Treasury Trends

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With storm clouds still lurking, time for treasury to shine

Questions/actions

- Is it timely to (re) confirm the risk profile?
- Could cashflow forecasting and stress testing (e.g. bank covenants) outcomes provide greater comfort to the business?
- Is there an opportunity to strengthen the funding profile?
- Time to drive the human/technology interface

In times of economic uncertainty, corporate treasuries play a pivotal role in ensuring the financial stability and resilience of organisations. Many forecasters still talk of another year to 'hang in there', so it is critical that treasurers (or those with responsibility for treasury) adopt proactive strategies to mitigate risks and navigate through the anticipated turbulent times ahead. We discuss below the 'normal suspects' as to areas where treasurers can look to provide comfort to senior management and those tasked with organisational governance.

Assess risks

We work with clients to confirm or challenge profiles through a policy review or treasury healthcheck process. A number of areas are explored across a business including liquidity, cashflow, debt or investment maturity profile, interest rate, foreign exchange or commodity price exposure, and counterparty risk. By identifying potential weaknesses and stress-testing financial scenarios, informed strategies can be devised to safeguard an organisation's financial health.

Enhance liquidity management

Maintaining sufficient liquidity is paramount during economic downturns when access to capital may become constrained. Treasurers should focus on optimising cash management processes (including forecasting), accelerating receivables, and managing working capital efficiently.

Identifying an appropriate (and robust) liquidity buffer, incorporating as needs be committed lines of credit or cash reserves, provides a cushion to weather financial shocks and be in position to benefit from opportunities that may arise during downturns.

Extend/diversify funding sources

Overreliance on any single (or limited) funding source can expose organisations to significant risks, especially during economic downturns when credit markets may tighten. At present this is not the case, with funding margins remaining relatively attractive and, as relevant, with incentives if linked to certain sustainability linked strategies and reporting. It might be opportune though to discuss with your funders how 'upcoming' expiries might be extended – in some cases, earlier than might be seen as normal.

With heightened geopolitical tensions, aligned with the local economic woes, a robust risk management approach might include adding tenor to funding facilities 'now'. There will be financial cost incurred in 'going too early' but this needs to be weighed up against the cost of 'leaving it too late' – whatever that might mean.

For larger borrowers, there might be opportunity to consider reducing reliance on the bank market for example, to include the likes of bond issuances, commercial paper, or other financing options. Each has its pros and cons, so a paper on pragmatic funding options might be well received by a Board in the current environment.

Manage market risk volatility

Ensuring policies or operating guidelines are fit for purpose is a crucial foundation for managing market risk (interest rates, foreign exchange and commodity price). An increasing use of option products has helped many during times of greater uncertainty – making sure of course that any option product used actually serves its purpose (to manage risk) rather than to do the opposite (create more risk). Simple option products (premium paid, collars) can usually fit in to a wider risk management policy and strategy setting but buyer beware – please talk to your advisor to understand how such products might fit for your business.

Strengthen counterparty management

As any business battles with its own challenges, barriers to growth, cashflow, etc, there is also the warning to check on the health of your counterparties – a critical concern during periods of economic uncertainty. Whether through the use of external ratings or self imposed dollar or percentage limits, Boards should have a policy prescribed system of review in place requiring the treasurer to monitor counterparty risk in order to safeguard an organisation's assets and relationships.

Embrace technology and automation

Investing in technology and automation can enhance the efficiency and effectiveness of treasury operations, especially when there might be stresses on time and resourcing due to 'other things' needing priority focus. A comprehensive treasury management system, a TMS, won't be justified for all but there is a lot of technology available to treasurers depending on the requirement.

The key is to identify what you need from a technology and automation upgrade ('must have' and 'would like') before inviting vendors in to demonstrate their wares. Solutions exist for 'whole of treasury' or by specialist area (FX trading, hedge accounting, cash forecasting, etc), and can operate on a stand alone basis or be fully integrated with ERPs, banks, accounting systems, etc.

With the right fit, a treasury system or solution will help to enable treasurers to streamline processes, improve visibility, and make data-driven decisions. Leveraging technology may also support risk management capabilities and compliance reporting for regulatory requirements.

Stress test and scenario planning

Effective treasury risk management is always focused on the 'what if', anticipating and preparing for adverse scenarios. Stress testing and scenario analysis around 'best case' and 'worst case' will support the resilience of financial wellbeing under different economic and market outcomes. Naturally, this is not a set and forget activity, and will need regular revisiting and refinement as conditions and outlooks change. Bank covenants should be reported on a forward looking basis.

Choose the right partners

It always pays to have trusted and experienced people around you – and never more so than in times of strife. As well as needing collaboration within an organisation, a treasurer needs to have a network of external partners which can provide independent thought and support to areas of specialism (tax, accounting, treasury, etc). Fostering such contacts and alliances will only strengthen the positioning for resilience and sustainable growth long term.

Board engagement and oversight

Boards and Councils play a critical role in governance and oversight, and especially in periods of real or perceived periods of economic uncertainty. We encourage treasurers to engage with directors/ councillors regularly to provide updates on financial performance, risk exposures, and strategic initiatives. Leverage board expertise and oversight to validate governance practices, challenge assumptions, and ensure alignment with stakeholder interests.

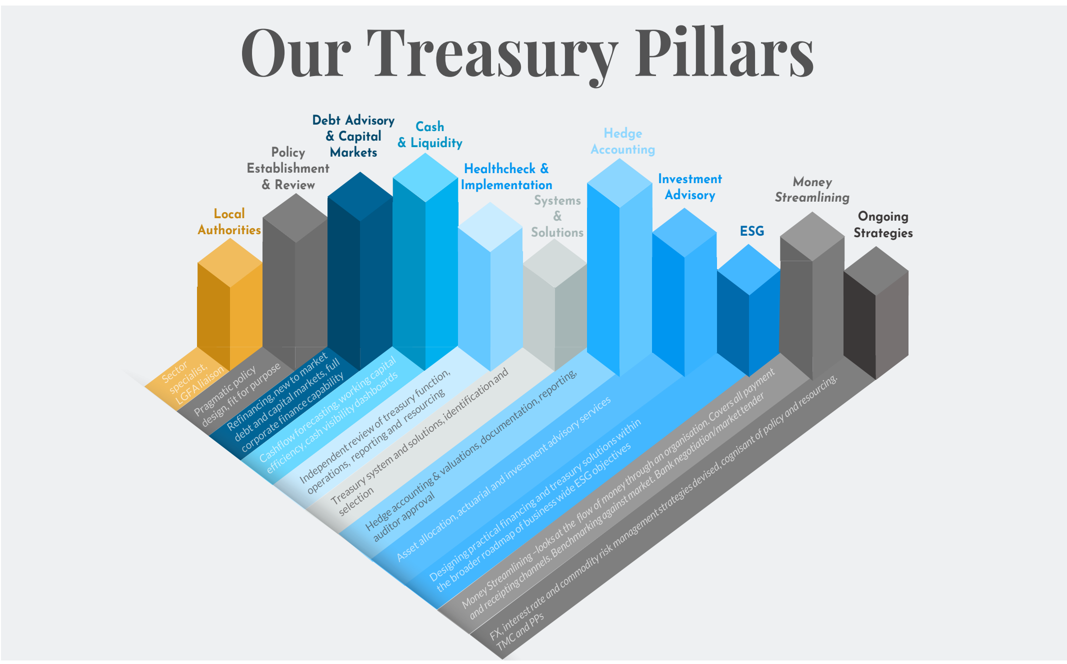
Recognise a place still for humans

With stresses and strains at the business level, it is imperative that individuals remember the 'one team' message. Navigating hard times would typically be made simpler through collaboration and coordination across various functions within an organisation. Treasurers are ideally placed to liaise with the wider finance team, procurement, and other stakeholders to align objectives and implement cohesive strategies. Building strong relationships with banking partners, credit rating agencies, and regulatory authorities also enhances resilience and support during challenging times.

Please speak to your advisor as to how strategies might be developed to work through any or all of the above. Adopting a proactive and 'whole of treasury' approach is essential for mitigating risks and showcasing the value of treasury within a business.

We all hope for a quicker end to the economic storm clouds but remember it doesn't always rain money – even when there is 'change' in the weather…

WHAT WE DO



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