Treasury Trends

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Sense and Sustainability

The challenge: to find the balance between sense (common sense) and sustainability (the objective to meet the greater good for all things economic, social and environmental).

We each have our own thoughts as to what we could and should do, how, when and why. There are those that proudly 'lead the pack', those that follow or forge their own path and, of course, some who don't know where to start or don't want to start the process.

Choose priorities - pragmatically

In a previous edition of *Treasury Trends*, we discussed how Environment, Social and Governance ("ESG") was one of the top four priorities for Treasurers around the globe – with many noting that they were yet to start a formal process around policy and strategy, let alone ongoing monitoring and reporting. Those with European parent business association are typically 'ahead' of the game due to the reporting requirements and disclosures already legislated – but the 'need to do' still conflicts with the 'how to do' in many cases.

Treasurers need to understand the lie of an organisation's sustainability landscape. For those where ESG is a top priority for the Board and senior management, roles and responsibilities will be well defined including a dedicated Sustainability Team, with the Head reporting to an executive in the C-Suite - or being part of the C-Suite. This reinforces the governance aspect of ESG and ensures that it has a 'voice at the table' and is taken into account when making key decisions.

The organisation will have a Sustainability Strategy that "*links positive environmental and societal outcomes to core drivers of competitive advantage and value creation, allowing them to transform their business models and value chains to capture the value they create*" *(Boston Consulting Group).*

Practically, this is included within a Sustainability Framework that outlines the vision, mission and strategy, and includes the goals and objectives, guiding principles, and roadmap to achieve the vision and mission. The roadmap is important to ensure that a plan is in place to progress towards meeting sustainability goals and objectives. This will need to be monitored with regular reporting to provide visibility on performance and indicate where further attention may be required. In some instances, the information to be captured and reported on is not available from existing reporting systems and therefore will need to be developed.

Self questionnaire

- Where does sustainability sit on your risk register? Who owns it?
- Do you know what your material exposures are?
- Do you have pain points in the strategy, implementation, monitoring or reporting phases?
- Does any funding benefit from sustainability practices within your normal operating practices?

The materiality test

Key for an organisation when establishing its sustainability framework is an understanding of what is material? A materiality assessment helps an organisation to understand the current state and to engage with stakeholders to gain insight on what "*matters most*". Along with any decision to allocate resource to this area, the materiality assessment is a critical step in applying the overlay of common sense.

Connect the dots

There are many examples where an organisation has started to document sustainability strategies and frameworks, assigning cost and resource, but there is a disconnect with finance and treasury. It will not always be the case, but it is worth exploring how the efforts devoted to building and maintaining a sustainability strategy could be aligned with direct financial benefits from suitable borrowing products.

If not part of the 'routine' business focus, there might be benefit from a sustainable finance review, to identify whether consideration should be made to refinance some or all funding with sustainable finance.

Funding cost benefits available

Ordinarily this is by way of green, social, use of proceeds or sustainability linked loans or bonds. For use of proceeds funding, the funds are for the construction or refinancing of green or social projects. Sustainability linked funding provides a level of accountability for an organisation by setting sustainability performance targets ("SPT") to the cost of funding, for example margin and line fees.

The achievement of targets is 'rewarded' with a reduction in the margin but if a target is not met, there is a 'penalty' with either an increase to the margin or no change. The establishment of SPTs and Key Performance Indicators ("KPI") will need to be verified by a Second Party Opinion ("SPO") to ensure that the targets set are material and ambitious for the organisation. This is to avoid green washing, where an organisation acts or behaves in a way that makes people believe that it "*is doing more to protect the environment than it really is*".

Monitoring and reporting on performance and progress towards targets ensures that an organisation does not unnecessarily miss out on the benefits/rewards of sustainable finance. This can occur where targets were set, but a roadmap to achievement was not put in place through monitoring and reporting. Organisations should not 'set and forget' their targets and commitments. Regular reporting to senior management and the Board will provide accountability that there is commitment to meeting targets, rather than finding out at a compliance reporting date that targets were not met.

Reporting

Globally reporting bodies are aiming to standardise the reporting requirements in financial filings. For example, in New Zealand, the recommendations of the Task Force on Climate-Related Financial Disclosures ("TCFD") on governance, strategy, risk management, metrics and targets, have been incorporated into the Aotearoa New Zealand Climate Standards. It is now mandatory for large NZ corporates that meet the criteria to file climate related disclosures (also referred to as climate statements) on the Climate-related Disclosures Register. Do you know whether your organisation is captured by these requirements?

Other business partner interests/impacts

In addition to discussions most are having with their banks in this area, insurers are key to the way most organisations are going to fare in the future. By actively addressing environmental risks and promoting sustainability, insurance companies are better equipped to mitigate their own losses and contribute to climate resilience. Your business will need to fit into an insurer's risk framework to secure cover.

For those that cannot accurately identify and monitor risk, the outlook will be bleak from an insurance perspective. We are already seeing some areas of business becoming uninsurable due to climate zone risks.

And, of course, there will be a growing number of customers and suppliers that are seeking evidence that your business has alignment with their own sustainability ambitions.

It's the future, and positive for treasury

For those only recently assigned responsibility in the sustainability area it can be daunting. It can be overwhelming trying to understand where to start and what is applicable for your organisation, let alone the new language, acronyms and initialisms.

There is more written now about the over zealous nature of how sustainability has, and is, affecting business in many instances. For the common good, this focus in here to stay but we believe will settle into a more pragmatic operating arena over time. Common sense has to prevail and this balance will fit more neatly into the treasurer's usual drive around risk identification and management.

Business is all about finding ways to work, and work with people. A common sense approach can be applied without compromising core principles – moving on from individual pride and prejudice.

Please arrange a time with your advisor if you would like us to run a whiteboard session on sustainability for treasury with your own team.

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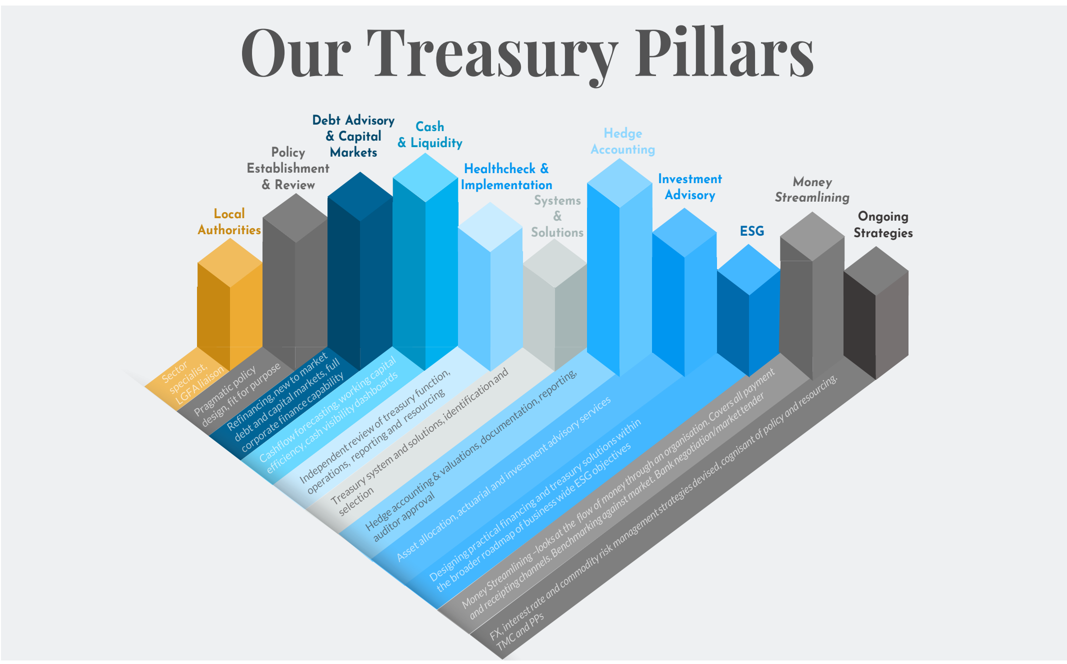

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