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Managing treasury in a post-COVID-19 world

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Stresses to the financial system, whether driven by pandemics, terror attacks, or global economic downturns, demand increased focus by treasurers on the management of cash and liquidity in the short and medium term. Faced with COVID-19, treasurers should take stock of lessons learned from the 2008 sub-prime mortgage industry upheaval and other historical disruptions as they consider actions they can take in the short and medium term to build resiliency and address the challenges ahead. The following summarises immediate actions to consider in the near term.

Cash visibility — does your organisation know its consolidated enterprise cash position and location?

Internally-generated cash is your organisation's least expensive pool of cash. Under-optimisation of available idle cash increases external interest expense and liquidity risk.

- Ensure treasury teams have access to bank portals or treasury management system cash position reports. This may require contacting your bank partners or system providers to add new users.
- Combine your cash position with the broader treasury and enterprise-wide cash forecasting process to help identify minimum operating cash needs.
- Consolidate excess cash into centralised core accounts to optimise cash availability or application for other corporate purposes.

Liquidity — do you have sufficient cash resources in the short and medium term?

As capital markets experience disruption, liquidity could be reduced if uncommitted credit lines are pulled, unused credit lines reduced, or governments disrupt currency flows.

- Review all funding sources to ensure understanding of borrowing capacity.
- Engage banking partners to obtain assurances of support and any limitations with availability of funds.
- Draw down on facilities as needed to ensure sufficient back-up cash is available, especially in instances
- where access to markets may be challenging (e.g. commercial paper liquidity).
- Work with forecasting team to determine how much cash may need to be accessed from lenders/markets under various stressed scenarios.
- Evaluate working capital policies to assess whether payment terms should be increased or whether discounts normally taken should be deferred based on the internal cost of capital.

Risk management — are your financial risk management practices effective?

Ineffective exposure identification and management could result in financial losses and reduced liquidity if currency markets are disrupted.

- Evaluate interest rate, foreign exchange and commodity exposures to determine if current strategy, and risk appetite are still appropriate.
- Consider the impact volatile foreign currencies (e.g., emerging markets) have on your current risk profile. What is the impact from major movements, liquidity and cost on your strategy?
- Reassess your current borrowing and interest-rate profile as governments decrease interest rates. Evaluate opportunities to swap higher-coupon debt to lower-coupon fixed rates or lock in very low attractive interest rates for a longer period.
- While financial institutions are in a considerably stronger position than in 2008, continue to assess financial counterparty credit ratings and exposures, modifying or reducing transactions accordingly.

Cash forecasting — does your organisation know how much cash it will need in the short term?

Understanding your near-term cash availability enables you to meet your financial obligations and maintain solvency.

- Coordinate with business units and finance teams to understand expected cash balances over the next 13 weeks.
- Track large expected inflows and assess the risk and implications of delays or non-receipt as a result of potential issues for the third party. Run "what if" scenarios, including worst case, to develop a view of the highest potential cash need.
- Perform a vigorous variance analysis to help measure the success of your forecasting approach. Make adjustments to your forecast based on what you learn from your variance analysis.

It is difficult to predict when a new normal will be established. Regardless of the timing, over the next several weeks, your treasury organisation will have identified lessons learned and gaps in your operating practices and business continuity plans. Many of these process gaps can be attributable to the under-utilisation of technology, continued reliance on manual processes, outdated internal policies and limited focus on developing and testing ongoing business continuity.

KPMG has over 400 treasury management practitioners driving innovation and delivering leading practice methodologies to corporate treasurers and CFOs across the globe. With the experience of one of the leading consulting houses for corporate treasury, we can help to find the right approach for you.

We have been working closely with our clients as they respond to the opportunities offered by the Greater Bay Area and corporate treasury centre initiatives. Our experts can support you in aspects of treasury and financial risk management, treasury accounting, treasury tax, capital markets, working capital management and treasury IT.

The challenges of finance and treasury management are comparable across all industries – process efficiency combined with cost reduction, while maintaining transparency of financial risks and compliance with regulatory requirements. The core industry-specific areas are covered by our experience in key sectors including consumer and industrial markets, infrastructure, financial services, technology, media, and communications.

We would be happy to meet with you to discuss how we can address your corporate treasury needs.

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