG) agenda is being driven by the C-suite, with CFOs expecting to switch largely to ESG-linked financing (though treasury is still catching up). On the macro side, there is cautious optimism about post-pandemic recovery and a return to growth, particularly in emerging markets.

### Resources for stronger ESG focus are available

68%

of CFOs say they are likely to invest resources in ESG risk in the next 12 months (topped only by country/political risk).

### ESG-linked financing as near-term standard

62%

of CFOs in EMEA say they embed ESG criteria in their financing arrangements predominantly by using ESG-linked financing/investments – but 42% of treasurers overall still expect only 10% or less of their gross new debt (including refinancing activities) to include ESG criteria in the next five years.

### CFOs are keeping ESG principles front of mind

80%+

of CFOs see ESG principles as important in their capex allocation (87%), supply chain (81%) and financial debt (81%).

### Economic recovery will be decisive for success

60%

of CFOs see a global economic rebound from the pandemic as one of the two most important factors for earnings growth – but 56% of CFOs overall still expect it to have a negative impact on their business model in the next three to five years.

### Emerging markets will be a major driver

79%

of CFOs expect their company to see a positive impact from the development of emerging market economies over the next three to five years and 50% expect the same from electro-mobility.

[*] In this report, "digitisation" is used as a general term referring to anything involving digital processes and tools in an organisation.

# Part 1:
# The strategic evolution of treasury

CFOs and treasurers agree the role of treasury is shifting, accelerated in part by the challenges posed by COVID-19 as well as the ongoing evolution of their relationship. How are both parties balancing the need for more rigorous risk management with their company's long-term strategic aspirations?

The pandemic and its sweeping impact on economic activity, combined with unprecedented monetary intervention, have made macro and market risks incredibly difficult to gauge. The need for clear lines of communication and coordination between CFOs and the treasury function has therefore never been more critical to secure both the financial health and growth of the business.

The unique pressures of the pandemic are being felt across financial functions. CFOs have been forced to revise financing, investment and capital allocation strategies accordingly. In its supporting role to the CFO, having navigated one of the most challenging business environments in recent memory, the treasurer is stepping up and assuming more strategic responsibilities.

**The view from the CFO**

Since we last surveyed CFOs in 2018, there have been large gains in their confidence in the strategic skill levels of the treasury function. Nearly two-thirds (64%) of CFOs in Europe and 58% of those in larger firms (with revenues above $5bn) say they have total confidence in their treasurers in this regard, a positive step towards a joint vision shared by the two roles.

This is also important given that, as shown later in this report, the dual impact of the pandemic and protectionism are currently the largest macro concerns for CFOs globally, both of which will require strategic planning and coordination.

Without a doubt, the past 18 months have made their presence felt.

Most CFOs agree that the role of the treasury has changed dramatically during the pandemic, with 73% from smaller organisations (those with revenues of $1-5bn) and 90% from larger firms agreeing on this point.

According to our survey in 2018, treasurers were being called upon to view the world through a strategic lens and support decision-making with their risk mitigation expertise, and their priorities changed accordingly. The pandemic adjusted their priorities again – treasurers had to act, under increasingly volatile circumstances, while continuing to think years ahead to protect the short- and mid-term financial resources.

There is solid evidence that they are rising to this challenge. Just over two-thirds (67%) of CFOs in the larger organisations surveyed say that their treasury department is involved in providing data, analysis and counsel on decisions when it comes to the strategic planning of their organisation's capital allocation, compared with 58% when this survey was last carried out in 2018. Regionally, however, there is considerable divergence: 79% of CFOs in EMEA say their treasury function does the same, falling to 50% for the Americas and only 29% in Asia.

This is a consistent theme. The treasury profile for EMEA corporates includes wider responsibilities, with C-suite insights and digitisation sitting more frequently with their treasury – with Asian organisations least developed in those aspects. More intuitively, treasurers in larger companies are also called on as a strategic partner more frequently compared to smaller organisations.

Most CFOs say their treasuries provide either data on its own or data plus analysis for the strategic planning of M&A, no matter where they are based or the size of their company. In EMEA, 56% of CFOs overall also say their treasuries offer full support to the strategy-making around corporate M&A, including not only data and analysis but also their counsel. Only 14% of treasurers in Asia do the same. Instead, 49% of CFOs in Asia say the treasury only provides data in these circumstances, without any analysis.

This indicates progress has been made and a clear direction of travel since the 2018 vision of a more strategic setup of the treasury function upon which the CFO will increasingly depend.

M&A is currently booming following a pause in early 2020. The pandemic has put pressure on many companies to rethink their operating strategies and business models, to respond to rapid shifts in economic activity and consumption. This will inevitably generate more demand from CFOs for support from their treasuries, which can add value in various ways.

In a cross-border deal, for example, this may include identifying optimal sources of financing prior to the acquisition to minimise FX and other market price risks. In many cases, treasurers will also be responsible for securing the debt needed for the deal and will be expected to source a financing package with the best possible terms. Post-deal, they will also need to integrate the treasury of the acquired business into the existing cash management, FX management and banking structures. There is much to think about and much more for the treasury to offer than simply providing relevant data.

Digitisation is another area where treasuries can level up their support to the business. Digitally-led functions benefit from improved insights which can strengthen risk management capabilities. Real-time data fed through dashboards in areas such as FX forecasting can also greatly improve visibility, ensuring the C-suite is at all times aware of the organisation’s liquidity position.

These benefits are especially valuable in large organisations, which may be

Fig 1.
THE CFO PERSPECTIVE: **Do you agree with the following — “The role of our treasury function has changed dramatically during the pandemic.”**

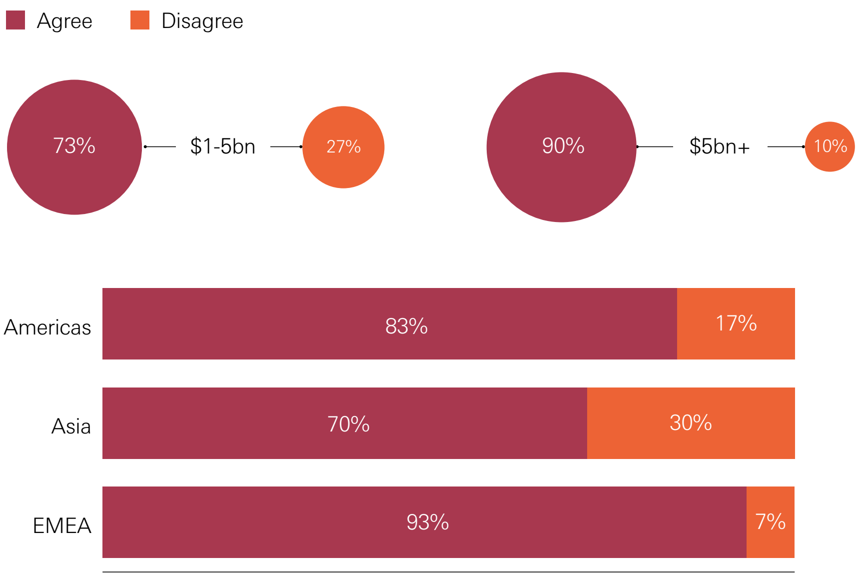
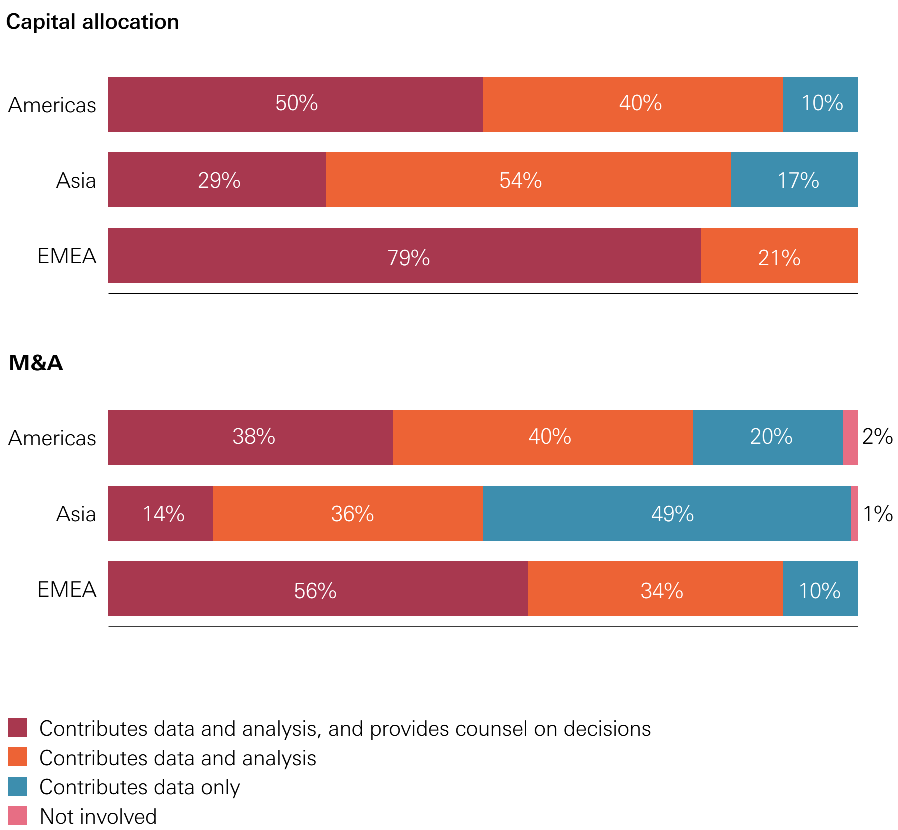



Fig 2.
THE CFO PERSPECTIVE: **To what extent is your treasury department involved in your strategic planning in the following areas?**



geographically diverse and have multiple subsidiaries using a network of banking systems and accounts. This explains why 60% of CFOs of larger organisations say their treasury is responsible for digitisation projects on financial data and processes, compared with just 38% in smaller organisations. This also reflects the larger budgets and resources often available to treasuries in these larger organisations.

These are all strings in the bow of a treasury with enhanced strategic capabilities. It is not just the minutiae of M&A and digitisation projects where these capabilities can be brought to bear. Treasurers can offer more holistic strategic support to the business – and there is strong evidence that this is happening.

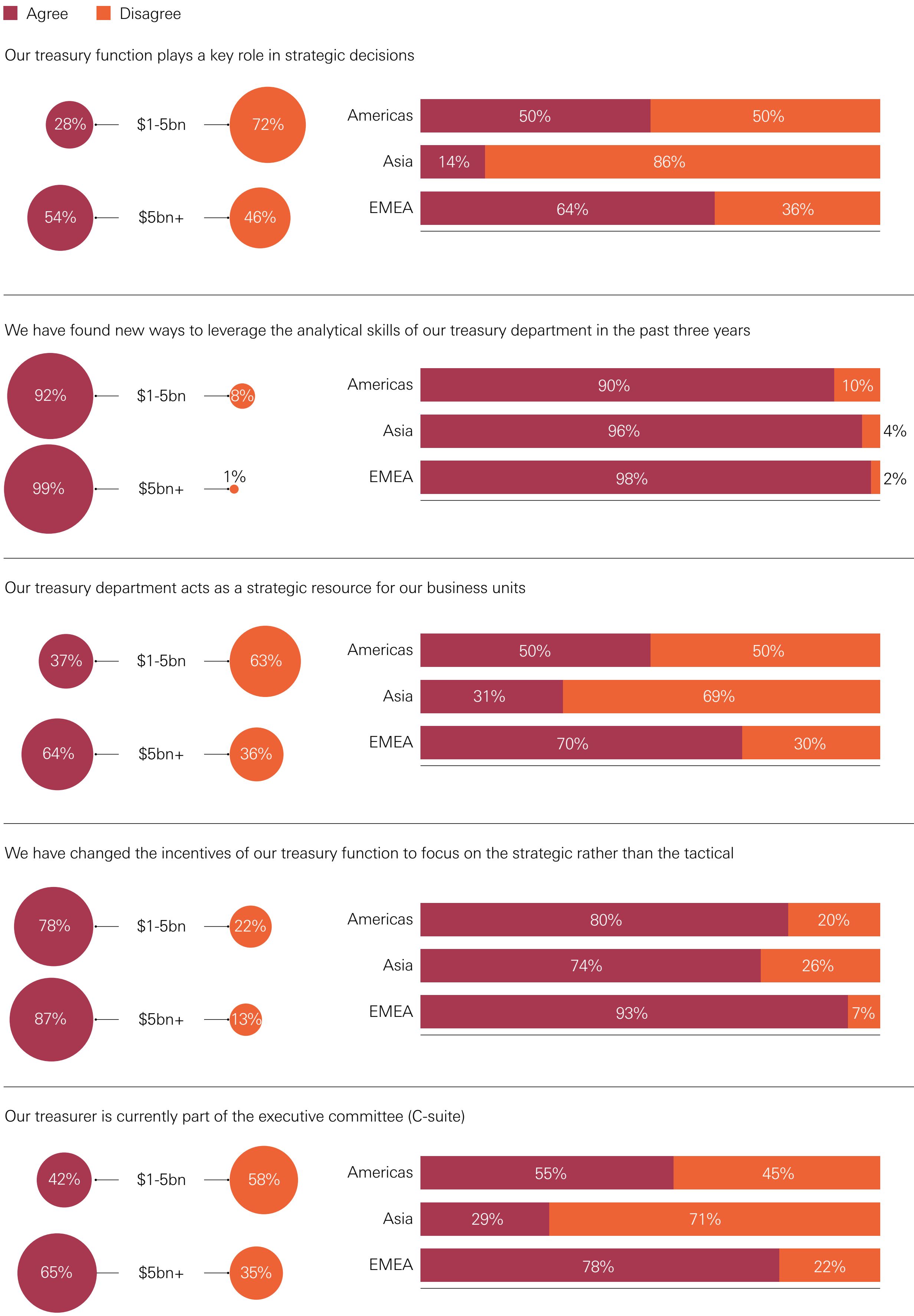
More than half (54%) of CFOs in large organisations say their treasury plays a key role in strategic decisions, falling to 28% for smaller firms. EMEA is out in front here once again, with 64% reporting this critical role in the broader decision-making processes of the business. In the Americas, this sits at 50%, but just 14% in Asia.

The same is also true for treasuries providing strategic resources across business units, with functions in larger organisations (64%) and those in EMEA (70%) leading the charge in this respect. This indicates far better integration and trust across the business in these instances, with the treasury being relied upon for its unique financial and risk management insights and expertise in optimising operations and achieving the overall corporate strategy.

This inclusion of the treasurer's voice in strategic decisions should also result in greater trust gained at the executive level. For many, the natural progression of a treasurer is to rise to the ranks of CFO. But they can earn a seat at the C-level table even earlier, made more likely if they are seen to be augmenting strategic processes.

Consistent with treasurers in larger organisations and EMEA-based companies assuming more strategic responsibilities, our research also shows that 78% of EMEA respondents say their treasurer is currently already part of their executive committee or even the C-suite itself, compared with 55% in the Americas and just 29% in Asia. Similarly, while 42% of CFOs from smaller organisations say their treasurer is currently part of such a senior decision panel, this rises to 65% among larger organisations.

Fig 3.
THE CFO PERSPECTIVE: **Do you agree with the following statements:**



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### Higher importance of C-suite communication

As the role of the treasury takes on more strategic value and previous routines have been overthrown by the pandemic, communication between the CFO and treasury is increasingly essential for the execution of those plans, but its effectiveness may be influenced by company size and region.

For example, more than half (58%) of CFOs from EMEA rate the current level of communication between their treasury department and executive committee/C-suite as highly effective – but only 37% of respondents in the Americas and 16% of those from Asia report the same (where only 14% of CFOs say their treasurer is involved in key strategic decisions).

CFOs from the largest organisations are also much more likely than those from smaller ones to describe their communication as highly effective (49% versus 25%) – while only 7% and 20%, respectively, would describe it as not effective.

Not only is there a broadly positive perception of the effectiveness of this dialogue, it has also improved in the past three years, most notably in EMEA where 75% of CFOs agree to this. The vast majority (80%) of CFOs overall believe that dialogue with the executive committee/C-suite has become more important during this period.

However, our data also shows that there is a large gap between CFOs and treasurers in terms of their view of the importance of these open lines of communication. Only 45% of treasurers surveyed, overall, say that dialogue with the C-suite has become a more important part of treasury operations in the past three years, significantly below the 80% of CFOs who say the same.

This suggests that, while progress has been made, treasurers must continue to actively seek this dialogue as part of their enhanced strategic profile.

### More resources and efficient outsourcing

CFOs and treasurers are under extreme pressure to protect the financial health of their business. For many, cash flows have faced major disruptions in the past 18 months and insolvency risk is expected to increase as government-based fiscal support comes to an end. These challenging conditions require all hands on deck.

Thankfully, some support has arrived. Almost two-thirds (64%) of CFOs say there has been an increase in resources, in terms of employees and technology, made available to their treasury department in the past three years – though only 50% of those in the Americas say the same.

Fig 4.
THE CFO PERSPECTIVE: **How would you rate the current level of communication between your treasury department and your executive committee (C-suite)? And how has this changed over the past three years?**

As might be expected, it is larger treasuries that are seeing more investment: 70% of CFOs in larger organisations and 57% of those in smaller ones say the level of resources available to the treasury has increased over this recent period.

This shows that promises have been largely kept. When surveyed in 2018, 56% of CFOs of smaller organisations and 77% of those in larger organisations said they expected the level of resources to increase or increase significantly in the subsequent two years.

This investment momentum is also expected to continue: 68% and 78% of CFOs in small and larger firms, respectively, expect the level of resources to increase in the next three years. In both cases, this includes more than one-fifth who expect it to increase significantly.

Where exactly that investment is made depends on where a business sees its greatest risk exposure. More than 90% of CFOs in both small and large organisations expect to invest in country/political risks in the next 12 months. Clearly, this is closely tied to supply chain, commodity price and FX risk – all of which are also mentioned by more than 50% of CFOs overall – as rising protectionist sentiment, trade conflicts and government policymaking affect the timely availability of raw materials and other supplies, as well as the volatility of local currencies.

Apart from FX risk, which is far more frequently picked by EMEA CFOs (61%) than their colleagues in Asia (48%), regional differences are small. For FX, this can be tied to both the recent experience of Brexit-related FX volatility to which more European organisations have been exposed as well as the general wider international profile of those companies that came out of our survey data.

Environmental, social and governance (ESG) factors also continue to rise the corporate agenda, as companies recognise that a failure to act could cost them their reputations and their futures. More than two-thirds (68%) of CFOs say they are likely to invest resources to address ESG-related risks (*see Part 4 for more*).

Fig 5.
THE CFO PERSPECTIVE: **How do you expect the level of resources to change over the next three years?**
Outer circle depicts $1-5bn   Inner circle depicts $5bn+

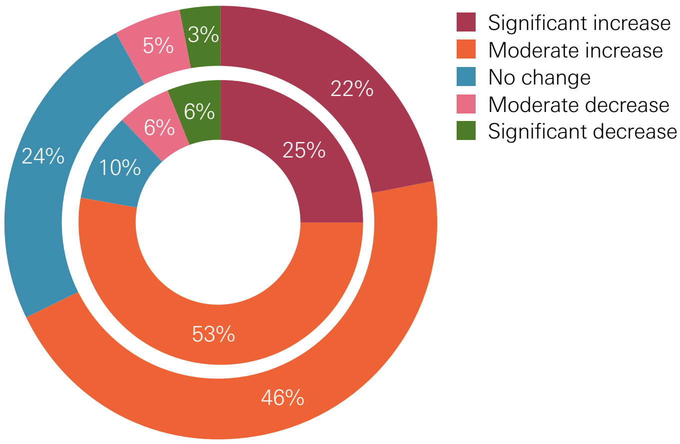
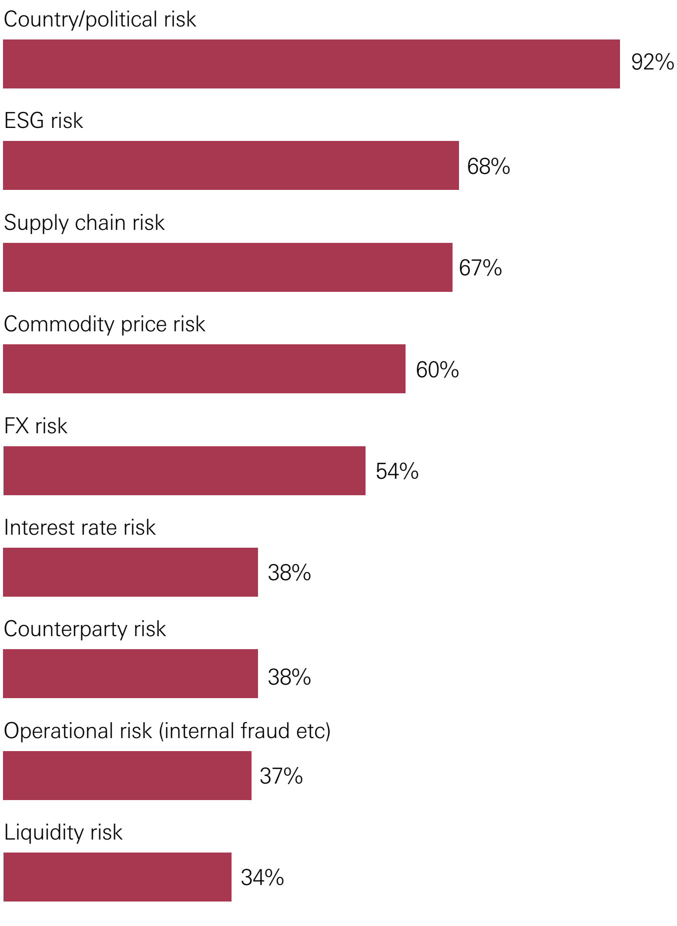



Fig 6.
THE CFO PERSPECTIVE: **Which of the following risks is your organisation likely to invest resources in over the next 12 months? (Select all that apply)**



**Q&A: Uri Gordon, Deputy General Manager (Treasury) of Incitec Pivot**

# "Treasury, the CFO, the CEO, the board – we're all on the same page"

**Q. What are the biggest challenges you're facing these days?**
Uri Gordon: For treasury, the biggest challenge is capital management. Last year here in Australia, many companies raised equity, only to find themselves 18 months later in a healthy position and having to decide how to use that cash. The question now is whether to chase strategic growth opportunities, given that multiplies are high, or to do a share buyback.

**Q. What opportunities are you looking to pursue over the next 12 to 18 months?**
UG: Optimisation is key. Earlier this year we did a bond buyback exercise to discharge long-term bonds, because we figured out that we did negative carry, so it was better for us to buy back. That was around showing that the negative carry that you get from holding cash at zero from the bank isn't hurting you too much. It's all about how to deploy our returns effectively.

**Q. How do ESG factors play into your role?**
UG: In March 2021, we converted all our bank facility into a sustainability-linked loan. It was an interesting process where we had to ensure our KPIs weren't simply "greenwash" labels but were challenging us to drive positive changes. We thought, we can either be proactive and show leadership and commitment to ESG and do it now of our own accord or in three to five years when the industry forced us to.

This trend is gathering momentum – before we know it, banks will demand it as standard. We are starting to have more conversations with financiers around our customers' carbon emissions and our own indirect omissions, not just our direct ones, and how we're trying to reduce them.

**Q. In terms of resource allocation, what are you focusing on? Is tech becoming increasingly important? Are you still very much a people-based business?**
UG: For treasury, we're definitely still focusing more on people. We believe it's people that enable our development and investment in technology. Half our company is in Australia and half in the US, and both economies were affected severely by the pandemic. We had to be able to work from home continuously, but the technology investment to achieve that ultimately wasn't that significant, and our basic treasury management and cloud systems allowed us to operate.

**Q. In terms of the relationship between treasury and the CFO, how does your organisation balance the pursuit of gross growth while mitigating risk?**
UG: We're very lucky that, ever since we got our external credit rating, our board became committed to that investment grade. There's even more discipline around our growth agenda. We have regular conversations, at least once a year, with the board where we remind them of that commitment. We emphasise how much room we have within the debt part of the book to allow for organic or inorganic growth, versus how much equity you would need before we start risking our credit rating. Again, we are very lucky. Treasury, the CFO, the CEO, the board – we're all on the same page.

*Uri Gordon is Deputy General Manager, Treasury, of Australian chemical company Incitec Pivot.*

# Part 2:
# Risk focus today

The challenges posed by COVID-19, protectionist sentiment and ongoing trade disputes, among other things, means that "traditional" treasury tasks are once again the priority, from liquidity to supply chains – though new challenges are waiting on the horizon.

In a COVID-19 world, nothing is guaranteed. The unpredictability of the economic environment means that traditional treasury activities have come back into focus for CFOs, and that cash is once again king. As many as 82% say that keeping sufficient cash buffers has become a more important treasury duty in the past three years, with 84% saying the same for optimising working capital.

The priorities of CEOs in the current environment have also shifted. According to CFOs in our survey, more CEOs ask questions relating to cash flow and liquidity now than they did three years ago. This shift away from more strategic topics, such as financing and M&A, speaks to the pressures the pandemic has put companies under.

For many CFOs, their attention has turned to supply chain-related risks: commodity prices (37%) and supply chain risks (30%) are cited as the top risks (among many) occupying the largest proportion of their attention.

**A return to the traditional**

Supply chains have been massively disrupted by pandemic restrictions and forecasting complications, the ongoing global semiconductor shortage caused by a stronger bounce-back in demand not met by supply-side investments being a case in point. Without the requisite materials and components, companies relying on them are unable to sell and distribute their products at their targeted volumes and delivery schedules. This reduces revenues while raising costs to secure scarce materials, resulting in worsening cash flows, squeezed margins and an overall weaker financial position.

Fig 7.

THE CFO PERSPECTIVE: **When your CEO asks questions about financial strategy, what are these questions currently most commonly related to? What were these questions most commonly related to three years ago? (Select one)**

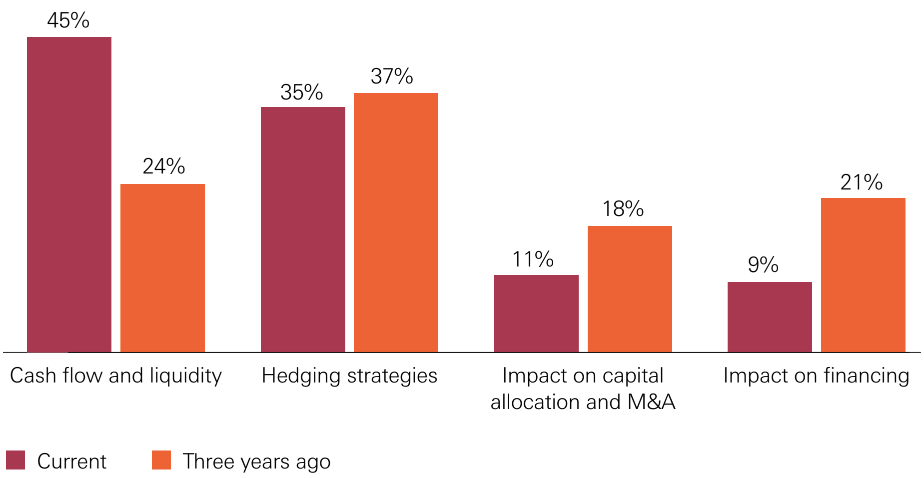


Fig 8.
THE CFO PERSPECTIVE: **Which of the following risks currently occupy the largest proportion of your attention? (Select top two)**

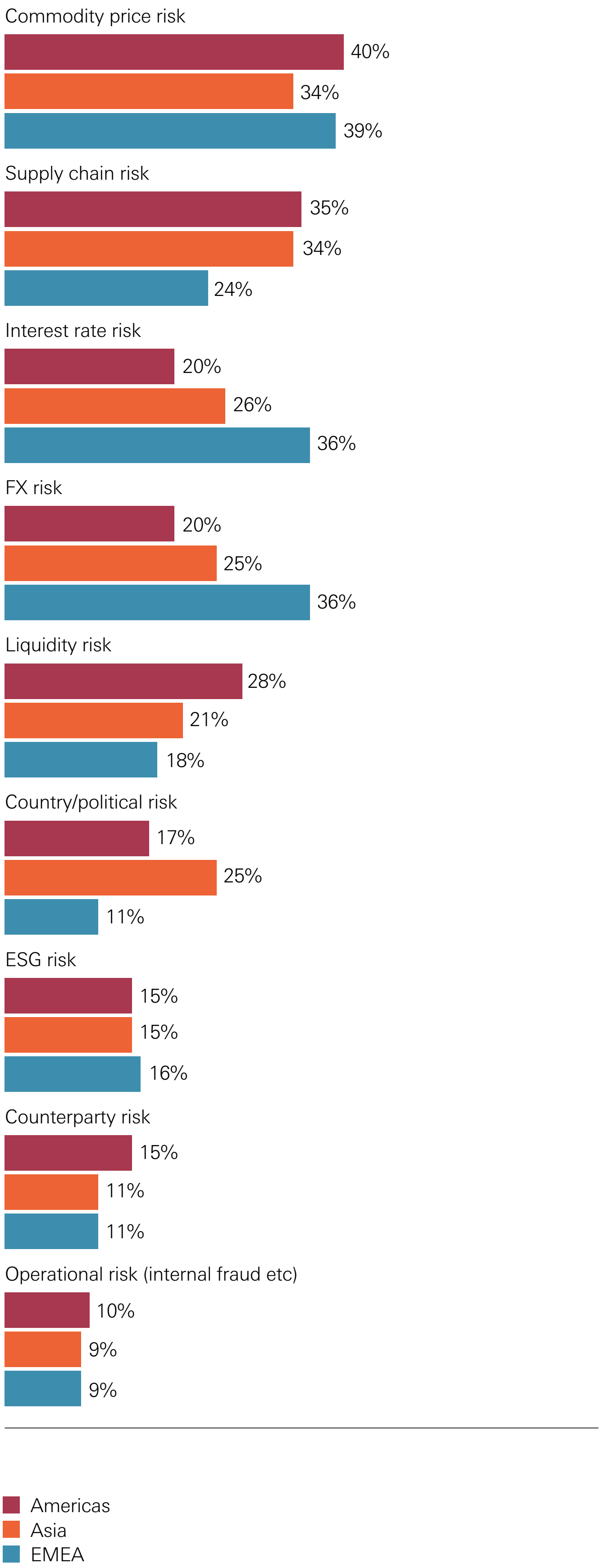



Fig 9.
THE TREASURY PERSPECTIVE: **Which aspects of treasury do you feel are the most important? (Select up to three)**

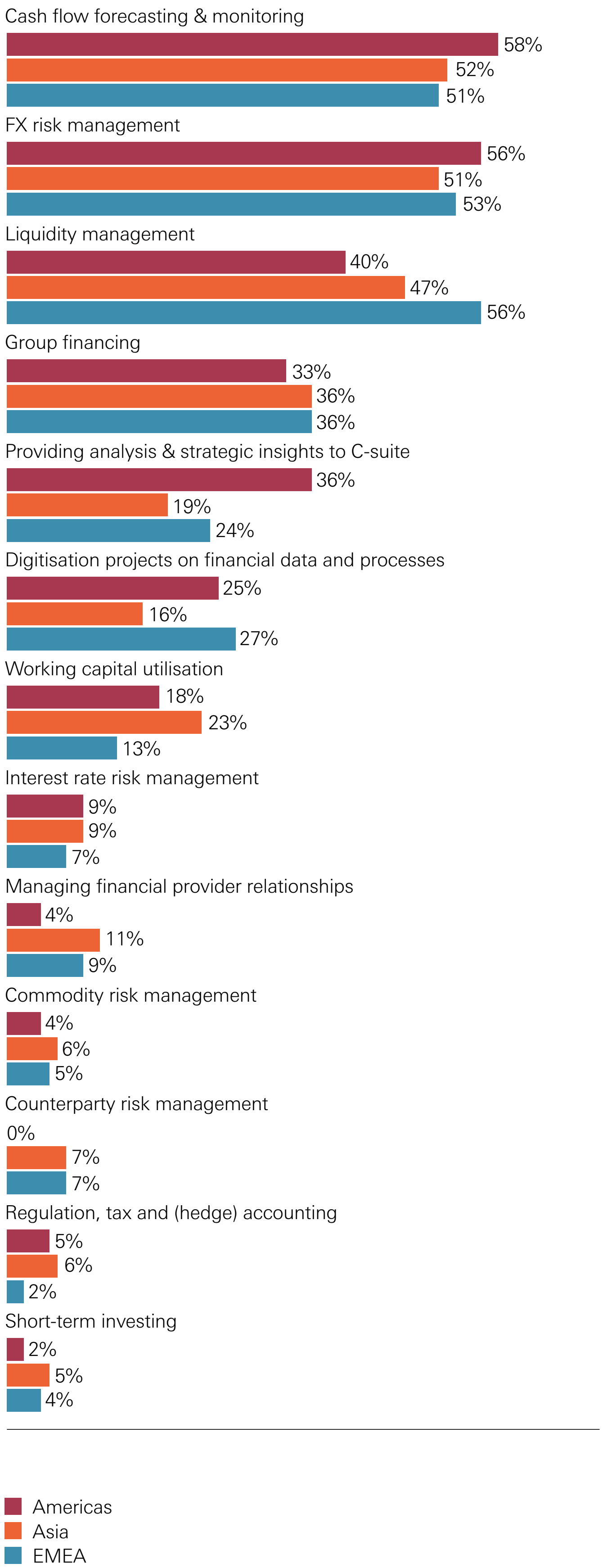
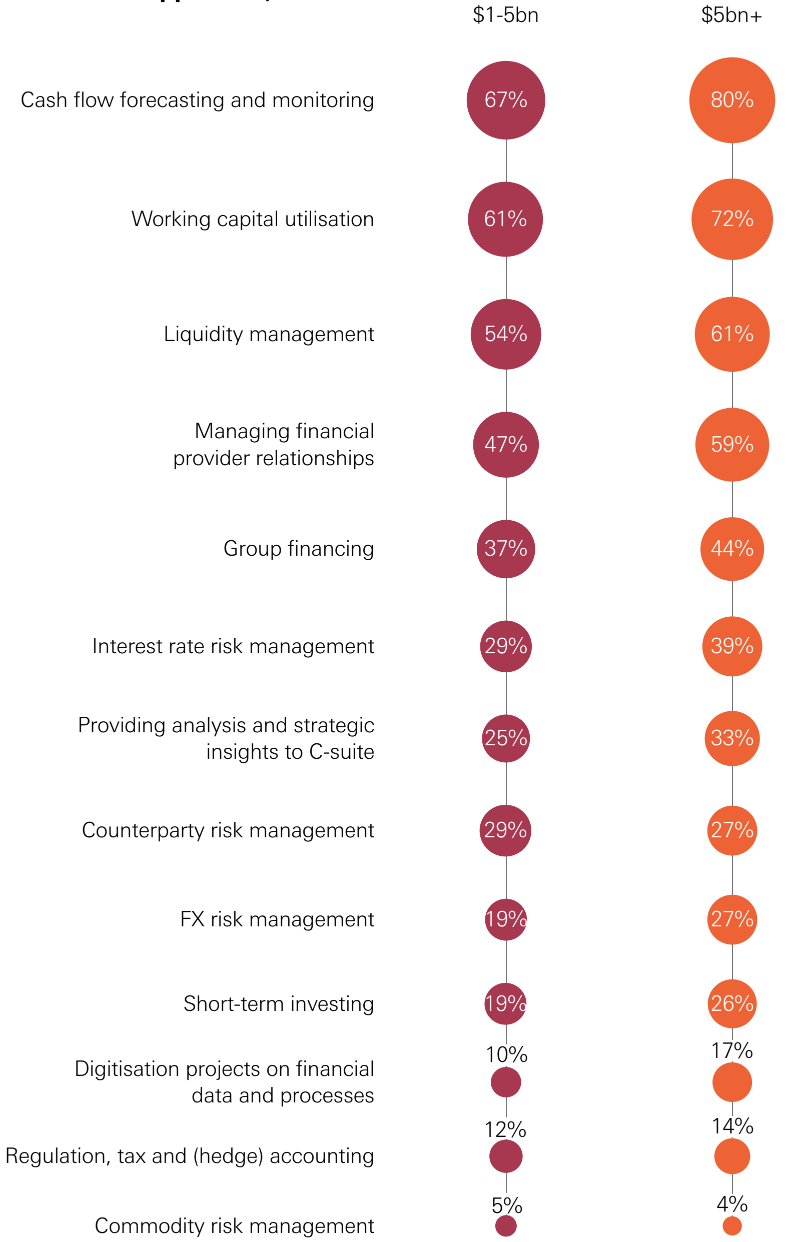


Fig 10.
THE CFO PERSPECTIVE: **In which of these areas would you rate your treasury department's performance as "best in class"? (Select all that apply, leave blank if not applicable)**




Supply chain and commodity prices are likely to be risk priorities for CFOs based on whether or not they believe their organisation is able to cope with them. Just 3% of CFOs say their business is best placed to deal with commodity price risk and country/political volatility and only 7% think the same for supply chain risk.

When looking into differences by business size, CFOs in smaller companies are far more preoccupied with interest rates than their counterparts in large organisations. Just over one-third (34%) of this cohort cite interest rates as one of the two risks that occupy most of their attention, well above the 24% of those in larger firms who say the same. This may be expected, given that small businesses are more dependent on the timing of what are less frequent financing operations. While borrowing costs are currently at historically low levels, that could change if inflation proves to be more than transitory, meaning CFOs will need to be keeping a firm eye on rate-setting policies.

On a regional comparison, FX and interest rate risks are also significantly higher on the agenda for CFOs in Europe than elsewhere. While the European Central Bank has not yet signalled any change in monetary policy and is expected to keep rates at or below 0% for the near future, the other side of the borrowing coin is that rates on bank accounts are miniscule, which presents its own risks for companies holding a lot of cash on their balance sheets.

Treasurers are taking the call to focus on cash flows. Just over half (53%) of treasurers say cash flow forecasting and monitoring is one of the most important aspects of their job, followed by FX risk management (52%) and liquidity management (50%). On the other hand commodity risk management is seen as one of the three most important tasks by only 5% – possibly because most treasurers are not fully responsible for those aspects, with procurement and other departments being frequently involved in the process.

What's more, the former are also the most time-consuming aspects of the treasury's work: 55% of treasurers overall say FX risk management takes up most of their time, followed by liquidity management (51%) and cash flow forecasting and monitoring (51%). More than half (59%) of treasurers in EMEA say liquidity management is one of the main things taking up most of their time, versus just 38% in the Americas and 46% of those in Asia.

All of which suggests that, while CEOs may be keeping a closer eye on cash flow these days, most CFOs believe their teams have done the homework and assured sufficient liquidity during the pandemic, with treasury fine tuning how to best manage this liquidity in a challenging environment of low interest rates and the effects of COVID-19 still far from gone.

**What works well**

While treasuries have baseline strengths in capital management, financing and hedging, all functions are not created equal. Where some excel, others may struggle to keep up. There's been some improvement overall since 2018, when CFOs were asked which areas of their treasury function were "best in class" – specifically in working capital utilisation

(67%, up 18 percentage points globally since 2018), group financing (41%, up 20 percentage points) and interest rate risk management (34%, up nine percentage points). CFOs in general also describe their treasuries as best in class in cash flow forecasting and monitoring (74%) and liquidity management (58%).

This correlates with one of the most trying periods treasurers have experienced, as lockdowns in Q2 of 2020 raised serious solvency concerns for countless businesses. Treasurers were put to the ultimate test as far as liquidity management and cash flow forecasting are concerned, and while some will have come up short, most excelled under this pressure.

Commodity risk management, however, is considered the weakest area globally, with just 5% of CFOs seeing their treasuries as being of top-tier quality in this area.

Overall, treasury teams in larger companies are seen as best in class in more areas by CFOs. This stands to reason as these organisations are better resourced and have already invested more widely in technology supporting treasury (*see Part 3*).

**Better, but far from perfect, picture on FX handling**

Despite the complications caused to cash flow and earnings forecasting over the past 18 months, it is a lack of hedging that is causing more problems than inaccurate forecasts – though progress has been made since our 2018 risk management survey. Fifty-seven percent of CFOs overall say they have incurred costs due to significant unhedged FX risk in the past two years, above all other causes once again but notably lower than the 70% who said the same three years ago. This indicates that, while FX risk is not yet perfectly mitigated, some weaknesses have been addressed.

This positive direction of travel is supported by the fact that almost equal percentages of CFOs – around 20% – say their organisation is best placed and least well placed to deal with FX risk, no matter the size of the company. This is an improvement on 2018, when only 14% of CFOs overall saw their organisation as best placed to handle this and 51% said their treasury function was least well placed to deal with it.

There is a notable regional divergence here, which may be expected given the different functional currencies involved and different geographical profiles of business operations. The issues arising from not hedging FX effectively are more pronounced in EMEA than they are in other regions. Over three-quarters (77%) of CFOs in EMEA report lower earnings due to unhedged FX risks compared with 61% in the Americas and just 43% in Asia. This is likely driven in part by the relative strength of the euro especially to the US dollar between 2020 and 2021, resulting in negative translation effects.

CFOs in the Americas, meanwhile, are reporting more issues that could have been avoided than their counterparts in EMEA or Asia. This is especially true when it comes to liquidity shortfalls due to inaccurate cash flow forecasts, with close to half (48%) of CFOs in the region saying their business has incurred costs because of this versus a global average of 33%.

There are differences among company size here, too, with cash flow forecasting issues being far more prominent for CFOs in smaller companies, whereas larger ones more frequently report having seen their earnings negatively impacted due to unhedged commodity risk (60% versus 36% for smaller companies).

Fig 11.
THE CFO PERSPECTIVE: **In the past two years, have you incurred costs in any of the following areas that you think your treasury department could (or should) have been able to avoid? (Select all that apply)**

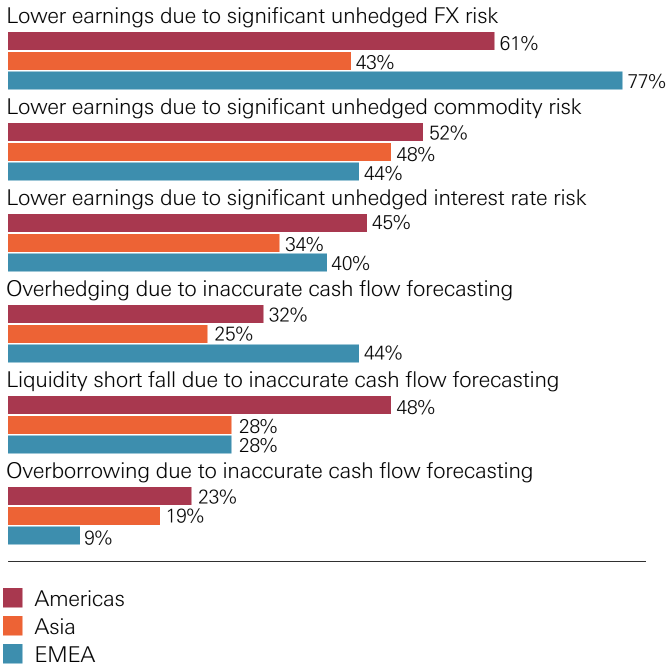



Fig 12.
THE TREASURY PERSPECTIVE: **Which of these is your most important FX hedging objective? (Select one)**

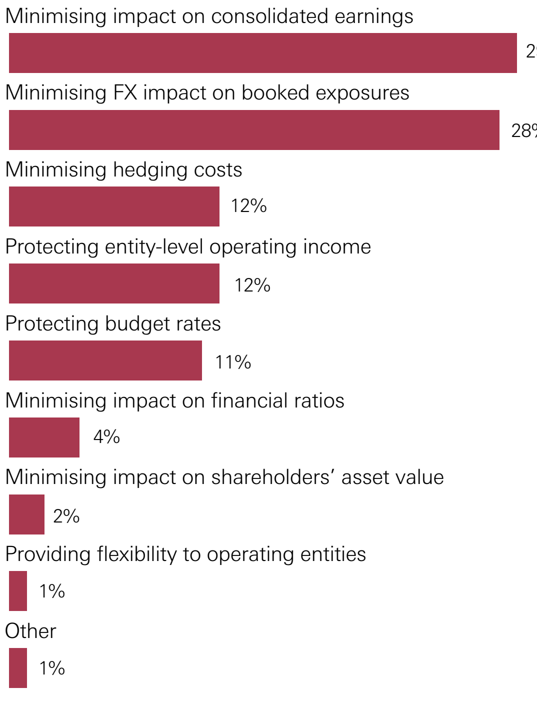


Fig 13.
THE TREASURY PERSPECTIVE: **Which types of FX risk does your company hedge? (Select all that apply)**

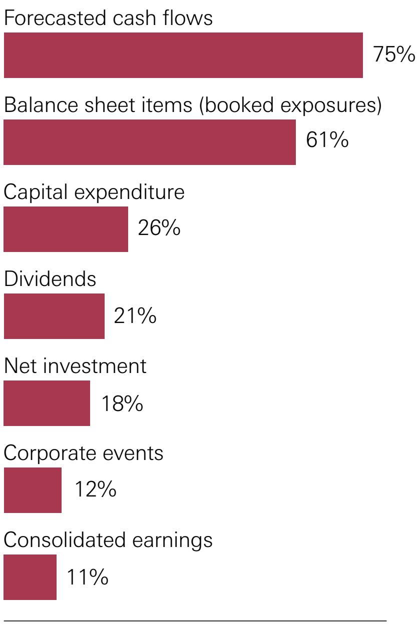
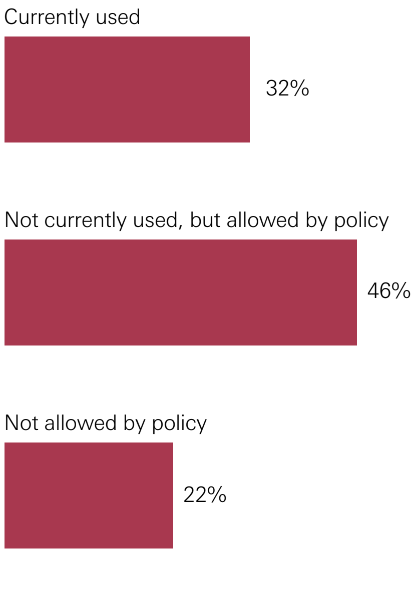



Fig 14.
THE TREASURY PERSPECTIVE:
**To what extent have you used FX options for risk management purposes over the past year?**




Regarding the objectives of corporate FX hedging, those remain widespread, topped by efforts to minimise the impact of FX on booked exposures as well as on consolidated earnings. Two-thirds (67%) of treasurers surveyed say minimising FX impact on balance sheet items (booked exposures) is one of their FX hedging objectives and KPIs, with 28% saying it is the most important objective. Ranked behind this is the group-level bottom-line impact, with 45% saying minimising impact on consolidated earnings is one of their FX hedging objectives and KPIs and 29% saying it is the most important objective.

For actual hedging programmes, forecasted cash flows and entity-level hedging of booked exposures are by far the most frequently implemented types of hedging. Three-quarters of treasurers cite forecasted cash flows as an FX risk that their company hedges, the top finding, while 61% cite balance sheet items as a FX risk that is hedged. Net investment risk (arising from consolidating the balance sheets of overseas entities within the group) are hedged to a larger degree in the Americas (30%) versus EMEA (20%) and Asia (10%).

At first sight, contrary to the FX hedging objectives and KPIs, only 11% of treasurers say they have an FX hedging programme for consolidated earnings in place. However, this is frequently a combination of other hedging programmes already in place to reduce risk at the entity level. The remaining translation effect on consolidating P&L statements across entities with different functional currencies is rarely addressed separately – probably linked to the fact that this is not an eligible hedged risk from a hedge accounting perspective.

As far as the tools at the disposal of treasurers for managing currency fluctuations and their impact on both the balance sheet and the P&L, linear instruments such as FX forwards and FX swaps continue to be used by a larger share of corporates. When it comes to FX options, about a third globally say they have used FX options for risk management purposes in the past year – largely unchanged since our survey in 2018. As many as 93% of treasurers in the Americas claim that options are permitted within their policy, although only 26% have recently actively used them. Of the 22% of treasurers overall who say they are not allowed to use FX options by policy, half state stakeholder objections/ strict policy as the main reason.

**Inflation and interest rate risk are back on the horizon, but limited action – so far**

Many CFOs worry their company is struggling to address risks that were, until recently, effectively dormant.

For over a decade, CFOs and their treasurers have had to pay little attention to inflation and interest rates, at least as far as borrowing is concerned in the case of the latter. Especially for smaller businesses, this is now firmly on their radar again, as the global economy rebounds from the onset of the pandemic and the dramatic impact of lockdowns felt in early 2020.

Forty-two percent of CFOs in smaller organisations say that rising inflation is their biggest macro concern in relation to their financial strategy, ahead of any other concern. Notably, this falls to just 24% for CFOs of larger firms.

Rising costs tend to have a greater effect on smaller businesses, potentially due to lower bargaining power, making them more vulnerable to price increases on their main input factors. At the same time, if interest rates are hiked to keep inflation in check, then borrowing costs will rise commensurately, putting further pressure on margins. This is especially problematic for companies that are not able to pass these costs along the value chain.

As a response to forthcoming rate changes, many CFOs expect their company's proportion of fixed rate debt to increase so that they can lock in borrowing terms. Nearly half (45%) of CFOs overall expect the proportion of fixed rate debt to increase, rising to 63% in EMEA, while this is only shared by 25% in Asia.

As for the drivers underpinning such change, 37% of CFOs aim to bring their ratio back into their long-term target range. Once again, this may speak to the effects of the pandemic, which

Fig 15.

THE CFO PERSPECTIVE: **Which of the following risks is your organisation least and most well placed to deal with? (Select top two)**

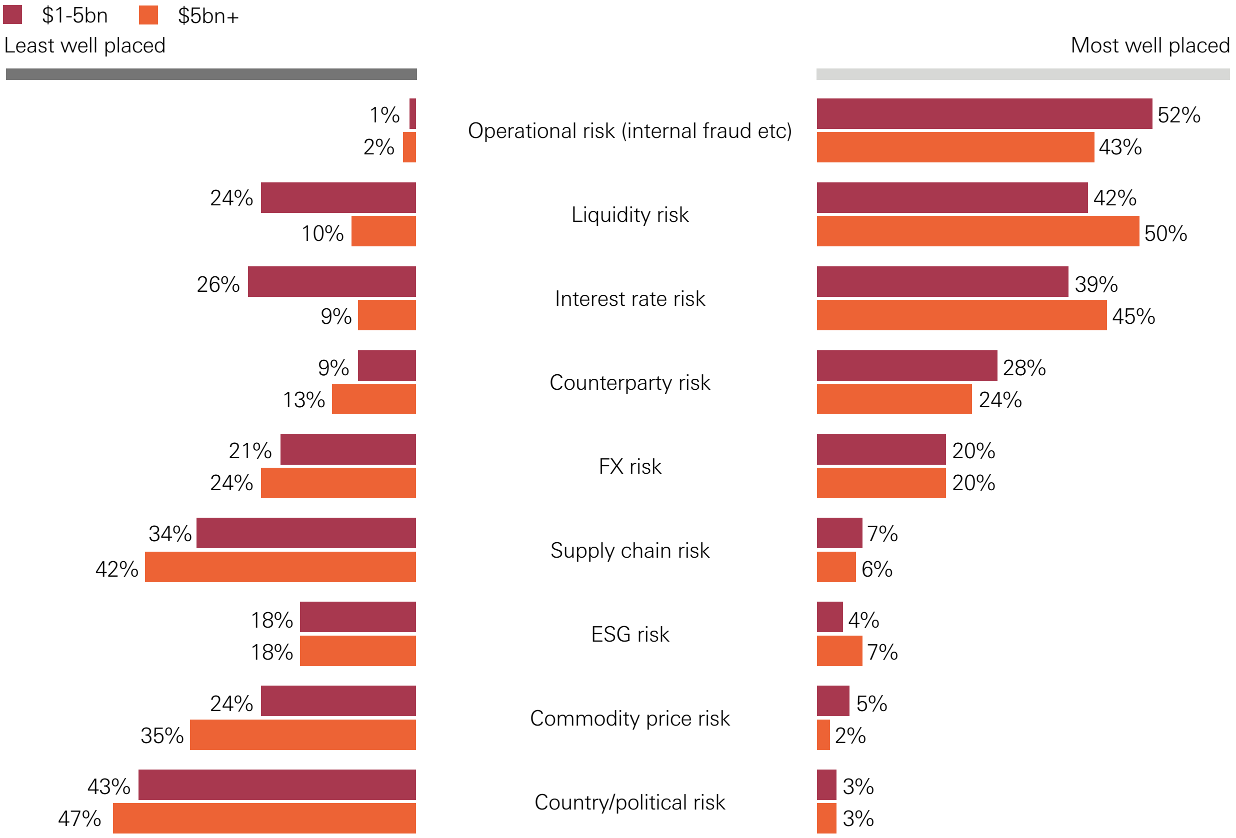



Fig 16.

THE CFO PERSPECTIVE: **To what extent do you expect your proportion of fixed rate debt (including hedging instruments) to change over the next three years?**

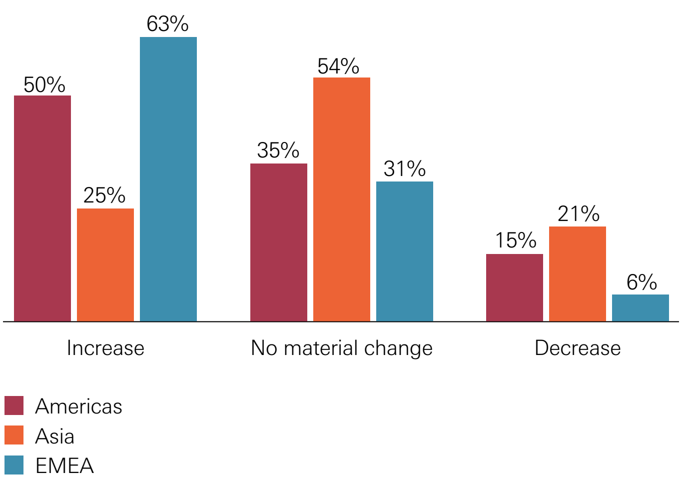
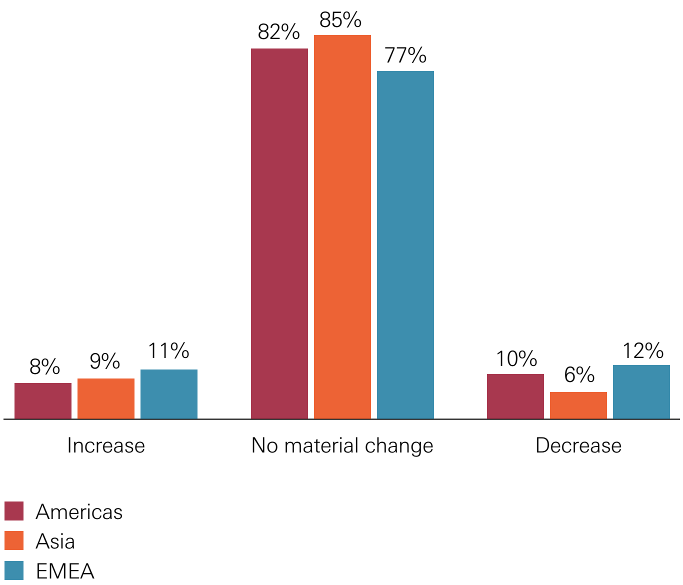



Fig 17.

THE TREASURY PERSPECTIVE: **To what extent do you expect your proportion of fixed rate debt (including hedging instruments) to change over the next three years?**



prompted a surge in borrowing in 2020 as companies sought to backstop themselves amid a period of great uncertainty. In the process, this may have skewed the balance of fixed and non-fixed borrowings, calling for this ratio to be righted in the coming years.

For CFOs of smaller businesses, 47% say a changing interest rate outlook is the primary driver for any change in their balance of fixed rate borrowings, which again speaks to the sensitivity of these businesses to any base-rate fluctuations compared with their larger counterparts.

However, this need to adjust has not been communicated fully with the treasury – 80% of treasurers say they do not expect a material change in the proportion of fixed rate debt, the remainder being balanced between increases and decreases. Both parties will need to agree upon a suitable strategy to address this if they have not already done so.

When it comes to changes in the borrowing profile, 31% of treasurers are prepared to hedge interest rate risk in advance via forward-starting swaps (47% for larger companies), down from 45% overall in 2018.

While assuring sufficient cash levels has risen in importance, cash itself is not necessarily ideal in an environment where interest rates are low and inflation is rising, particularly in the US. Minimal yields and rising costs are not the best set of circumstances for a business sitting on piles of money.

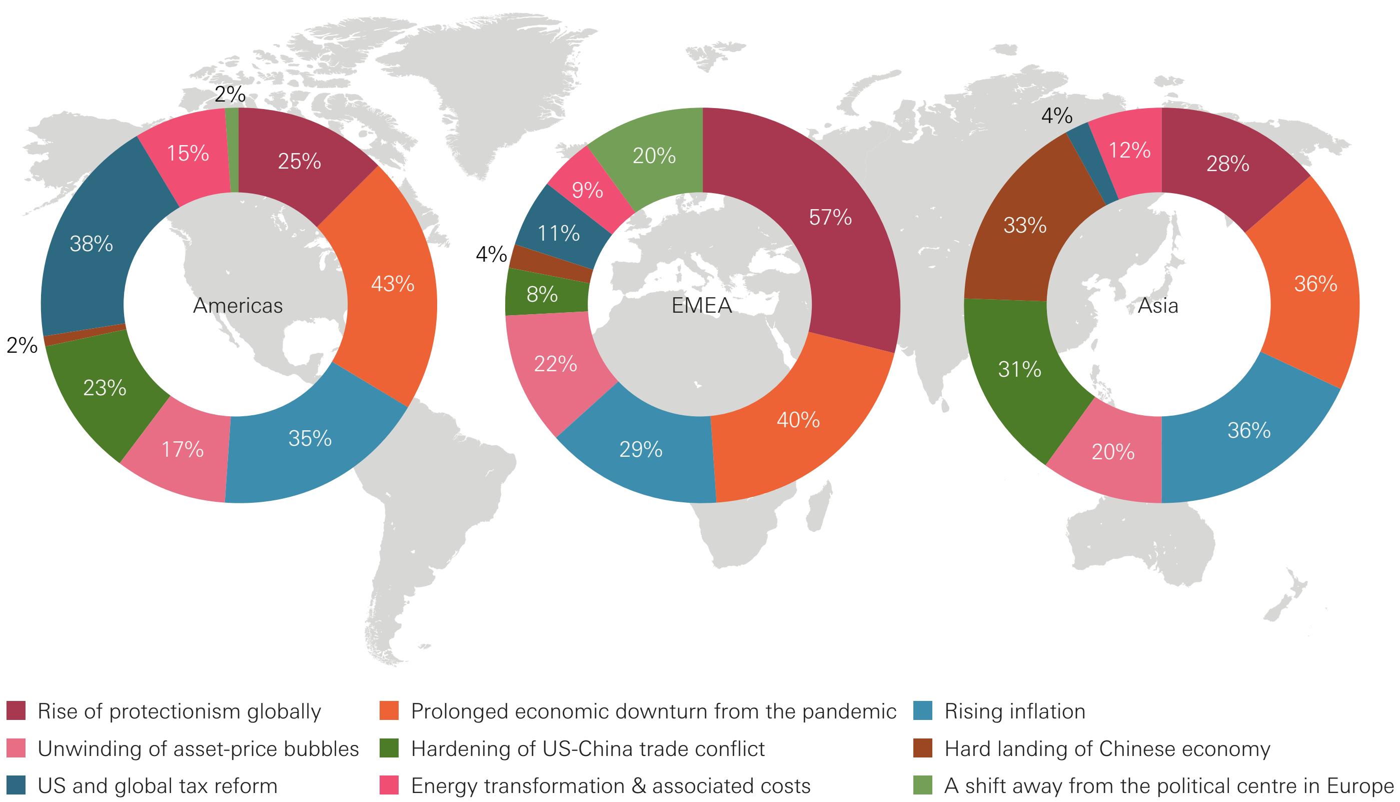
For cash investments, 46% of treasurers say they are prepared to accept the current low (and in Europe frequently negative) rates. This suggests that, while concerns over rates, inflation and cash erosion are high, the liquidity aspect is more important for treasury than yield targets for surplus cash. However, 44% of treasurers say they are diversifying their cash investments across banks and service providers, likely in an attempt to increase returns at least slightly.

When it comes to other risk factors associated with increasing cash yields, almost two-thirds (62%) of treasurers say they are not willing to accept additional market risks (outside of short-term counterparty risk) when investing corporate cash, while 19% would accept FX risk to enhance yields. This is also, for many, the most natural risk taken by their operating business and allows for instruments like dual currency investments to be incorporated into treasury processes rather swiftly.

**Future risks**

CFOs are looking to the treasurer to execute strategic plans and address macro threats, and most have faith in their treasury's ability to navigate these choppy waters. This will become an increasingly important value-add, given the many pressures being faced by businesses.

Fig 18.
THE CFO PERSPECTIVE: **Which of the following are your biggest macro concerns in relation to your financial strategy? (Select top two)**



The two main macro concerns – each picked by 39% of CFOs globally – are the rise of protectionism globally as well as a prolonged economic downturn from the pandemic. While a relatively equal percentage of CFOs cite the pandemic as a concern across regions and company sizes, CFOs in EMEA and in larger institutions are more frequently concerned about protectionism (57% and 45% respectively). This ties up well with previous observations about the higher global trade dependency of those organisations.

Broken down by location, other concerns near the top of the list fall along clear territorial lines. For example, in the Americas, 38% of respondents say they are more concerned about tax reform (one of the Biden administration's planned policies), while 33% of Asian respondents point to a potential hard landing of the Chinese economy.

While geopolitical trade tensions were already running high pre-pandemic, this has hardly eased. Issues around vaccine distribution globally and concerns over cross-border M&A activity in strategic sectors in particular show that protectionism threats remain high.

This is a weak spot for companies of all sizes, with 45% of CFOs reporting that their organisation is least well placed to cope with country/political risk, ahead of any other risk type. This is followed by supply chain and commodity price risk.

Nonetheless, in larger organisations, 58% of CFOs are completely confident that their treasury function has the required skills to play a highly strategic role in their business, the same percentage as in 2018. For smaller firms, there has been some improvement in the past three years. In 2018, only 28% expressed this level of confidence and this has since climbed to 36%.

On the treasury side, meanwhile, digitisation is the challenge that is clearly at the forefront of minds. Treasury digitisation is the top trend that they expect to have a material impact on their business and financial risk management in the next three years – 61% of treasurers overall picked this, while 50% also expect this trend to unfold externally via connections to outside partners.

Fig 19.
THE CFO PERSPECTIVE: **Are you confident that your treasury department has the required skills to play a highly strategic role in your business?**

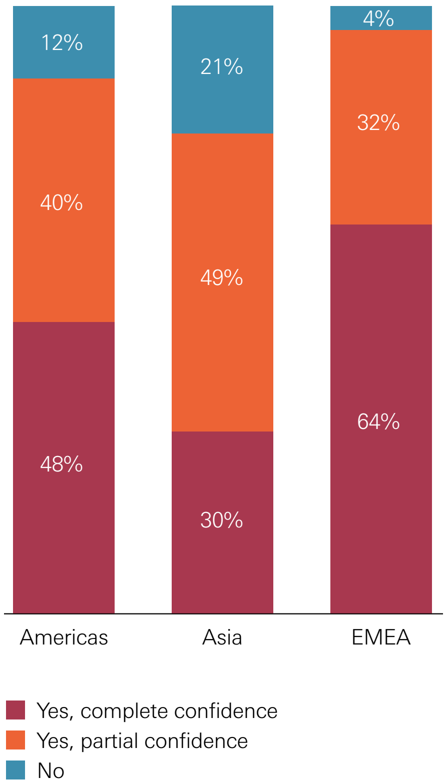
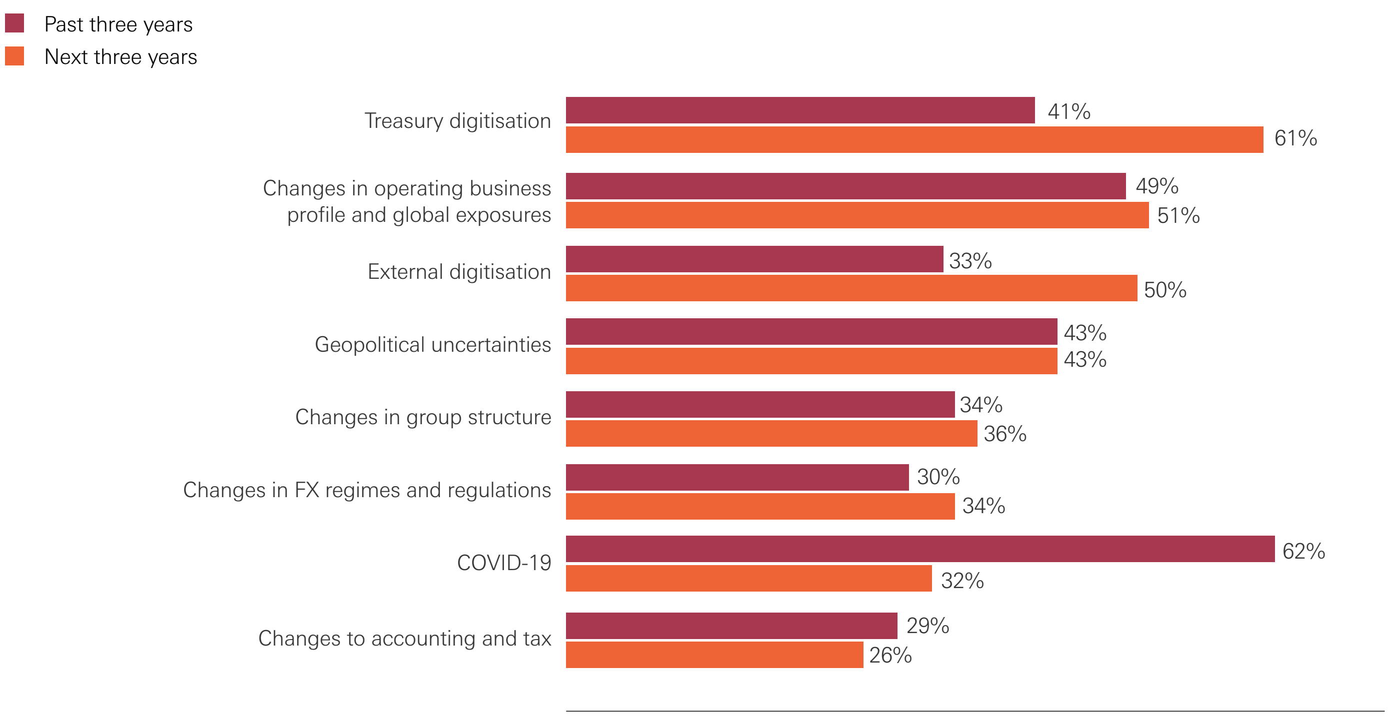



Fig 20.
THE TREASURY PERSPECTIVE: **Which of the following trends has had a material impact on your company and risk management strategy in the past three years? And in the next three years? (Select all that apply for each)**



More than half (51%) of treasurers also expect their company's operating business profile to change in the next three years due to global expansion, M&A or shifts in supplier locations and chains, which will inevitably require them to adjust their risk management strategies accordingly.

Finally, most treasurers believe that the worst of the pandemic's impact is behind them. Almost two-thirds (62%) say that COVID-19 had a material impact on their business and risk management strategy in the past three years, above any other factor – which aligns with the CFO view of the pandemic's impact on the treasury. But only 32% of treasurers think it will continue to be a major factor in the next three years, suggesting (or hoping for) a transition to a "new normal" for the treasury function.

**Where is there room and ambition for improvement?**

In checking the pulse of both CFOs and treasurers, we can see where their priorities lie and the changes they believe need to be instituted. There are mixed views about what needs to be improved, representing one of the more noteworthy disconnects between the two roles.

For example, 55% of CFOs cite regulation, tax and (hedge) accounting as an area they would like to see improved in their treasury function, rising to 65% in the Americas. This is also an aspect where CFOs perceive limited excellence, with only 13% overall describing their treasuries as best in class in this area.

And yet, few treasurers cite regulation, tax and (hedge) accounting as an area they would like to see improved within their own function (15% overall). Such expertise could help treasurers further raise their game in being consulted in more complex capital transactions across the globe in advance of the execution stage.

Treasurers are instead focused on digitisation and further improvements to bread-and-butter areas like cash flow forecasting and FX risk management. More than half (53%) overall highlight digitisation projects on financial data and processes as a priority for improvement – their top answer, rising to 63% in EMEA.

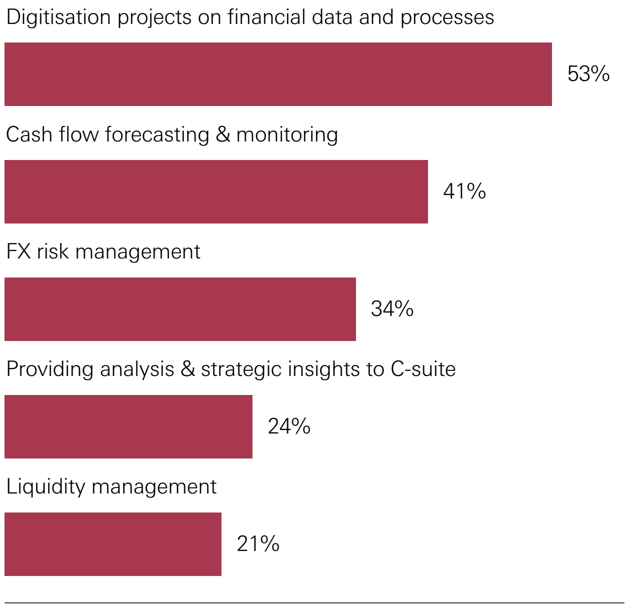
Digitisation does not seem to be as big a development need for CFOs – it's not even one of the top three areas where they would most like to see improvement in their treasury function, despite the fact that only 14% also believe their treasury is best in class in this field. In other words, CFOs see room for improvement, but may not be giving it priority.

At the same time, 41% of treasurers believe that cash flow forecasting and monitoring is an area where they would most work towards improving, in sharp contrast with CFOs, none of whom believe this requires development as many already rate their treasury as fairly strong. This disconnect could be attributed to aggregated data views available to the C-suite that lack the detail of some struggles still evidenced by treasurers in their drive to collect robust data from all entities and business partners.

Where ambitions and plans to improve align more closely is on FX and interest rate risk management, with FX being the third most frequently picked area where both CFOs and treasurers would like to see improvement. For commodity price risk, their views diverge again (as highlighted earlier in the report) but this may well be due to the fact that only a portion of treasuries are fully responsible for related contracts.

Fig 21.
THE CFO PERSPECTIVE: **In which areas would you most like to see an improvement in your treasury function? (Select top two, leave blank if not applicable, top five shown)**


Fig 22.
THE TREASURY PERSPECTIVE: **Which areas of expertise in your treasury team would you like to improve/improve further? (Select up to three, top five shown)**



**Q&A: Per Hjorth Poulsen, Head of Group Treasury and Insurance at Vestas**

# "It comes down to the CFO knowing that the treasury function is doing what it needs to do whenever it is needed"

**Q. What are the biggest challenges you face as a corporate treasurer?**
Per Hjorth Poulsen: First, on the supply side, is the challenge around commodities, of dealing with raw material risks in the current climate. Second, and this is both a challenge and an opportunity, is digitalisation.

We are entering more and more emerging markets, and our current setup isn't optimised to work perfectly in each of these countries. We've started the work to establish our treasury roadmap, which helps define how we would like our digital systems to look going forward.

**Q. What opportunities are you pursuing in your current role?**
PHP: The goal is to free up our own time to be even closer to the business. Even though it's 2021, we spend an enormous amount of time verifying, extracting and managing data. But with the help of automation, we hope to improve the quality and granularity of our data and make the ways we manage that data even more flexible.

**Q. What kind of influence is ESG having on your relationships?**
PHP: We, by definition, have always included ESG criteria in our approach. But, at the beginning of last year, we also launched our sustainability strategy, which includes quite firm targets for all parts of the organisation. We're also bringing that agenda into our talks with suppliers and banks to make sure they understand this is something that matters to us.

This is something that is on everyone's radar in the organisation and which we are going to build on over the coming years to make sure that we do as we say. We don't just want to kick in an open door – we would like to do something that affects real change in ESG.

**Q. When it comes to preparing for challenges, what kind of resources are you allocating?**
PHP: I'm fortunate to have a big team, but we are nevertheless always busy, busy, busy. We need to be able to deliver no matter what and IT systems are the foundations that enable scalability without requiring additional human resources.
I need to create the necessary platform for us to manage our FX exposure – we need to manage commodities, interest rates, cash and everything else. To my mind, a solid platform can only be created if you have the right IT solutions in place, and then you can add the frosting on the cake.

**Q. Do you see any disconnect between CFO and treasury ambitions?**
PHP: I don't feel there is a disconnect. It's a matter of, when the treasury function is truly needed, we are brought in to be very close with the CFO. That has been key during the pandemic, when we were in the hot seat. But in the coming period, cash won't be an issue, so we won't need to be brought in, except for the occasional FX challenge.

It comes down to the CFO knowing that the treasury function is doing what it needs to do whenever it is needed. We're ready to step up and deliver, which I feel our CFO definitely appreciates.

*Per Hjorth Poulsen is VP, Head of Group Treasury & Insurance at Vestas, the world's largest wind turbine manufacturer, headquartered in Copenhagen, Denmark.*

Part 3:

# Technology as enabler and differentiator

## Automation and digitisation are increasingly integrated into corporates' financial processes, but what does this mean for their long-term strategic goals?

To contribute to the CFO's strategic vision, treasurers will increasingly need to harness digital tools. Once embedded, these can expedite traditional manual processes and analyses, and offer better visibility and control over a company's finances. In doing so, time-poor treasury functions can realise efficiencies, focus on emerging financial risks and contribute more to business strategy, raising their game across the board.

**Digitisation and day-to-day finance decisions**

More than half (53%) of CFOs overall expect digitisation to give their business model a "large boost" in the next three to five years, while just 1% expect it to produce a negative impact. Meanwhile, 81% of CFOs view digitisation of treasury processes to have already increased in importance in the past three years.

Automation allows for certain business responsibilities to be outsourced which, if executed well, can reduce costs, improve efficiency and free up time for the in-house treasury to perform more value-add duties.

In larger organisations, 44% of CFOs say they have outsourced some of their day-to-day treasury functions as a result of increased process automation or digitisation, while a further 29% are at least thinking about outsourcing some responsibilities. Smaller businesses are further behind in their journey but are no less aspirational. Only 17% of CFOs in these firms say digitisation has resulted in treasury outsourcing, but 43% are weighing up taking this approach.

Regionally, EMEA companies have been most active in outsourcing, aligning with the broader picture arising from the survey of an advanced stage of the journey in this region. For companies in Asia, this has just happened for 10% of respondents compared with 51% in EMEA.

For many, the strategic benefits of outsourcing are already being realised, positive proof that this approach can yield observable results. Almost two-thirds of all CFOs say the shift to outsourcing has raised treasury's strategic role and improved process efficiency, and these improvements are being felt in organisations of all sizes.

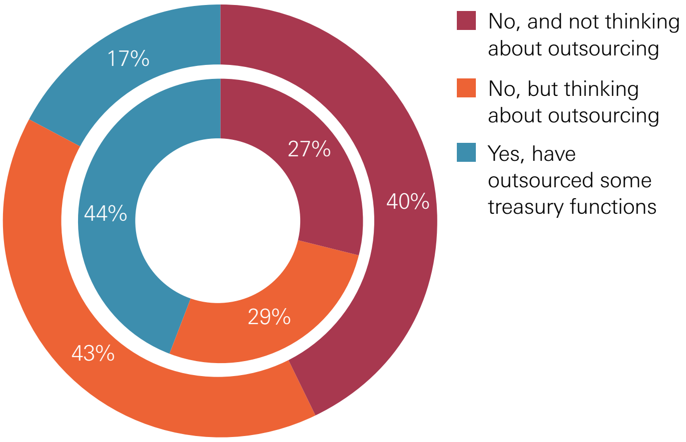
Unlike the other risk management priorities discussed earlier in the report, this is also a topic on which CFOs and treasurers are broadly aligned. As previously mentioned, 61% of treasurers expect treasury digitisation to have a material impact on their risk management strategy in the next three years. And 70% of treasurers across all regions agree that digitisation has already become more important over the past three years.

To fulfil their digital ambitions within the finance function, there is still work to be done – as noted earlier, more than half of treasurers say they would like to improve their expertise in digitisation projects on financial data and processes. The digital journey is never fully completed, as new applications and software are constantly being developed, meaning there is always room for improvement. The fact that both CFOs and treasurers point to treasury digitisation as an increasingly important and vital part of their future is a clear and positive step in realising their shared strategic vision.

Fig 23.
THE CFO PERSPECTIVE: **Have you outsourced day-to-day treasury functions as a result of more process automation and/or digitisation?**

Fig 24.
THE CFO PERSPECTIVE: **To what extent has this enabled your treasury overall to take on a larger strategic role?**

Outer circle depicts $1-5bn   Inner circle depicts $5bn+



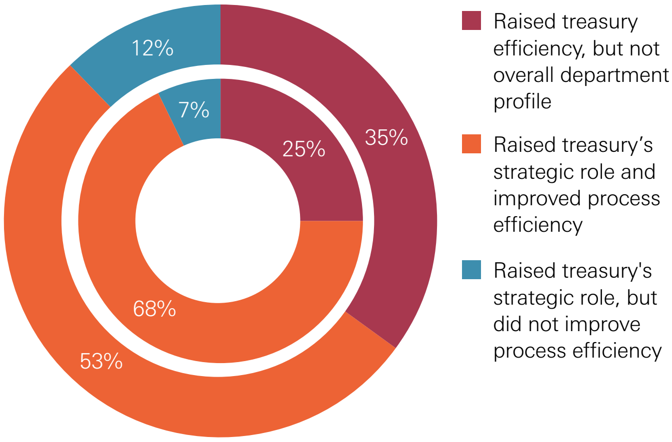
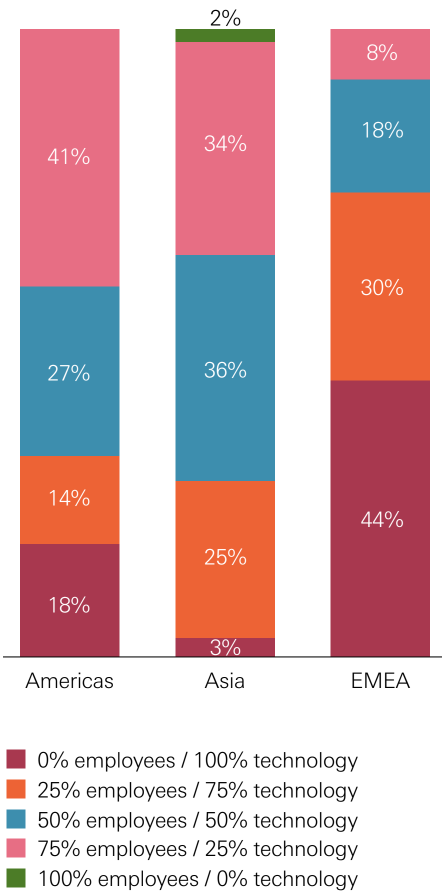




Fig 25.
THE CFO PERSPECTIVE: **In the next three years, how will increased resources be deployed in terms of increased funding for employees and increased funding for technology?**




**Resource allocation differs around the world**

Choosing in which form to invest in treasury improvements and enhance its strategic prowess will largely depend on the company in question, the function's current capabilities and its long-term objectives. Location also has an influence on how that investment is likely to be delivered in the next three years.

As discussed previously, CFOs overall are agreeing to allocate more resources to the treasury function and these will be split between people and technology.

In EMEA, resource investment is expected to lean more heavily towards technology, while in the Americas and Asia it is likely to be more balanced between technology and people. Specifically, 74% of CFOs in EMEA say they expect at least three-quarters of new resources to be directed towards technology rather than employees in the next three years, compared with 32% and 28% of CFOs in the Americas and Asia, respectively, who are more likely to emphasise investment in employees.

It is a broadly similar picture between larger and smaller organisations: 57% of CFOs in larger businesses anticipate at least three-quarters of their investment to be allocated to technology in the coming years, compared with 35% in more modestly sized corporates who share this outlook.

**FX execution patterns are changing – and banks need to respond**

Treasuries are making use of available technology in their execution of FX trades, increasingly adopting electronic platforms – a fact that has altered their interaction with banks significantly and where banks are called on to invest in their digital infrastructure and services. This is especially true given that 61% of CFOs view ease of execution and interfaces with a company's own systems as a very important factor when selecting which bank to use as a service provider.

In the past three years, multilateral trading platforms have established themselves as the norm for FX purposes in many places. More than half (55%) of treasurers overall say they now use digital platforms most frequently as a channel to execute transactional FX hedges (45% picking multilateral platforms and 10% bilateral platforms). This not only represents an increase since the survey was carried out in 2018, and which holds across all regions, but the adoption of these platforms now supersedes the 42% of treasurers who say they use voice trading most often.

Regionally, EMEA is the frontrunner again, with 66% of treasurers in the region saying they chiefly use multilateral platforms for FX hedge trades, versus just 16% of those in Asia who say the same. In Asia, 63% of treasurers say they still use voice trades most frequently,

Fig 26.
THE TREASURY PERSPECTIVE: **Which of the following channels do you most frequently use to execute transactional FX hedges?**

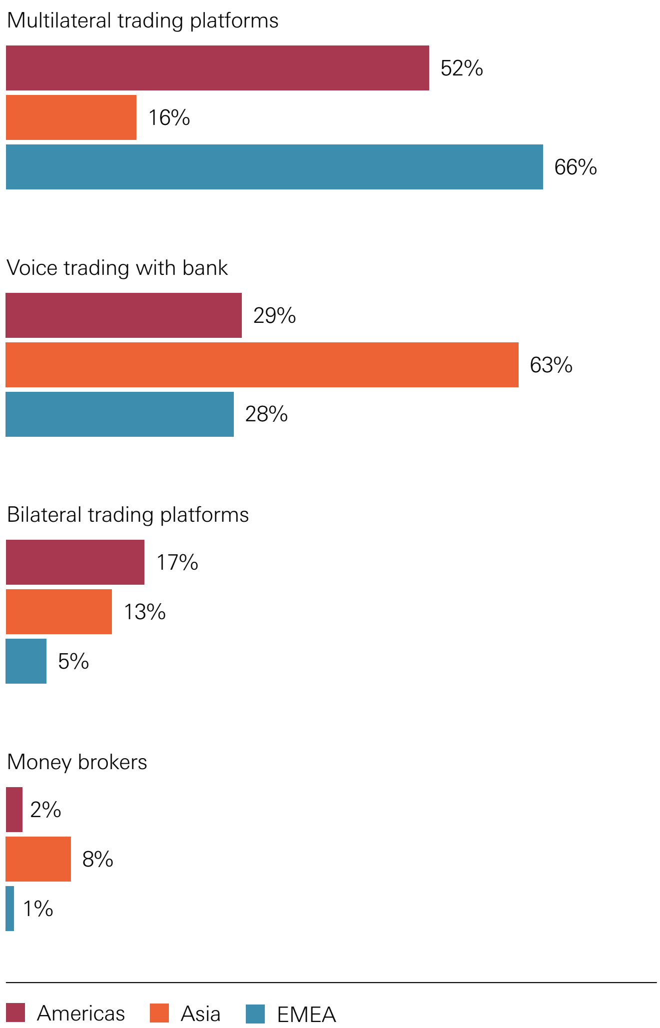
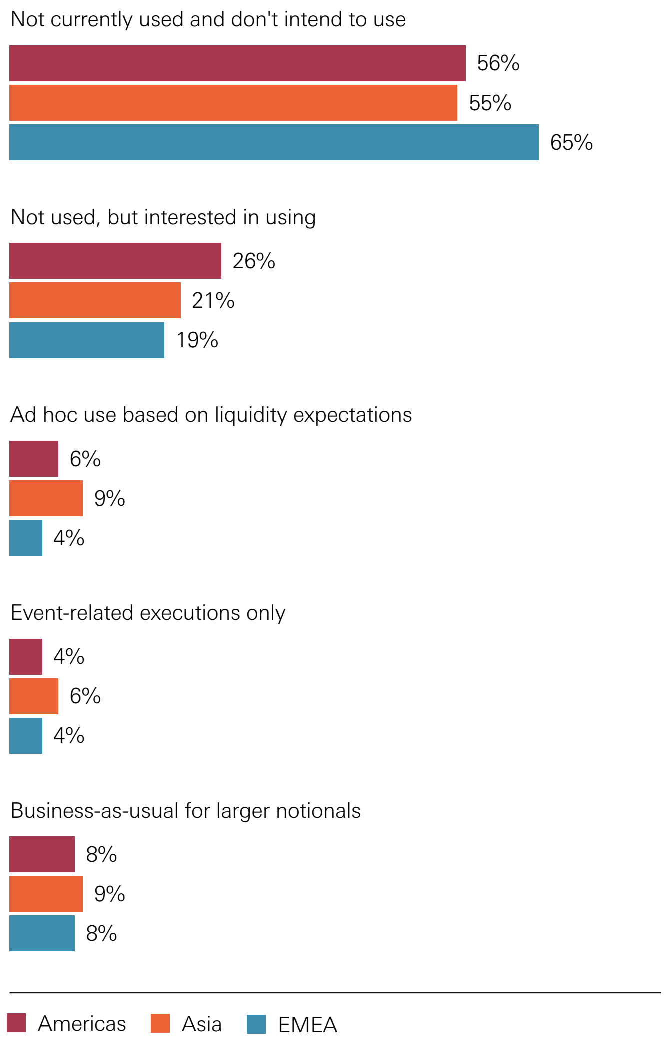



Fig 27.
THE TREASURY PERSPECTIVE: **When, if at all, do you use FX algorithms for execution?**




meaning once again there is considerable improvement to be made in the region to modernise the function.

Commensurate with the higher degree of investment into treasury tech at larger corporates, 69% of treasurers in these firms say they use multilateral platforms most often for transactional FX hedges, while 55% of those in organisations with revenues below $1bn still largely rely on voice trading. Surely that will change over time as traditional methods of FX hedging execution are gradually updated and the tools become increasingly cost-efficient for smaller organisations as well.

Another point of distinction holding APAC treasuries back from switching to digital trading is the demand for greater liquidity in their relevant currencies when making these trades. Two-thirds of treasurers in the region are looking for enhancements from banks in FX liquidity on digital platforms, compared with 52% in the Americas and 49% in EMEA.

FX hedging is an obvious area of the treasury's day-to-day activities that can be improved with automation and it can benefit in various ways. Automating processes can make exposure calculation more efficient. More than half the treasurers we surveyed say that treasury management systems (TMS) from specialist external software houses have been adopted and 18% have already automated their operating cash flow forecasts within their systems. Again, regional and revenue splits show a stark contrast between a more frequent adoption in Europe and with larger businesses compared to corporates in Asia and smaller businesses. On the back of such automation, embedded analytics can recommend hedges based on pre-determined treasury policy targets up to an automatic trade execution and processing.

Another feature that has gained prominence in recent years is the use of algorithms for FX execution, which can improve the balance between timing and market liquidity when placing FX orders. While not yet widely adopted, 29% of treasurers in larger companies say they already use algorithms and 21% overall are interested in doing so in the future, which hints at further change to come.

**CFOs are on top of the blockchain agenda**

Cryptocurrency is one of the hottest topics in the retail investment world but the distributed ledger technology – better known as blockchains – on which these assets sit is less well understood. While still in their infancy, smart contracts are expected to find increasing real-world applications. These are essentially transaction protocols that automatically execute or document events and actions determined by the terms of the contract or agreement.

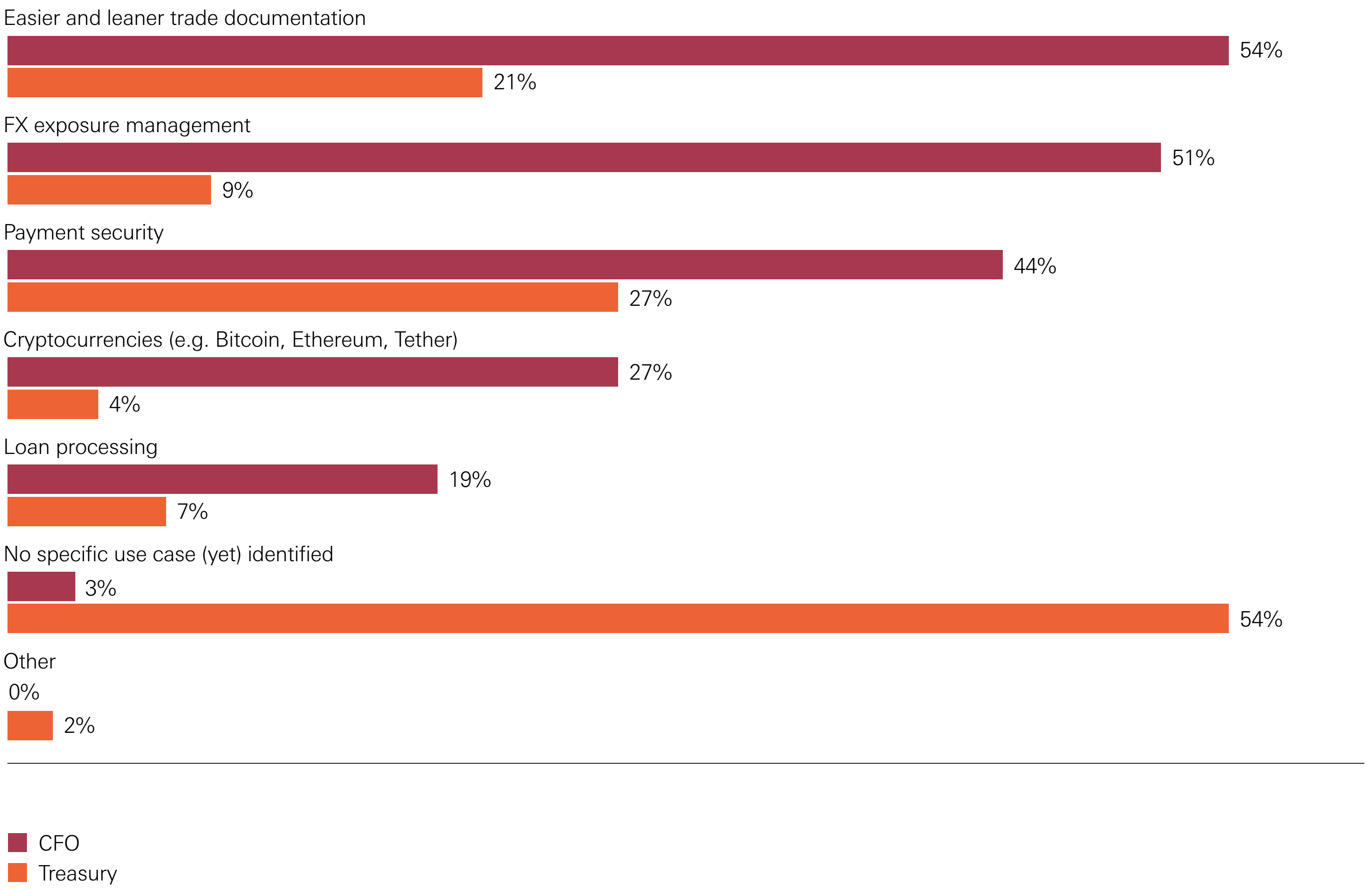
Blockchain technology is currently unfamiliar territory for most and not popularly adopted in the day-to-day activities of corporate treasuries, but that could soon change. Certainly, CFOs see this being the case, while treasurers are less confident. Nearly all (97%) CFOs see at least one future use case for blockchain technology, with most (54%) considering the ability to create easier and leaner trade documentation as one of two main use cases. A further 51% and 44%, respectively, see FX exposure management and payment security as among the main use cases – which differs from the treasury perspective, where FX exposure management is less emphasised.

As a whole, treasurers have not yet bought into the promise of the blockchain story or been involved in related projects to the same extent as their CFOs. More than half (54%) overall say that they have not yet identified any specific use case for blockchain technology in their company – with this being an area of technology that Asia-based treasurers are more frequently expecting to adopt.

Cryptocurrencies themselves – with Bitcoin receiving the lion's share of media coverage – are slowly being adopted by a small number of corporates. The few publicly observed use cases relate to companies being willing to accept these currencies as payment for goods and services or to actively convert their cash holdings into crypto assets. The extent to which the media hype surrounding cryptocurrencies will be reflected in future corporate finance may depend on the adoption speed and needs around the various Central Bank Digital Currency projects, as those could require far more corporates to ready their systems for digital assets.

From our survey data, 27% of CFOs overall expect some form of cryptocurrency to be one of the main future use cases for blockchain within their company. Again, treasurers are more reluctant here – 86% of treasurers do not expect cryptocurrency to become relevant in the next three years, while 12% are waiting for market adoption – and there is no discernible regional or company size trend.

Fig 28.
THE CFO AND TREASURY PERSPECTIVE: **Where do you see the main future use cases for blockchain technology for your company? (Select up to two top use cases)**



**Q&A: Karsten Kabas, Vice President Group Treasury of the Merz Pharma Group**

# "It seems like I no longer sign any physical documents, everything is now either digital or, even better, automated"

**Q. As a treasurer, what challenges are you dealing with at the moment?**
Karsten Kabas: Due to the ongoing negative interest rate environment in the eurozone, it is still challenging to manage the short-term financial investments. On the other hand, inflation and subsequently rising interest rate risks in the mid- and long-term are back on our table; and need to be addressed when managing our external funding facilities. Moreover, forex risks are always one of our major challenges due to our global footprint. After the short "COVID-19 dip" in 2020, we are generating sustainable growth again – especially in the US and in the emerging markets.

In general, as there is still a lot of uncertainty in the global markets and conditions might remain more volatile and dynamic than in the past, we need to continue to be flexible and to be prepared for different scenarios.

**Q. How would you describe the relationship between treasury and your organisation's CEO/CFO?**

KK: The relationship was close and has become even more so recently. During the pandemic, we have had very close interactions on how to manage this crisis financially. Over the past 15 years or so, whenever there has been an external global crisis, the scope and impact of the treasury role increased steadily. Today, treasury is a prime business partner and a valuable strategic advisor to our top management.

**Q. What kind of opportunities are you seeing for the company and the role of the treasury function to fulfil those ambitions?**
KK: One thing we have done is drive digitalisation. It seems like I no longer sign any physical documents, everything is now either digital or, even better, automated. And when it comes to planning and forecasting, we need to continue improving accuracy and transparency by leveraging and connecting our IT systems landscape more deeply – a joint effort for the whole finance function and beyond. This will enable us, e.g., to have a higher transparency on future forex risk exposures.

**Q. How big a part does ESG play in your role?**
KK: This has recently gained a lot of attention – not only for treasury. We already implemented an ESG-driven investment strategy for our long-term financial investments. And we are planning to adopt it step-by-step for the short- and mid-term investments.

Our external financing is not yet green, but we understand that we need to keep an eye on this in the mid- and long-term, so it is on our strategic agenda.

*Karsten Kabas is Vice President Group Treasury of the Merz Pharma Group, a global, family-owned company headquartered in Frankfurt, Germany, with the three businesses Merz Aesthetics, Merz Therapeutics and Merz Consumer Care.*

Part 4:

# The road ahead: New frontiers and themes

ESG principles are growing in importance for CFOs across the company's financial value chain – but treasury is not fully on board yet.

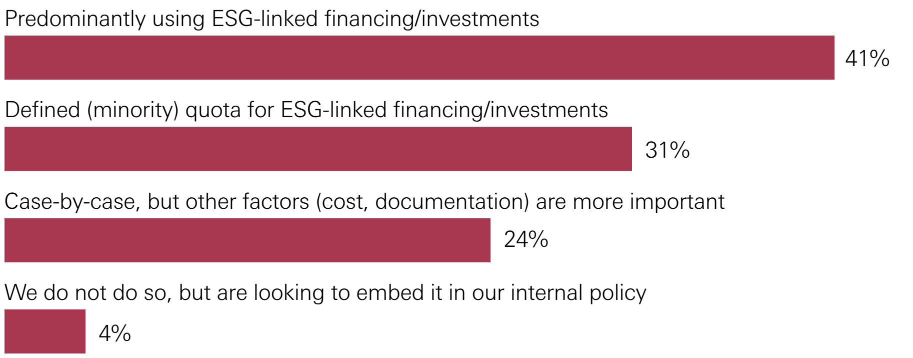
Companies can no longer ignore ESG. Institutional investors' and regulators' increasing demands for transparency combined with consumers gravitating towards businesses with strong sustainably and social responsibility credentials make this an existential risk and a fundamental commercial opportunity. Corporates that are resistant to this change over the longer term will find poorer access to financing and may struggle to retain customers.

In the main, corporates in Asia have not embedded these criteria in their activities to the same extent as their counterparts in EMEA or the Americas, instead being in the consideration stage on the impact of ESG across various areas. And, once again, there is a gap between the priorisation of CFOs and their treasurers on this topic.

**ESG is on top of the C-suite agenda**
ESG principles touch corporates widely, from borrowing to capital investments and supply chains, as CFOs have recognised the importance of sustainability in all their activities. For example, between 74% and 90% of CFOs acknowledge that ESG criteria are important across a broad spectrum of operations including sales and logistics, supply chains and financial market activities. Companies are also thinking carefully about how to grow their operations in a more environmentally responsible manner; 87% of all organisations see ESG as important to the allocation of their capex budget.

Meanwhile, ESG as it relates to the supply chain is considered "very important" for two-thirds of CFOs in EMEA, the top regional score across business areas and commensurate with proactive policymaking in the region. Earlier this year, the EU Parliament voted in support of a new directive on corporate due diligence and corporate accountability that would require companies to identify, address and remedy the ESG risks in their supply chains. This suggests that CFOs are

Fig 29.
THE CFO PERSPECTIVE: **How do you embed ESG criteria in your financing arrangements? (Select one)**



widely aware that their organisation cannot outsource ESG risks to partners in their chains as a shortcut to becoming more sustainable.

ESG is being delivered from the top down in financing instruments in particular: 62% of CFOs in EMEA and 43% of those in the Americas say their organisation is predominantly embedding ESG criteria into their financing arrangements, versus just 20% of Asia respondents who report the same. Larger organisations are at the tip of the spear, with 52% of CFOs in these organisations reporting that these criteria are included in their financing agreements, versus 30% in smaller organisations.

In Asia, 39% of CFOs say that ESG criteria are embedded in their borrowing terms on a case-by-case basis but that other factors such as cost take precedence, while 32% say their company has thus far only a defined minority quota for this type of financing.

The fact that EMEA is leading the way in this area as well is to be expected – the EU continues to develop its green financing regulatory frameworks and taxonomy regime, which acts as a classification system establishing a list of environmentally sustainable economic activities that companies are obliged to disclose. No other region has made a stronger regulatory push than Europe.

Treasury expectations about ESG quotas present a slightly different picture: 36% of treasurers overall say they do not yet embed ESG criteria in their financing arrangements, but they are looking to embed it in their internal policy. A further 23% say they do so on a case-by-case basis but that other factors are deemed more important.

Given the speed with which ESG has risen to the top of the corporate agenda, the prevalence of sustainable financing is likely to grow over the medium term. However, only 16% of treasurers expect more than half of their gross debt to include ESG criteria five years from now in contrast to the quicker adoption speed anticipated by their CFOs. This is more evidence that the internal communication between CFOs and their treasurers has potential for improvement – including the treasury in these plans earlier could help streamline alignment as well as the eventual execution process.

Once again, treasurers in EMEA expect the quickest adoption, with a quarter saying more than 50% of their financing will include ESG-linked instruments (compared with just 5% today). To a similar degree, larger corporations are more prepared for a strong transition towards ESG than smaller businesses.

**Impact of other megatrends**

The role of the CFO has evolved as well, taking on more of a strategic partnership with the CEO in terms of process changes and business planning. After all, any changes to the operations and strategy of a company depend on first-class financial management and capital allocation.

Fig 30.
THE CFO PERSPECTIVE: **How important are ESG principles in the following areas of your organisation?**

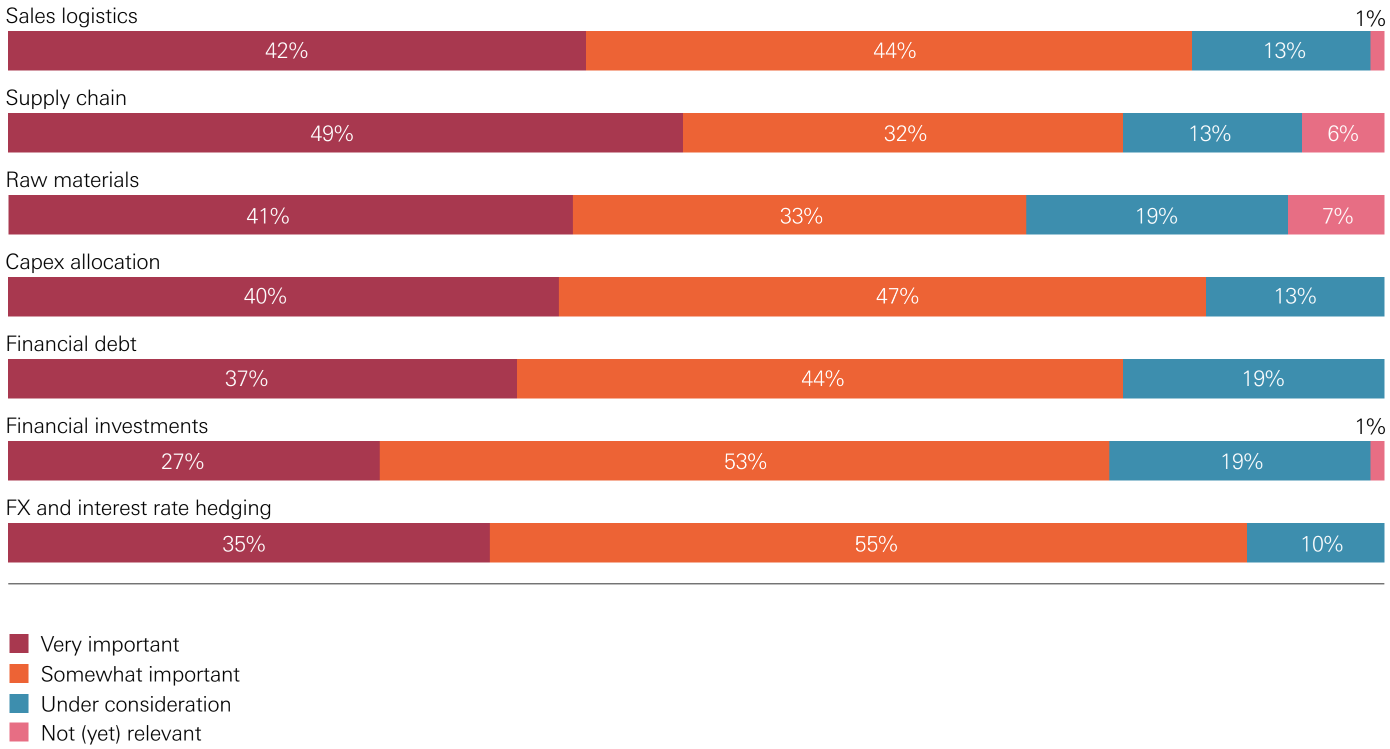



Fig 31.
THE TREASURY PERSPECTIVE: **To what extent, if at all, do you embed ESG criteria into your financing arrangements?**

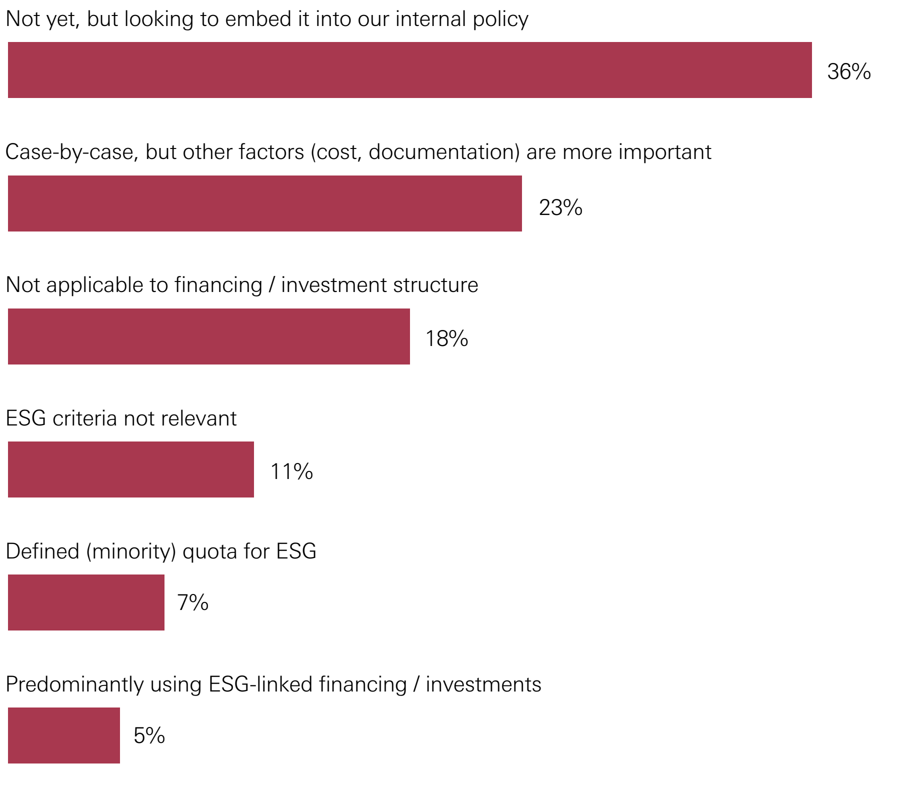
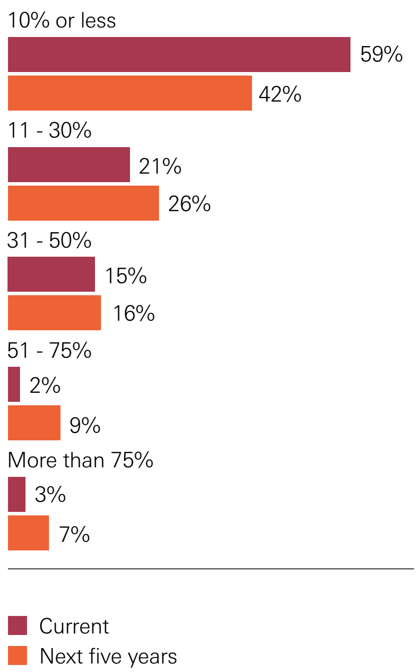



Fig 32.
THE TREASURY PERSPECTIVE: **How much of your gross debt currently includes ESG criteria? And how much of your gross new debt (including refinancing activities) do you expect to include ESG criteria over the next five years?**



This means that CFOs must understand how their company plans to capitalise on any fundamental shifts in the macro business environment. In general, CFOs in our survey appear to be optimistic about their companies' ability to capitalise on big global trends, at least to some degree.

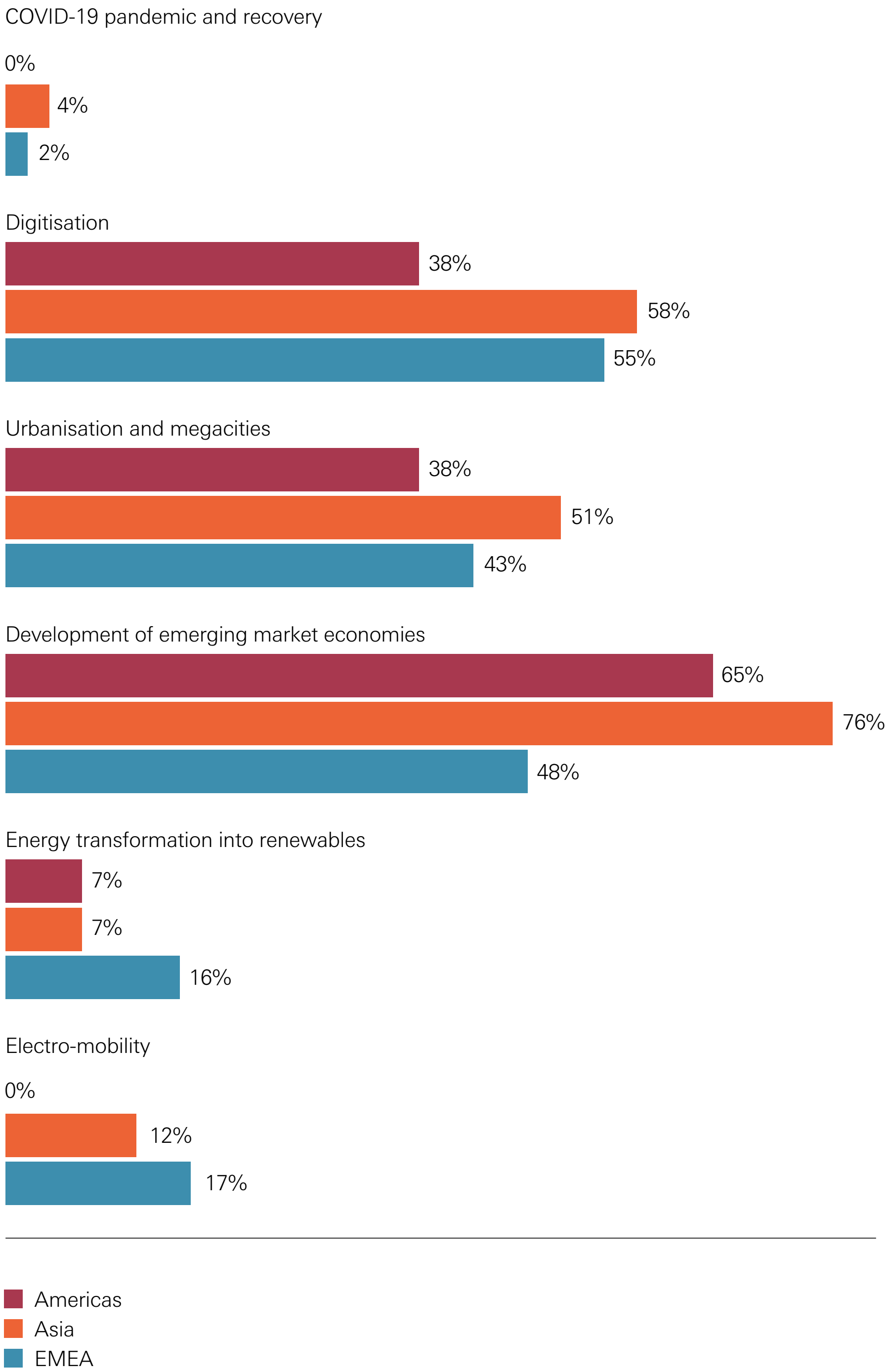
Digitisation is seen as the most positive factor among all CFOs. As previously mentioned, 84% overall expect the secular digitisation trend to have a positive impact on their business, with more than half (53%) expecting it to give their business model a "large boost".

Views on the ongoing energy transition are less conclusive. The largest proportion of CFOs across all regions and company sizes expect no impact on their business models from the uptake of renewables and roughly equal proportions anticipate either a moderate positive or negative impact. However, 44% of CFOs from EMEA expect their business models to be positively impacted, versus just 27% of respondents in the Americas and 30% of those in Asia. This can be tied to Europe as a regional leader in renewable energy consumption and the wider use of ESG-linked financing in the region, as reported by CFOs and previously mentioned.

With the shift away from fossil fuels, growth in electric vehicle (EV) adoption is also expected to balloon in the next five years. Clearly, this is an existential matter for the automotive industry, though companies in other sectors see this change as being significant as well. At least half of CFOs in EMEA and Asia (56% and 50%, respectively) expect electro-mobility to have a positive impact on their business model, whereas the majority (55%) of CFOs in the Americas expect it to have no impact at all.

Consistent with this, Europe and China have seen far stronger growth in EV adoption to date than the US, where charging infrastructure is lacking, particularly in central states. Therefore, views among CFOs in the Americas on the significance of this trend may change if consumers in the country adapt to EVs.

Fig 33.
THE CFO PERSPECTIVE: **How do you expect your business model to be impacted by the following themes and trends over the next three to five years? ("Large boost" responses shown only)**




**COVID-19 recovery expectations vary across regions**

There is little that has not already been said about the impact of COVID-19, not only as a humanitarian crisis but its binary (and in most cases negative) consequences for businesses. Many companies were severely buffeted by consecutive lockdowns, especially those with either analogue business models or heavily dependent on international supply chains and face-to-face access to customers.

Many see the worst as having passed in developed parts of the world, owing to widespread access to vaccines. But there is little sign of the pandemic coming to an end. Rather, people and businesses have adjusted, learning to live with the new reality. The easing of lockdown measures by no means suggests that companies will not feel the effects of the pandemic and the recovery for years to come. Nearly half (45%) of CFOs in the Americas and 34% of EMEA respondents are concerned about COVID-19 continuing to be a "large challenge" for their business in the next three to five years. By contrast, 16% of CFOs in Asia say the same, with far more (46%) expecting the impact to be neutral in that timeframe. This finding matches the varying degrees to which these regions have coped over the past 18 months as well as the different exposure to international trade that came up within this survey.

Treasurers express a similar view (*as outlined in Part 2*): A far lower proportion expects COVID-19 to have a material impact on their company and risk management strategy in the next three years than the proportion of those feeling its impact in the past. This suggests that they anticipate something resembling a return to business as usual over the medium term.

**Opportunities – emerging markets, M&A and organisational adjustments**

Concerns over the pandemic will likely persist for some time, but CFOs remain optimistic about the future growth of their companies. Following the worst global recession on record, economies are recovering robustly, providing a strong tailwind. CFOs most commonly point to a strong global economic rebound as a potential driving factor that could grow earnings in the next three years. This was cited by 60%, followed by over 52% who see stronger growth in emerging markets as supporting future earnings.

In fact, the growth of emerging markets themselves is expected to have a significant impact – 63% of CFOs believe the development of emerging market economies will provide a large boost to their business models, topping the list of trends that CFOs expect to significantly benefit their business model.

Regionally, CFOs in Asia – many of them headquartered in an emerging market economy themselves – back this view the most. In a related question, 72% of CFOs in the region see a strong growth in emerging markets as one of two most important growth factors for their company's earnings whereas this is picked by just 30% of CFOs in EMEA.

Similarly, CFOs in Asia are most optimistic about the global trend toward urbanisation and megacities having a positive impact on their business model, with 84% saying this compared to 60% in the Americas and 67% in EMEA.

Looking at regional growth in general, CFOs in EMEA have the most international view, with 38% having an eye towards the US and more than half aiming for at least one extra-regional market as one of their two largest opportunities in the next three years. This suggests that companies in low-growth and, in many sectors, ultra-competitive European markets are either making plans to capture international growth, or had already made this part of their strategy some time ago.

Meanwhile, few CFOs in Asia expect large growth outside of APAC, with only 6% and 7%, respectively, seeing their largest revenue boost to come from the US and Europe in the next three years. Not only do more than a third (35%) of CFOs in the region consider China to be a source of profit expansion, South-East Asia and other parts of the continent are also expected to deliver.

These CFOs have reason to be bullish on Asia. Chinese investments under the Belt and Road initiative are seeing solid returns and spurring local growth, while countries in the region, for example Indonesia and Vietnam, continue to modernise at pace, with rapidly growing domestic consumption and export markets. The high-growth environment (where not severely curbed by the pandemic) naturally makes those the primary markets for corporate investments and expansion.

Beyond macroeconomic and organic factors, 25% of CFOs also see M&A as a potential way to increase earnings over the next three years. While many transactions are being driven by pent-up demand from financial sponsors with record sums of capital to deploy, corporates are also heavily involved. Large corporations, in particular, have spent the past 18 months assessing how they can repurpose their operations and strategy to thrive in a post-COVID-19 world. This is driving some of the highest rates of divestment and M&A activity on record and treasurers will increasingly be expected to bring their insights and analysis to bear here.

At the same time, the pandemic has caused major supply chain disruptions, affected inventory levels and delayed the time to consumer. Companies are responding by reversing the offshoring trend with nearshoring to better secure supplies. More than three-quarters (79%) of CFOs across all regions and revenue sizes have been working with more local suppliers in the past three years.

A similarly sizeable share (78%) also say they have moved production and logistic centres closer to customers or shifted their supply chain to lower-cost regions (62%), with the latter more pronounced for EMEA businesses and larger operations, respectively.

This supply chain restructuring also appears to be affecting FX risks across organisations, as more CFOs – especially in Asia (59%) – have changed their invoicing to suppliers' local currencies, whereas there have been far fewer changes by CFOs in EMEA (30%) and the Americas (30%). This clearly calls for heightened oversight from the treasury and updates to their hedging strategies.

So too will any increase in sales generated in non-domestic currencies, and 37% of treasurers overall expect their share of emerging markets revenues to grow. Of those, 60% say they expect a new client base in emerging markets to be the largest driver for this change in foreign currency revenues, partially aligning with CFOs' optimistic outlook.

On the cost side of the equation, with supply chains undergoing a restructuring, almost half (48%) of treasurers say new suppliers in emerging markets will be the largest driver for a change in their emerging markets cost base.

Fig 34.
THE CFO PERSPECTIVE: **From which region/country do you see the largest revenue growth potential for your company in the next three years? (Select top two)**

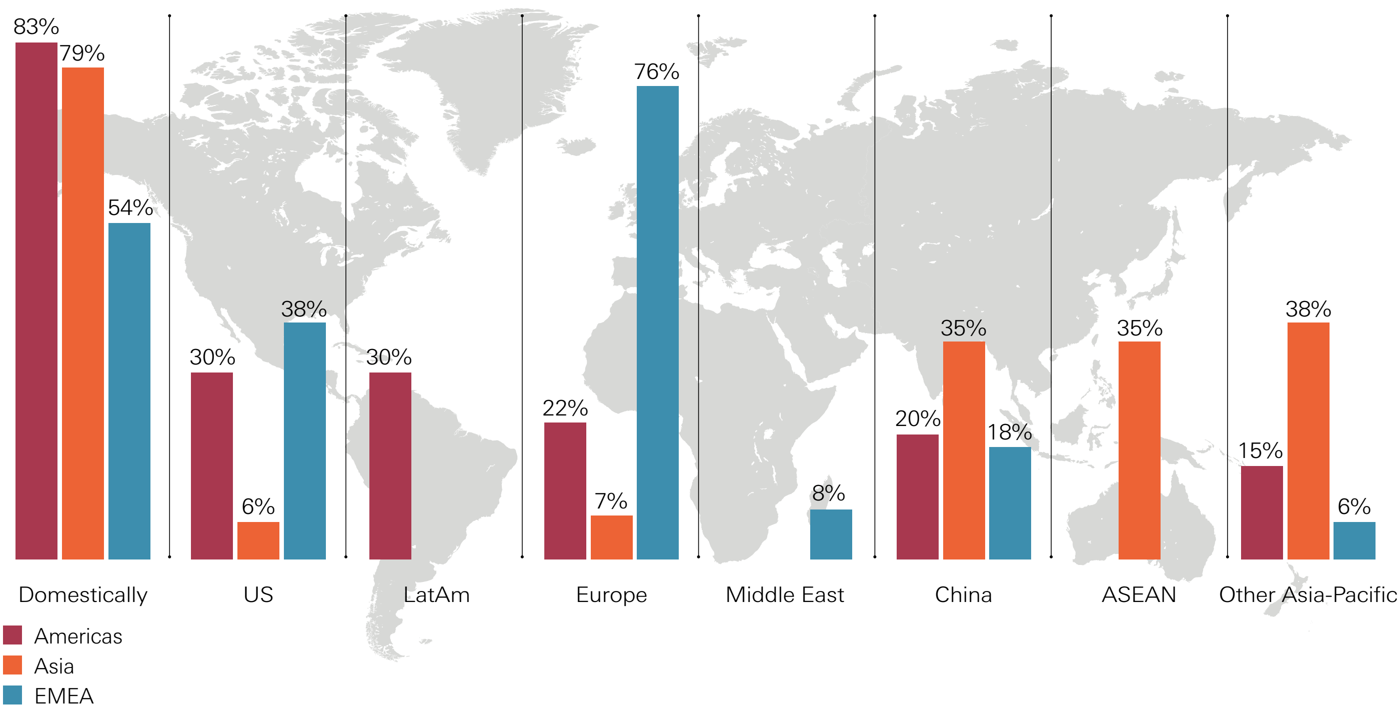
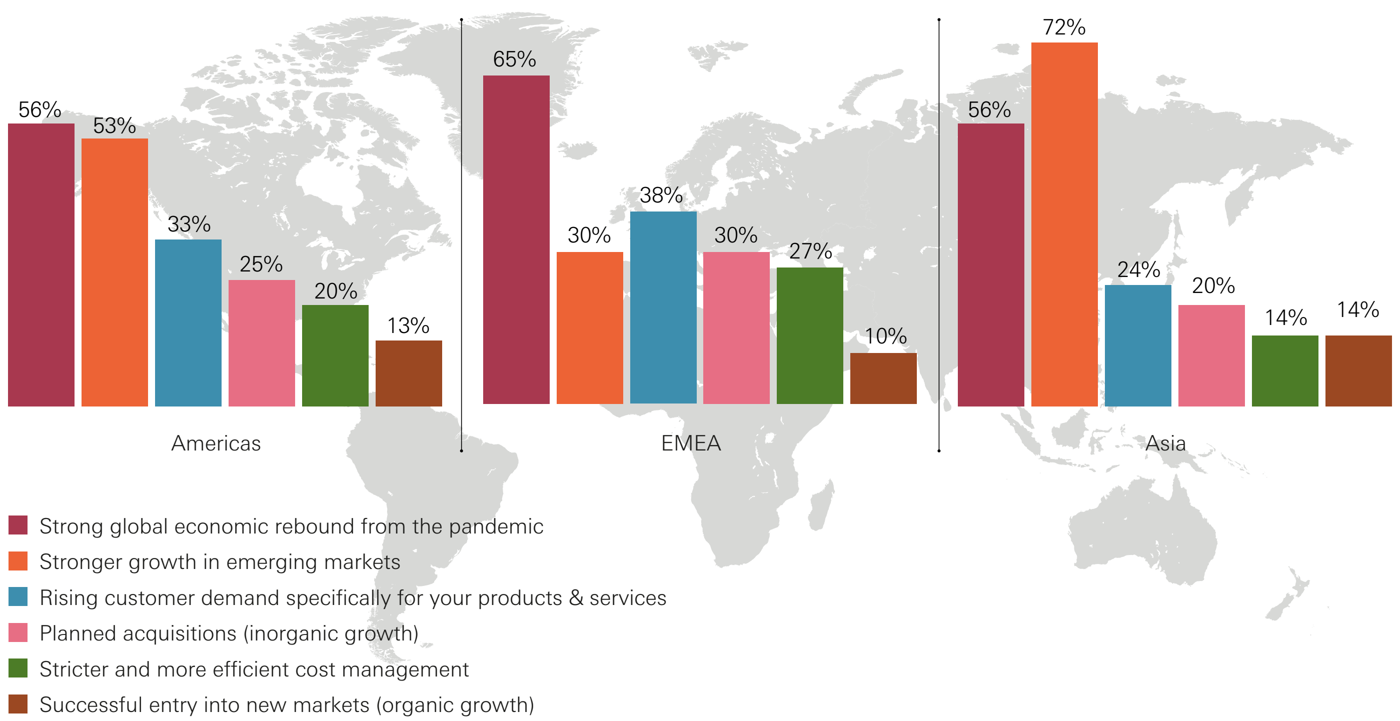



Fig 35.
THE CFO PERSPECTIVE: **What do you see as the most important factors to grow your company's earnings in the next three years? (Select top two)**



# Conclusion

As was the case back in our original report in 2018, the question uppermost on the minds of many CFOs and treasurers is: How can we best navigate uncertainty? Progress has been made in the past three years, despite the extraordinary developments of the past 18 months. Companies across the board have been tested by these circumstances and, for many, their success has been down to swift decisions on the part of the company's finance function.

CFOs and the treasury need to take the lessons they have learned from this experience and determine the best way to apply it to their growth strategies.

**Ensure you have the latest and correct data to improve the effectiveness of your risk management decisions.** Success for the treasury function isn't just a question of regular meetings or even a seat at the executive table – information will be an essential ingredient for this to work. CFOs and their treasury were forced to act quickly in the early days of the pandemic, securing financing to ensure liquidity. Without up-to-date information, those decisions would have been stabs in the dark. The quality and density of data will increasingly impact the ability to respond to challenges even more effectively.

**Cash may be king, but technology may soon take its place – invest resources wisely.** If the pandemic has taught us anything, it's that technology has become essential to the CFO/treasury relationship. When lockdown conditions were first implemented and remote working became the norm, many companies had to either invest in the technology needed to carry on or risk falling behind. This is not going to change as companies look to the future. The treasury is clearly relying more and more on technology to fulfil its function. CFOs expect to allocate more resources to their treasury department going forward, but they need to make certain that the right foundation and systems are in place.

**Get your priorities in order.** Despite the progress that has been made since 2018, there are still hints that, in some areas, the CFO and the treasury are not quite on the same page. For example, most CFOs say they expect to embed ESG criteria in their financing arrangements, predominantly through ESG-linked financing/investments, but treasurers still expect a relatively small percentage of their company's gross new debt to include ESG criteria in the next five years. Disconnects like these can risk becoming greater if CFOs and the treasury function do not have a very clear understanding of their company's long-term priorities.

While the sky is starting to clear for businesses as they recover from the impact of the pandemic, new challenges may await around the next bend in the road. CFOs may want to keep their eyes on the future but to do so, they need a treasury function that keeps its eyes on the present. Only by balancing these two imperatives will their organisations be well positioned to achieve their strategic goals.

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