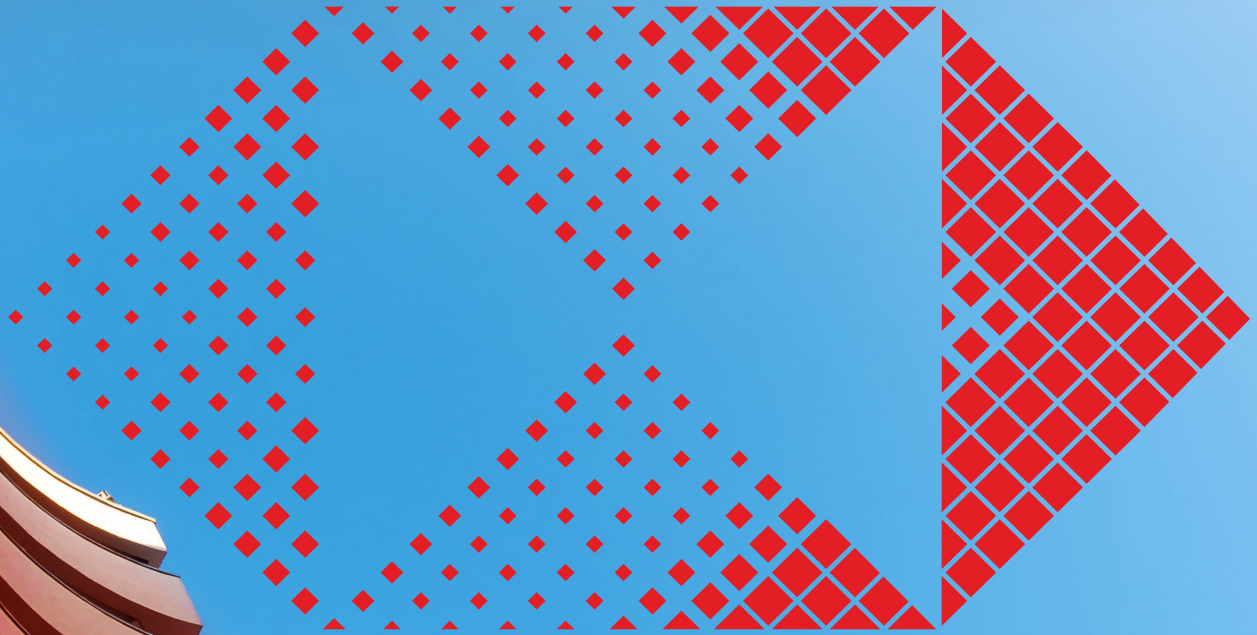


Redefining Treasury in Asia

Voices of Treasury Report



HSBC

| Opening up a world of opportunity

Executive summary

In 2024, HSBC brought together treasurers and finance directors in Singapore, Hong Kong and Shanghai to share best practices and insights, and to learn from one another. At each of these events, treasury professionals were invited to discuss the themes that occupy their jobs today, and how they are expected to develop.

The result was a uniquely detailed insight into the views and concerns of over 130¹ senior treasury and finance experts in Asia, with first-hand experience of their subject matter. This report synthesises their views, preserving their anonymity while also making widespread use of their insights and comments. We believe this is a differentiated report based not just on aggregated surveys but the considered opinions of experts.

THE BIG PICTURE

- ◆ Treasurers' roles have expanded beyond traditional tasks and are expected to be enablers of growth.
- ◆ While technology exists to assist them in growing their roles, management need to be convinced of the bottom-line benefits of additional investment. Now is a good time for treasurers to speak up.
- ◆ Geopolitics and financial market volatility keep treasurers awake at night more than cybersecurity, system outages or bank failures.
- ◆ Trade policies, both tariff and non-tariff, are evolving between major trading partners. This has an impact on treasurers.
- ◆ This and financial volatility affect hedging costs and funding differentials, complicating the outlook for treasurers.
- ◆ The high and fluctuating rate environment can make different currencies look attractive than normally. But everything will always depend on liquidity and the availability of affordable hedging.

TECHNOLOGY AND TREASURY

- ◆ For all the fanfare around artificial intelligence (AI), the bulk of its use today is at the machine learning/robotic process automation (RPA) end of the spectrum.
- ◆ Treasurers hope AI will prove itself in more accurate cashflow forecasting.
- ◆ In all cases, AI and automation still require a human check.
- ◆ Embracing AI requires treasurers to get comfortable with data security – an issue that raises its head most frequently in mainland China.
- ◆ Another challenge around AI is convincing management that it is sufficiently useful to bother investing in. Linking outcomes to KPIs will help.
- ◆ Real-time treasury is a goal well worth pursuing – but it requires investment and effort to ensure the quality, cleanliness and governance of the underlying data.

RESILIENCE

- ◆ Return on and reallocation of capital are the biggest priorities for treasurers today.
- ◆ Capital issues matter more in an environment of high and changing rates. Liquidity management is increasingly key.
- ◆ Liquidity management – and cross-border pooling mechanisms – are making progress in mainland China, but documentation and regulation remain challenging.
- ◆ Many treasurers want increased regional centralisation – not in place of global centralisation but to support it. Treasurers believe there is value in on-the-ground knowledge enabling them to be quick and nimble in a complex and highly diverse environment.
- ◆ Cyberattacks are a threat, and for all that companies invest in firewalls and enterprise-wide technology, the greatest vulnerability is the individual. Training is the best defence.

¹ The report captures insights from 27 treasury practitioners in Singapore, 34 in Hong Kong and 76 in Shanghai



THE BIG PICTURE:

ROLES, RATES AND
ROILING GEOPOLITICS

The role of treasurers has evolved – and they must fight for the resources to adapt

The expectations of treasury departments have changed significantly. Treasury professionals today are expected to do more than simply manage cash and financial market risks. They must contribute to company growth and profitability – roles more in keeping with the C-suite.

We asked treasurers at our events to estimate the split of their working hours between traditional treasury roles and driving change to achieve growth. Universally, the most popular answer was a 70:30 split between

the old and the new. This was as true in Singapore as in Shanghai and Hong Kong.

While this expectation elevates the importance and influence of treasury, it also brings with it a burden. Treasurers must fight for resources, and interact with other company departments for the best overall outcome. Perhaps the visibility of treasury issues today – in an environment where rates and inflation are at the forefront of executives' minds, and soon after

a pandemic that caused people to rethink realities around cashflow and trade – means this is the ideal time for them to speak up.

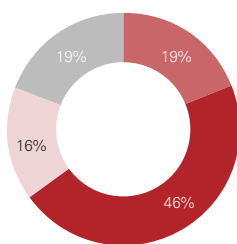
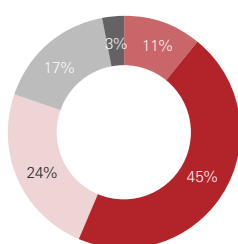
Changed expectations also create a talent shortage. Employees increasingly need to be capable not only across treasury but new technologies. Amid this shortage, companies report a gap between what employees want to do and what they should be doing, with a generational gap in attitudes towards life balance and hybrid working arrangements.

What is your allocation of time between running daily processes vs driving changes in your treasury operations?

108 total votes

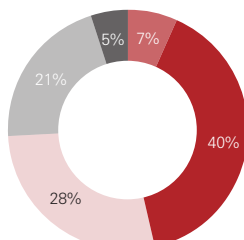
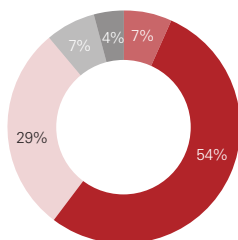
Region

Hong Kong

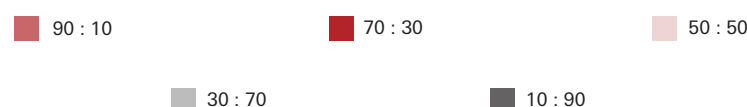


Singapore

Shanghai



Key



“The treasurer is no longer someone who is in a hidden corner on the seventh floor just doing liquidity reconciliation or payment. They must be a strategic partner.”

Treasurer, Singapore

“Our treasury department has two areas that it is more involved in than the past. One is in the risk assessment and financing assessment of different investment cases, including overall gearing. The other is more resources in systems change and digitisation.”

Treasurer, Singapore

Battling external shocks in a fractious world

Geopolitical tension impacts trade corridors and funding options. Volatility in the financial markets brings hedging costs. The peaking of the rates cycle, and its pace of change, raise questions of timing and agility. All of these things present challenges for treasurers in Asia.

Our study shows that geopolitical events and financial market volatility are by a distance the top-of-mind issues among treasurers. Both were highlighted by more than 60% of respondents when asked the top risks their treasury functions were concerned about – dramatically ahead of cyberattacks (cited by 23.1% and discussed later in this report), system outages (28.8%) and banking crises (18.2%).

It is notable that the potency of these issues varies by geography within Asia. In Singapore, geopolitics is

the standout concern, with 79% of respondents citing it as a concern, compared to just 52% for financial markets volatility.

In Hong Kong, it is the other way around: 63% cite financial market volatility, and only 40% geopolitics. Treasurers at brokerages, for example, tell us that movements in the Hong Kong dollar reflect matters in the American economy rather than the local one, requiring careful management of positions. In Shanghai, both are cited (70% financial market volatility, 63% geopolitics).

US-China tensions and unrest in the Red Sea were cited most frequently by the treasurers we spoke to. Those in the freight and logistics field who see disruption to shipping through the Red Sea speak of rising freight rates and a consequent shift in their need for working capital.

Others note that trade protectionism affects the skill set that treasurers require. It brings a need for both big-picture strategic foresight and an understanding of complex tax and treasury functions. High-quality banking partners with on-the-ground presence are essential.

Multinationals in mainland China adopting the ‘in China for global’ strategy – building manufacturing capability in mainland China for export to the rest of the world – are impacted by US and EU tariffs on Chinese products.

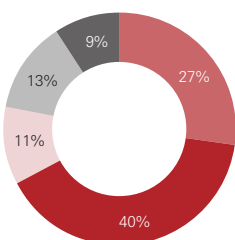
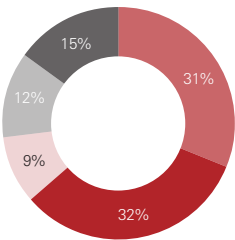
The biggest practical impact of geopolitics is volatility, particularly in FX movements. Hedging is more important than ever, but it comes at a cost. Where classic FX hedging is prohibitively expensive, treasurers need to find new solutions for FX risk, with the assistance of banks.

What are the top risks that your treasury function is concerned about?

104 total votes, multiple votes permitted

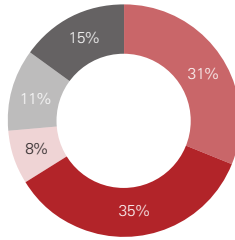
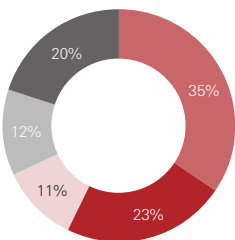
Region

Hong Kong

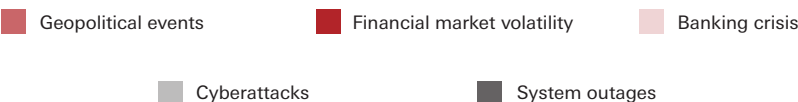


Singapore

Shanghai



Key



“ I feel that uncertainty is the new normal.

Treasurer, Hong Kong

“ Multinational companies in mainland China need to be agile and flexible to adapt to the new normal with tariffs on Chinese products.

Treasurer, Shanghai

Today's big issue: dealing with fluctuating rates



Our conferences took place over a period of three months during which the interest rate cycle was at its peak and, in some currencies, showing signs of easing. While linked, the cycles move at different speeds in different markets, requiring agility and awareness in treasury functions across Asia.

Many reported that increased rates have led to a corresponding expectation of higher yields on cash. This was a new challenge to younger professionals who had gone through a decade of extremely low interest rates.

The changing environment around inflation and rates has had an impact on funding. Many report the relative attractiveness of the Japanese yen, for example, relative to the US dollar and euro. But in all cases the liquidity and availability of affordable hedging must be considered.

In mainland China, for example, higher US dollar and euro interest rates make domestic borrowing options superficially attractive: indeed, panda bond volumes hit a record level of over

RMB150 billion in 2023, according to Bloomberg, a figure that will likely be beaten in 2024. But for foreign companies in mainland China, there are challenges with accounting around panda bonds which can require the maintenance of two separate sets of financial statements. And low-cost renminbi funding is still not viable for international transactions and flows denominated in US dollars or euros because of the FX swap costs involved. Borrowing from local banks in mainland China for local operations and working capital needs remains a low-cost option.

Overall, treasurers have maintained a degree of awareness of the external environment and remain nimble around their financing strategies. Many companies have held fixed rate financing over the past three years, enabling them to minimise the impact of high interest rates, which they would have had to manage if they had opted for floating rate debt. Amid a continued uncertain landscape, treasurers constantly evaluate the macroenvironment and explore opportunities to optimise financing.

“We’re keeping it very stable rather than relying on judgement calls on the interest rate curve. We do not bet or try to beat the market.

Treasurer, Hong Kong

“Previously in a low-rate environment we primarily relied on inter-company borrowing from the US headquarters when funds were needed in mainland China. However we’ve shifted towards securing more financing domestically [in mainland China] over the past two years.

MNC Treasurer, Shanghai

A perspective view of a long, brightly lit server room. On both sides are tall server racks filled with equipment, each emitting a vibrant blue light. The ceiling is white with recessed lighting and ventilation grilles. The floor is a light-colored, polished surface that reflects the intense blue glow from the racks, creating a strong sense of depth and symmetry. At the far end of the aisle, a set of double doors is visible, also illuminated by the same blue light.

TECHNOLOGY & TREASURY

Treasury and AI: today it's more mundane than mesmerising

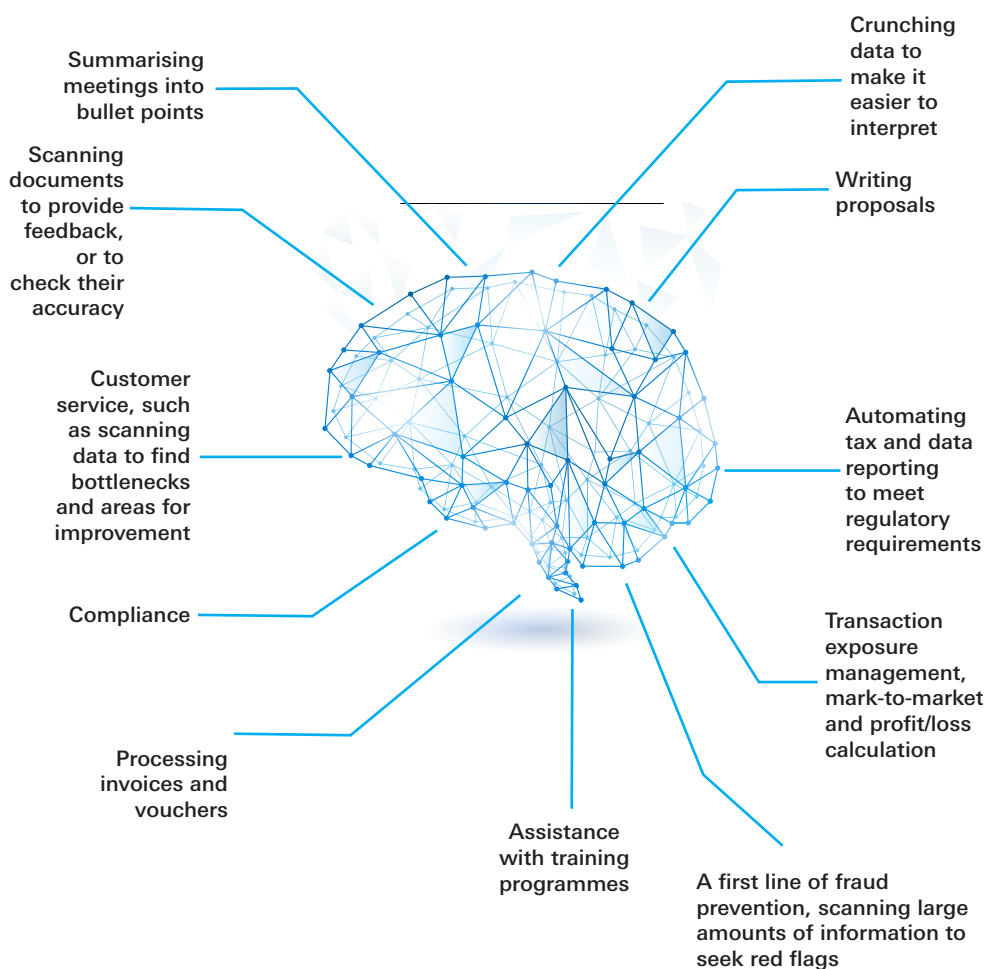
There is enormous hype about artificial intelligence (AI), but a common finding throughout our dialogues with treasurers was that its utility today is more at the machine learning end of the AI spectrum than tactical approaches such as ChatGPT.

Universally, treasurers are using machine learning and robotic process automation (RPA) to make mundane processes easier. This clearly has value: in tackling low-hanging fruit it frees resources and makes life easier

for treasury teams.

At this point many treasurers raise a question of definition: are these things AI, or simply digital labour-saving solutions? They do not yet appear to meet the bar of some sentient-seeming technology that can think on a human's behalf: in almost all areas, for reasons of security, risk management and accuracy, a human check is still required until AI learns all possible scenarios that today require human insight.

Some examples of practical uses of this technology by treasurers at our events include:



“Where AI is going to be useful, and we are working on it now, is the compliance and customer service part, where it's labour intensive.

Treasurer, Hong Kong

“Is it added intelligence or artificial intelligence? In most cases it's added intelligence, where you get some additional insights which otherwise would have been too manual to process.

Treasurer, Hong Kong

“AI integration is in a very nascent stage for us. The adoption is primarily focused on transaction exposure management, mark-to-market and profit-loss calculation.

Treasurer, Shanghai

“There are some categories of transactions where you still need many interventions. We use AI to check basic documents. But we use manual checking to make sure of 100% compliance.

Treasury advisor, Singapore

Where AI goes next: cashflow forecasting



An interesting question is where AI goes next, and there is widespread hope that it can assist with more accurate cashflow forecasting. This has become increasingly important in an environment of high and then fluctuating rates. Global volatility has made it harder still: companies in the travel industry, for example are affected by unpredictable tourism numbers. There is a clear need for technology, and more specifically AI, to assist.

One multinational firm in mainland China has developed a new model to

address their treasury department's needs for cashflow forecasting. It is an enormously important part of their function because when the mainland China operation is called upon to send cash to headquarters, the amount of cash left in mainland China is limited, making accurate forecasts essential. Any AI assistance will be useful, but this multinational felt optimum tools were not yet available.

Initially, AI is more likely to be useful in short-term forecasts than anything medium to long term involving corporate strategy.

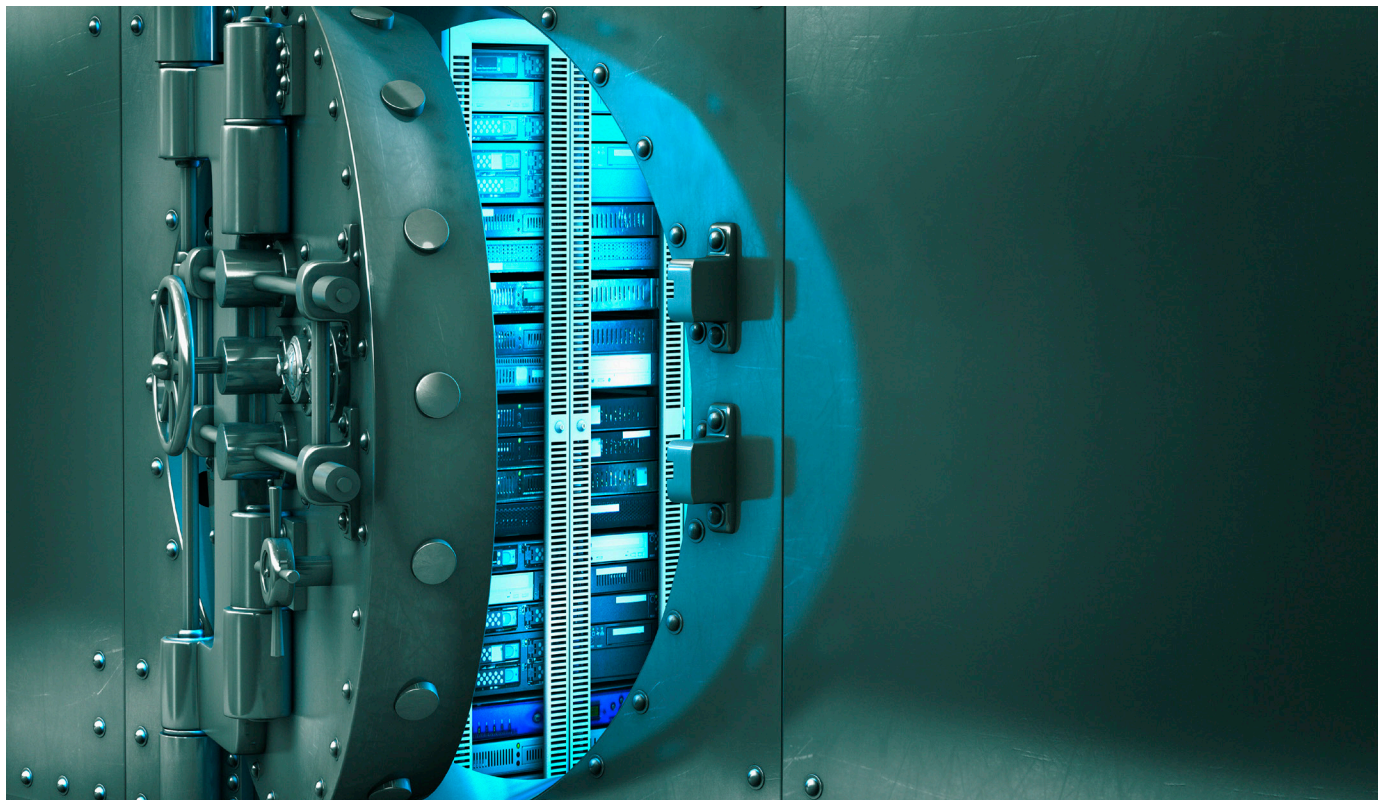
“The future of AI will be for use in merchant cash forecasting, where you have information from different locations that may be better analysed by AI. And that should hopefully give us more accurate forecasting and enable us to make rational decisions.

Treasurer, Hong Kong

“We collaborate with major banks to enhance our forecasting abilities. We use a TMS globally, incorporating machine learning to improve cash flow forecasting based on historical data and future parameters for hundreds of our enterprises worldwide.

Treasurer, Shanghai

AI and security - a tricky trade-off



A separate issue is security around AI, an issue that was raised most frequently in Shanghai. Mainland China's development of proprietary AI tools is being closely watched by treasurers planning ahead.

Security raises questions around how much access a company grants AI

to visit its core systems, where open source authorisation sits, access granted to suppliers and partners, and in-house development versus the leverage of existing platforms. A robust infrastructure must be built around the use of AI – including legal considerations.

“ Due to data security reasons, we will leave the open source authorisation within our company rather than the third-party supplier.

Treasurer, Shanghai

“ The interesting piece is whether you build in-house AI or you leverage software-based platforms. You've seen in different geographies regulators becoming stricter in terms of what can or cannot be shared across borders on that piece.

Treasurer, Shanghai

Show me the money: getting funding support for AI



Using AI is only part of the challenge for treasurers. Getting top management to believe in it, and fund it, is another.

Senior management want to see a clear path to an improvement in their bottom line from an investment in AI and other technologies. This presents a problem for treasurers: they know they must embrace technology to keep pace with the treasury departments of competitors, but they must also present a compelling case for the investment in that technology.

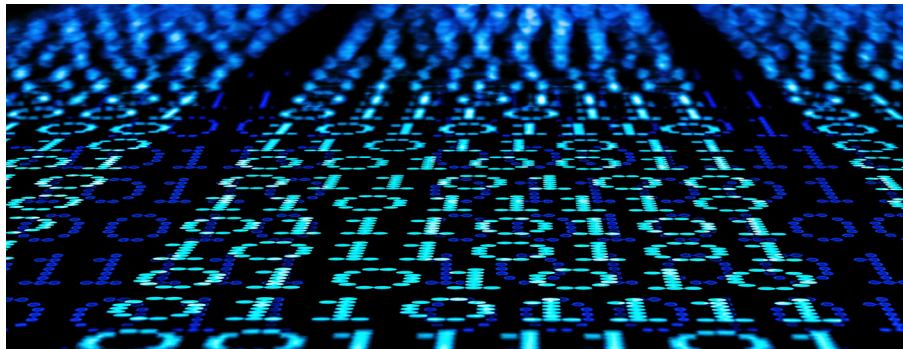
One suggestion is to anchor an investment in AI to a company's overall KPIs and strategy rather than just to the intricacies of treasury processes.

Investment is required not only in new tools and systems but in training, data security and fit-for-purpose IT. Many treasurers report the successful gathering of quality data but lack clarity on the right tools to conduct meaningful analysis. Success requires not just those tools but the infrastructure around it – otherwise there's no point.

“We have to leverage technology and AI, and to bring that into the business, but from a corporate perspective there's always a lot of red tape that we need to get through before we are able to adopt any form of that technology.

Treasurer, Singapore

The holy grail: data and real-time treasury



Treasurers are excited about the potential of real-time data to transform their operations, particularly in improving cash management and forecasting. Real-time capabilities allow treasurers to make quicker, more informed decisions.

The rates cycle has increased the urgency of real-time treasury. Teams are being more tactical to optimise their interest costs. That requires better and faster visibility to inform better decisions.

But real-time, like AI, faces the challenges of budget constraints for technological investment in treasury, plus integration concerns and issues of data security and regulation.

If data is making a difference in the issues raised above – chiefly more accurate cashflow forecasting and optimising returns in a period of high and fluctuating interest rates – then treasurers must be able to extract and interpret this data on a real-time basis. This journey must start with the basics: ensuring clean, extractable data with good governance around it.

Standardisation of data is critical for meaningful and accurate analysis. Many treasurers report work behind the scenes to develop this standardisation and provide clean data as an input for analysis.

One counterpoint to this debate is

whether all companies really need real-time treasury. Many are content with getting cash reports once a day unless their business is involved in activities that require them to act immediately. Some, advisors report, therefore don't know what to do if they have real-time data. It is incumbent upon banks and other partners to assist them in finding the benefits of real-time treasury.

A large part of our Shanghai session focused on the use of APIs as a tool to achieve real-time treasury. Here, treasurers reported good progress with API technology itself, but frustrations with compatibility with banks' internal processes.

Regulatory issues, always impactful for treasury operations, also become increasingly onerous in the desire for real-time treasury, and in particular for cross-border transactions. In markets like mainland China, cross-border transactions are associated with heavy paperwork and manual processes, make real-time treasury a real challenge.

Treasurers in mainland China are also concerned by cumbersome and time-consuming Know-Your-Customer (KYC) regulations, often delaying operational processes. They would like more streamlined regulatory processes that allow for quicker and more efficient transaction flows. This would help with liquidity, accuracy of forecasts, and costs.

“Data is in the system. It's just a question of trying to make data tell the story.

Treasurer, Hong Kong

“We are looking at how we can integrate external proprietary data to make the insights specific for our business. That's something we are looking at but we haven't got a concrete solution yet.

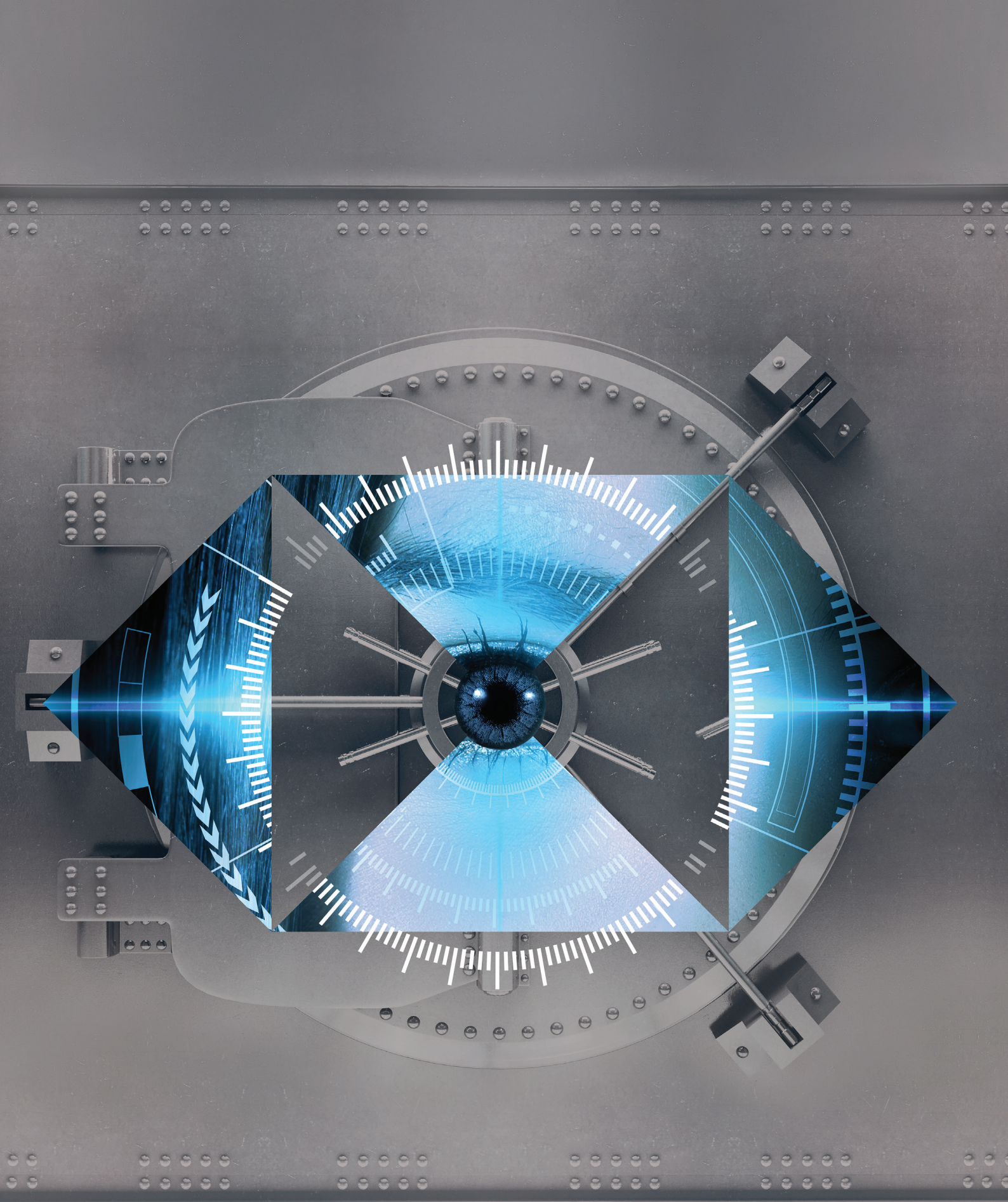
Treasurer, Hong Kong

“We are setting up an API for collection reconciliation. In addition to deploying the technology we need to make a lot of effort in working out appropriate internal Accounts Receivables (AR) clearance logic, communication with internal teams and external customers.

Treasurer, Shanghai

“We have a lot of data already. We just need to find time to find the tools to help us to do the analysis and have a better look at our business. And resources are always limited: we need to decide how the money will generate more profit for the company.

Treasurer, Hong Kong



RESILIENCE

How treasurers' priorities are influenced by location

Across the region, we asked treasurers for the top business drivers shaping their treasury priorities. In aggregate, the most popular choice (multiple choices were permitted) was improving return on capital, and capital re-allocation, cited by 41.1% of respondents. Next came firm-wide adoption of new technologies, and growth into new markets (33.6% each), followed by industry changes (eCommerce, new competitive entrants, changing customer behaviour and so forth) and supply chain realignment.

It is interesting to note that the answer to this question varied significantly according to where it was asked. Improved returns and re-allocation of capital was the dominant answer in Shanghai, but came considerably behind growth in new markets in Hong Kong. New technology mattered more in Singapore than anywhere else. Supply chain realignment, perhaps unsurprisingly given US-China tensions and the China Plus One

theme, matters more in Shanghai than elsewhere, while industry changes matter less, perhaps because so many of the themes of eCommerce disruption have already played out in mainland China.

Building resilience plays a key role in helping companies achieve their treasury priorities and long-term objectives. The adoption of digitalisation and automation supports faster payments and treasury management. This enables them to grow their business while ensuring sound risk management.

It should not be a surprise that capital reallocation and returns are a key issue. The returns side is important in an environment of high, and fluctuating, interest rates. Capital re-allocation in mainland China – where it was most strongly cited as a priority by treasurers – also reflects the development of liquidity management in the country.

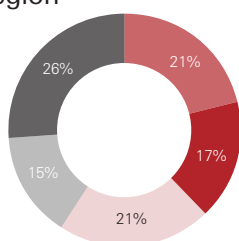
Cross-border pooling mechanisms are a key area of continuing innovation for multinational companies in mainland China. They remain complicated, with issues to consider including fungible and non-fungible cash, and transfer pricing. One treasurer at our Shanghai event had recently set up two regional notional cash pools in Singapore and the UK, with Chinese yuan and Hong Kong dollar contributions to the pool, all of which helped the group get US dollar financing at a lower rate.

Elsewhere in the region, some companies are looking to rationalise their bank accounts and replace cash pooling activities with POBO/ROBO (payables-on-behalf-of/receivables-on-behalf-of) in an effort to drive further centralisation. This can reduce costs and make better use of resources. That said, many companies apply limits to bank rationalisation: they prefer to work with more than one core bank to mitigate counterparty risks. Rising geopolitical tensions have increased the need for this diversity.

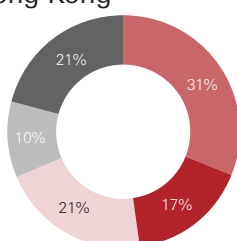
What are the top business drivers shaping your treasury priorities?

107 total votes, multiple votes permitted

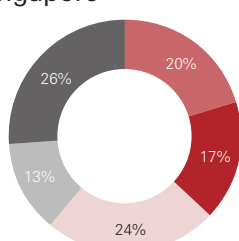
Region



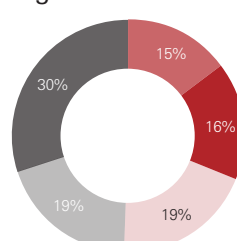
Hong Kong



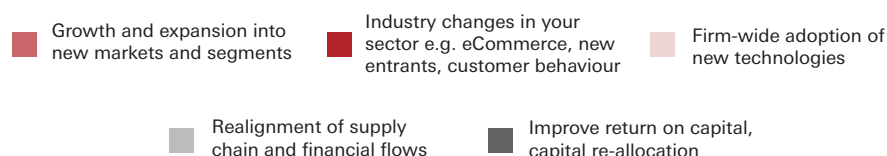
Singapore



Shanghai



Key



For cross-border cash pooling, we feel more regulatory restrictions in Indonesia, India, Korea and Thailand than mainland China.

Treasurer, Shanghai

With higher funding costs, capital has become scarce, necessitating more efficient cash operations.

Treasurer, Shanghai

A call for regionalisation

Where should treasury operations be centralised for multinationals in Asia: regionally or globally at the head office? In our discussions, cases were made for both options, and indeed a hybrid between the two, where matters of policy and direction are made at the local level but respect is given to the value of local capability and knowledge. This is particularly key in Asia, a series of very different dynamic markets with diverse regulations.

Across all geographies, treasurers were more in favour of increased regionalisation through a Regional Treasury Centre (RTC) supporting Group Treasury. Overall, the split was 49% regional and 24.5% global (with most of the remainder already

operating an optimal centralised model and a few with no plans to centralise). In Hong Kong, the clearest vote, 54% were in favour of increased regionalisation, and only 20% global.

As to where that RTC should be, the decision was not as tribal as might be expected. In both Hong Kong and Singapore, key rivals for RTC positioning, treasurers said there was little difference between the two unless the overall operation had a tilt towards mainland China.

Regionalisation also places treasury closer to local markets. This helps treasury to understand regulations and add value by adopting best practices and ensuring regulatory compliance.

“There are things that HQ would do better – global strategy, policy setting – but local reaction decisions should be made on the ground.

Treasurer, Singapore

“We did a comparison between Hong Kong and Singapore and they are fairly similar

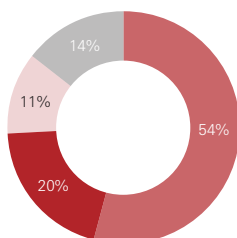
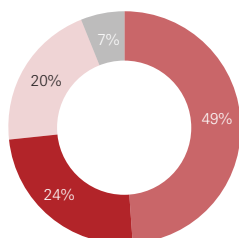
Treasurer, Hong Kong

What are your plans around finance and treasury centralisation?

(102 total votes)

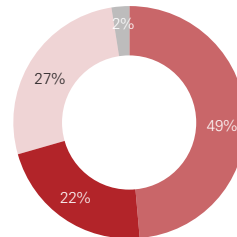
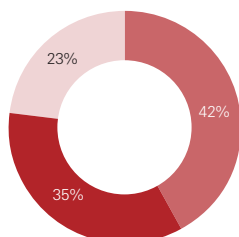
Region

Hong Kong



Singapore

Shanghai



Key

- Increase regionalisation through Regional Treasury Centres (RTC)
- In favour of a single Global Treasury Centre instead of RTCs
- Already operating an optimal centralised model
- No plans to centralise in the near future

Tackling cyber risk starts with the individual



Cybersecurity ranked well behind geopolitics and financial market volatility on the list of treasurers' front-of-mind concerns, but is still an important issue.

Treasurers report that the biggest threat is individuals being targeted in order for an outside force to attack the larger institution. While treasury teams report great efforts to build resilience to cyberattacks, they also face exposure through vendors and external systems, or even partner banks.

Training is seen as the best response

to this vulnerability, ensuring that individuals are constantly aware of the tell-tale signs of phishing attacks. At the corporate level, many large companies have invested heavily in firewalls in their internal systems, anti-money laundering and other cybersecurity detection measures.

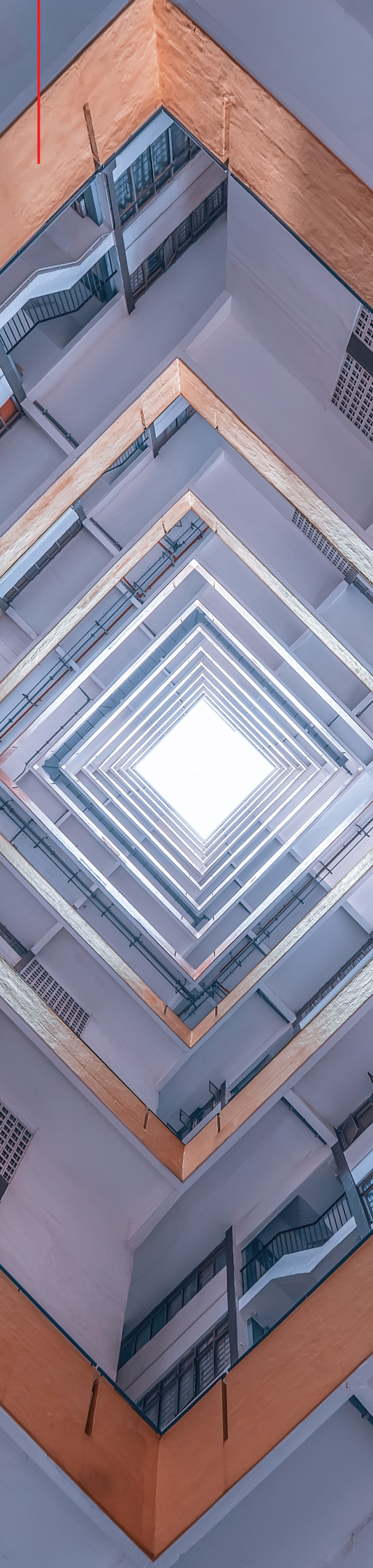
Increasing use of AI makes some treasurers more nervous about the threat of bad actors. Some report keeping open-source authorisation within their own company rather than a third-party supplier in order to ensure data security.

“The challenge is you can protect yourself to the best extent possible, but you don't know where you are vulnerable because everything is plugged into so many different pieces and systems. That's the sleepless part. You can keep testing and adding protection, but you don't know where you will really be vulnerable or at what point in time.

Treasurer, Singapore

“You get all these trades happening every day and you have to pick out the suspicious ones. AI is going to be a great help with that.

Treasurer, Hong Kong



Conclusion

From managing geopolitical and financial uncertainty, to balancing digitalisation and cybersecurity risks, to understanding complexities across markets – treasurers must stay ahead of megatrends and regulations if they are to execute their jobs effectively. And while the treasury function has traditionally focused on cash and financial risk management, expectations today call for treasurers to contribute to growth and profitability. This requires them to strike a fine balance between

strategic and operational duties.

Treasurers can benefit from working more closely with their banking partners to navigate the volatile environment and stay nimble. Partnering with an international bank with an extensive global footprint and innovative suite of capabilities can simplify the banking process while helping organisations build a resilient treasury to power growth and thrive in the face of constant change.

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