

COVID-19: What could it mean for your Treasury?

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Considering the potential business impacts of the COVID-19 outbreak

Background

The COVID-19 outbreak has been declared a pandemic by the World Health Organisation, causing huge impact on people's lives, families and communities. As the international response continues to develop, we recognise that organisations are also facing potentially significant challenges which require prompt attention.

The government, the media, business and the wider population are all asking 'What does this mean for me?' As Treasurers and finance professionals, you are likely to be asked similar questions by your board and senior management in terms of both potential business impact and your plans to address any resultant risks.

These questions will be asked not only to ensure a robust and commercially astute response to minimise the negative impacts of COVID-19 and maintain the delivery of your critical business processes but also to protect your people and assets.

PwC is focused on helping businesses understand potential COVID-19 scenarios to inform and support crisis and response planning.

What you need to know

COVID-19 could have a significant impact on Treasury

In the event public health measures fail to contain outbreak hotspots leading to a prolonged or significant peak in cases. Focus shifts to reduce outbreak impact. This could include:



Workforce

Major global disruption, including home working, travel restrictions and morbidity and mortality in the workforce



Supply chain

Global shortage of some goods due to production slowdown



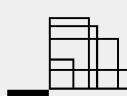
Economy

Increased risk of global recession dependent on the severity of the pandemic



Timeframe

12 to 18 months



Treasury related issues that many organisations are facing from COVID-19

Workforce

Protecting and ensuring availability of your workforce to deal with treasury activities from execution to payments and financial reporting



Supply chain

Concerns with the resilience of primary service providers (banks, finance sources, card acquirers, technology vendors) and knock on impacts in the event of prolonged disruption



Decline in sales

Leading to cashflow challenges, working capital and covenant issues and impact on hedging strategies and credit rating



Operations

Reduced resilience in current processes, organisation and operating model. Can you release payments, perform reconciliations or ensure compliance with treasury policies?



Travel

Can your organisation cope with remote working if locations become unavailable?
Does your team have remote access to all key treasury systems?



Law and regulation

Compliance with terms of agreements and regulations may result in knock on issues, e.g. Tax or difficulties accessing funding (material adverse change) or early termination of agreements (break clauses).



COVID-19 Treasury response planning phases

As the COVID-19 global response evolves, organisations are experiencing significant operational, financial and liquidity challenges. The following three key steps should be considered by treasury teams as they respond to the impact of these challenges:

May ······ June ······ July ······ Aug ······ Sept ······ ►

1) Rapidly understand what needs to be done

2) Take action to protect your position

3) Ensure your approach can be sustained

- Set clear roles, accountabilities and objectives across your team and with your organisation's incident management team
- Agree meeting cadence and team ways of working
- Update cash forecasts
- Perform sensitivity analysis, modelling worst-case scenarios and downsides, inclusive of the impact of FX on cash position and covenants
- Identify gaps in business continuity plans and resources for staff sickness and other key assumptions in scenario planning
- Identify immediate urgent actions to stabilise cash and liquidity positions, access funding and impact on hedging strategies or address covenant breaches
- Enable flexible/remote working arrangements in the event of quarantine and ensure the necessary infrastructure is in place
- Verify that technology infrastructure can support remote operations across multiple locations
- Review finance documentation and identify if there is:
 - Flexibility on covenants, cures, force majeure or baskets;
 - Additional borrowing capacity and unencumbered assets - inventory, receivables, intellectual property; and
 - Scope to access government funding initiatives

- Develop a clear communications plan to ensure consistent messaging across key relationships (banks, rating agencies, trustees etc.) as well as staff and internal stakeholders, with feedback loops
- Validate key suppliers for service availability and resilience and respond to developments
- Update operational contingency plans to ensure disruptions to operations are minimised, including ongoing reviews of authorised personnel to manage bank and system processes and controls
- Update financing plans and consider if your capital is allocated appropriately or should you re-prioritise current capital allocation plans in light of your organisation's response to COVID-19, as well as external responses and opportunities (such as government stabilisation, potential changes in state aid rules or other economic incentive schemes)
- Review your treasury policies to update your approach for the effects of significant disruptions on your supply chain, customers and margins
- Enhance monitoring of positions (FX, cash, counterparty etc.) to monitor for rapidly changing scenarios

- Reflect on progress made and lessons learned.
- Plan to 'lock in' the outcomes achieved through longer term strategic plans and actions
- Develop your technology roadmap to further enhance roles, processes and controls to embed and sustain resilience (e.g. through better use of core treasury and enterprise technologies, robotics or flexible resource models and outsourcing)

There are a number of treasury activities that could be impacted. We have compiled a checklist of areas for you to consider:



Liquidity

- How will you ensure that you have sufficient liquidity in place? In particular if the pandemic:
- Requires significantly increased levels of liquidity and working capital to keep your business going.
- Causes cash balances to become trapped or unavailable for a prolonged period.
- Causes committed facilities and bank overdraft mechanisms necessary for the effective operation of the Group's cash and liquidity arrangements to become unavailable or withdrawn.
- Causes the banking system, markets or banks in a particular country to freeze access to or visibility of Group's bank accounts.
- How will you ensure there is no significant disruption to your organisation's ability to forecast cash flow and manage resulting currency cash flows?



Governance

- What revisions will be required to your treasury policy to enable your response to limit the impact of a pandemic?
- What will you do to ensure effective communications with key stakeholders including banks and credit rating agencies, to avoid a withdrawal of lines of credit as a result of inadequate communications, panic and uncertainty on your organisation's perceived exposures / inadequate response?
- What steps will you take if your scenario modelling predicts that a pandemic would cause the organisation to breach key covenants or undertakings resulting in reputational or going concern issues?



Currency exposures

- What impact would a pandemic have on your existing hedging programmes and activities?
- What will the impact be if there is significant disruption, or volatility in exchange rates, on your supply chain, customers and margins?
- To what extent does this change in FX exposure increase your P&L volatility? How will this impact covenants?



Counterparty risk management

- What will be the impact of the pandemic be on investment strategies and your existing counterparty risk and investment management policies?
- Does your counterparty risk management monitoring framework check for the potential impacts of the pandemic on key financial counterparties' abilities to provide prompt and satisfactory services?



Funding

- How do the uncertainties associated with COVID-19 impact on your current financing negotiations or those which require renegotiations in the next 12 to 18 months?



Systems, processes and controls

- What will you do if events require different, competent and authorised personnel to manage FX or bank accounts, associated settlement mechanisms, other systems and related interfaces, processes and controls?



Regulatory regimes

- What would you do if capital controls were imposed to restrict fungibility for cross border type payments (or FX transactions) or deductibility for tax purposes as a result of regulatory response to events or stresses in markets?



Staffing

- How will you ensure that you have the level of staffing necessary to plan or execute your response to an outbreak? How quickly can additional resources be mobilised?
- What will you do to ensure that events do not adversely affect your ability to fund accounts used to effect payments to your organisation's personnel?

How can PwC help?

The PwC Treasury team is a multi-disciplinary team which brings together experience and specialist skills from across the wider PwC firm on Treasury related matters. Its strategy through execution approach can help you identify and influence the key steps to manage the risks of COVID-19 on your Treasury.

Our team has extensive experience helping clients in a range of situations, ranging from targeted improvements to full-scale Treasury transformations.

We help clients by identifying strategies to optimise treasury operating models, understand and manage financial risks, and select and implement systems to increase efficiency and effectiveness.



Improve visibility, control, cost and predictability of cash balances



Design improved processes, controls, and reporting over treasury activities



Analyse and help you understand key risks particularly foreign currency and commodity and interest rates using enhanced data analytics



Determine strategic, operational and financial hedging solutions which mitigate potential cash impacts



Provide you with a flexible treasury support model which allows support levels to move with changing business requirements



Ensure your policies and procedures mitigate the risks heightened by COVID-19, including cyber security, internal controls and board expectations



Design and deploy robotic process automation solutions to enhance efficiency, control and resource utilisation



Help you understand what should be done to protect the interests of creditors and to avoid wrongful or (in extreme circumstances) fraudulent trading, in the event of financial and liquidity stress

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