How will your treasury help accelerate your organisation's ESG priorities?

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Environmental, social and governance (ESG) initiatives and commitments are fast becoming an important lens through which threats or opportunities for long term value creation should be considered. It is therefore not surprising that ESG considerations increasingly impact lending, investing and risk management decisions as lenders and investors seek to price in the related risks. In this fast changing world, Treasurers need to take action to anticipate and respond to the likely impacts on their activities. This period of rapid change is likely to increasingly expand and evolve Treasury's advisory and leadership responsibilities and reinforce the vital role of Treasury as a key accelerator of their organisation's ESG priorities.

Key questions to consider now

Will you be able to refinance in 5/10 years time?
The world of finance is going to look very different in 5 years time. Investors and lenders may not want to take on certain ESG risks and it may be necessary for Treasurers to look for other funding sources. Especially if the organisation's current strategic priorities are resulting in outcomes that are increasingly viewed as unsustainable (or even unacceptable). A Treasurer is likely to need a financing strategy, or perhaps more precisely a refinancing risk strategy, that anticipates such concerns, exploits emerging opportunities, and ultimately ensures that strategic priorities can be funded.

How will you take advantage of new opportunities?
Traditional and innovative new funding sources are increasingly prioritising organisations and projects that focus on climate and social considerations. This is a key driver in financing and realising the transformation to a sustainable economy. Other opportunities exist too for those with coherent green financing plans or frameworks. Additionally, Treasurers can employ sustainability linked debt, risk and supply chain finance (SCF) programs to incentivise improved ESG performance. All of this is likely to require new partnerships and relationships, both internally and externally, and will take time to develop, implement and explain.

Have your investment policies evolved in line with your organisation's changing ESG priorities?
Investment policies, as well as investment appraisal and decision making processes, will need to align with the wider organisation's ESG commitments. Enhanced capabilities to assess, select and monitor liquidity and investment portfolios to ensure alignment with commitments will be required. Similarly aligning internal working capital and capital pricing and allocation frameworks will drive a more significant societal impact and help address gaps the organisation needs to address its goals.

Do you have access to the robust, detailed data that your counterparties are going to request?
Establishing 'investor grade' ESG status will require greater visibility of an ever-broader range of non-financial metrics to better understand and model the impacts of diverse social and environmental risks.

In turn this requires increased levels of non-financial reporting and will be subject to greater scrutiny. In this regard Treasurers will need: to help guard against 'greenwashing'; reliable data from outside of traditional financial information systems; and to be able to model and explain how different scenarios might impact key commitments and metrics and explain the same to investors, rating agencies and banks.

Are you prepared to identify, monitor, measure and mitigate new risks?
New ESG commitments and activities introduce new risks. For example, as companies set and seek to meet challenging Net Zero commitments, they are turning to carbon offsets. Other opportunities exist to enable better visibility and pricing of commodity or other inflationary risks. As Treasurers are already skilled at managing complex market risks, helping their organisations understand, measure and manage these risks seems to be a logical justification for an expansion of responsibilities.

How will ESG commitments impact the treasury organisation?
In order to effectively execute on ESG ambitions and targets, organisations will need to change the way they operate. This will impact Treasury and Treasurers will need to consider how ESG commitments affect their Treasury organisation, processes, daily operations as well as decision making and data requirements. A clear understanding of the impact on the Treasury operating model, and a roadmap and investment necessary to close critical gaps may have a longer lead time than contractual commitments permit.

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 your Treasury team can take to help deliver and accelerate your organisation's ESG priorities.

Our team has extensive experience helping clients in a range of situations, ranging from targeted improvements though full-scale Treasury transformations. We help clients by identifying strategies to optimise treasury operating models, understand and manage risk, and select and implement systems to increase efficiency and effectiveness.

We can help you answer the following questions:

1. What are the opportunities for my Treasury?
2. How do I keep abreast of the latest developments?
3. How do I engage with peers, finance and banking providers, rating agencies, my businesses and their suppliers and customers?
4. How do I fully align my Treasury with my organisation's ESG priorities?
5. What are the operational, control, cyber and regulatory concerns?
6. What do I prioritise next?

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