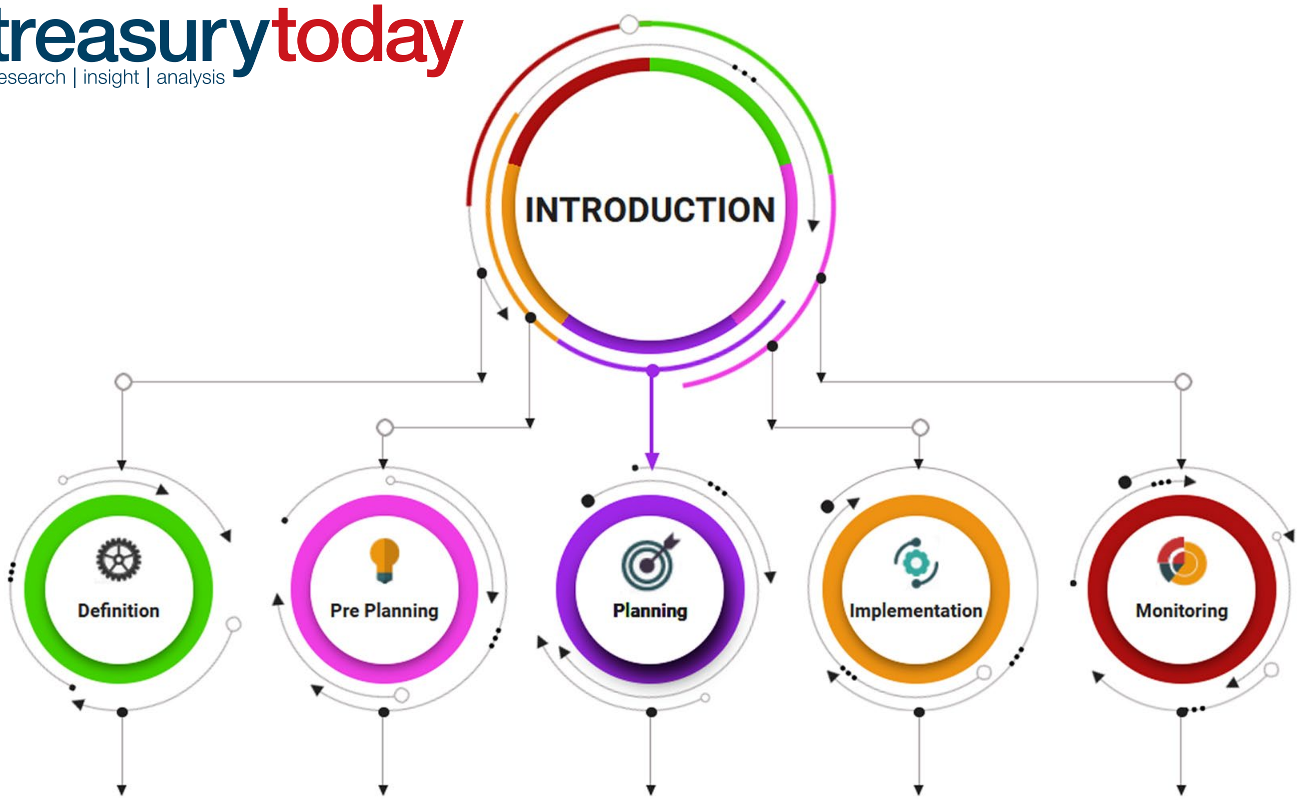

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The Path to Sustainability: Bank of America and Treasury Today present actionable learning points for treasurers

There is no doubt now that sustainability and ESG factors have become an extremely important part of doing business. Both bring about obvious societal advantages, and it's well understood that sustainably focused businesses enjoy an enhanced commercial experience too.

The aim, of course, is for every business to adopt these practices, indeed, for them to become second nature. To get to that point, every employee must both understand and accept their responsibility to try to make a positive difference.

Whilst for some functions and roles the steps to be taken may be obvious, and their impact immediate and powerful, for others, this is less so. But every action counts.

Fortunately, most treasurers by now will be aware at least of the concept of green bonds and sustainability linked loans, even if most do not yet use them. Many will also have started exploring other ways in which they can begin using ESG and sustainable practices.

For those that have not yet begun their journey, and for those that want to know how to move from their existing sustainability level to that of best practice, this Bank of America and Treasury Today guide takes you through the key stages of programme development.

By using a clear flowchart format and by highlighting the challenges and opportunities faced within the treasury context, we hope it helps you establish and maintain an active sustainability and ESG programme.

Henrik Lang
Head of Liquidity, Global Transaction Services
BANK OF AMERICA

Introduction

The Path to Sustainability

At Bank of America, our commitment to sustainability goes back to responsible growth, which is a core component of our corporate strategy. Everything we do is linked to and anchored in this core principle.

One of the ways we offer leadership in the environment, social and governance (ESG) space is through thought leadership, like this series. We want to share our experiences and best practices whilst also demonstrating new sustainable products, solutions and approaches. This will help our clients to turn their treasury department to be more ESG friendly.

We don't just focus on making Bank of America more sustainable. We serve thousands of clients across our global franchise and we engage many of them on the topic of ESG. If they all focused just a little bit on sustainability and ESG, it would make a much greater impact on the world around us.

We're really excited about this ESG flowchart in partnership with Treasury Today Group.

Firstly, it provides a comprehensive and holistic approach to sustainability. It has distinct phases, and a diverse application.

Secondly, it provides practical advice, it provides actionable steps. There's been so much talk over the years about ESG in a broader, more generic sense. However, there aren't many pieces out there that are available to treasurers that can translate the principles of ESG into actionable steps. This series will provide treasurers with something they can act on today, no matter company size, location or industry.

Lastly, this series will broaden the horizon for treasurers. Historically, client discussions have always been about ESG in a broader sense, perhaps with a focus on sustainable finance. This series will highlight that there's more to a sustainable treasury beyond green bonds and sustainability-linked loans.

This ESG flowchart cuts across many different parts of treasury including internal policies, provider selection and ensuring a diverse workforce. It will also highlight new and innovative ESG products and solutions. It will help treasurers by exploring various parts of their operation. For example, are treasurers allocating part of their excess cash to green or sustainable investment options? Are they leveraging the full breadth of digital solutions available to cut back on paper? Are they using new solutions within the trade finance space to reward minority and sustainably focused suppliers in their supply chain?

At Bank of America, as a committed supporter of sustainability, we're excited to see the progress that has been made in sustainable corporate treasury. But we know there is still some way to go. We hope this flowchart helps you to bring sharper focus to your activities so that ultimately, we know we are all doing as much as we can to make a positive difference. ■

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Understanding sustainability

In which treasury assesses and analyses its current position on sustainability. Where does it sit within the current strategic stance on sustainability? What is the aim? Who is involved in its execution and how? How do you intend to develop this strategy, and what is your goal? This is also the time to define what best practice looks like in the areas under consideration by treasury.

Chris Jameson
Managing Director, Global Transaction Services, EMEA
BANK OF AMERICA

With a lot of research having been produced, including by teams within Bank of America, around why organisations should care about sustainability, it's well-understood that generally it can make the world a better place. But there are many other elements that dictate why organisations should care about sustainability and environmental, social, and governance (ESG) more broadly.

Firstly, a by-product of such engagement is the better relative performance of top ESG-ranked companies than those that are not known to be strong on ESG. A good ESG score, for example, equates to happier employees, less bankruptcy risk and, according to MSCI ESG Research, a generally lower average cost of debt funding.

But ESG considerations are not a new phenomenon. Shareholders have expressed concern about ESG elements for a long time. Often it is asked, for example, if management compensation is aligned with shareholder returns, if people within the organisation are happy or at risk of moving to a competitor, of if any lax environmental behaviour could elevate legal risk.

The current emphasis on ESG matters is helping to define and clarify such issues. It is also apparent that it is possible 'to do good and do well', and that treasury can have a significant role in helping their organisation move along that path.

Defining steps

The first step is therefore to align treasury's approach with that of the overall organisational ESG agenda. This could be drawn from the group's environmental policy, its HR policies that encourage diversity and inclusion, or its governance processes that are in place across the firm. It's not sensible to try re-inventing actions that are out of alignment with broader organisational thinking, and so it's important for treasury to have a firm understanding about overall company objectives.

Once this is achieved, consideration of best practice can follow. This means knowing what sector peers have already achieved, and likewise how top ESG-rated firms outside of your sector have been successful. But it also means gaining insight into how banking partners can assist. Many now have ESG at the top of their agenda and will be party to how a wide range of clients are leveraging best practice. The next stage is to think about who to get involved, and how to define some of the goals that will align with organisational aims.

With an issue as important as ESG, the 'tone from the top' is essential. Senior buy-in from the top of the organisation and from the top of treasury creates a powerful ESG and sustainability champion, helping to drive success.

When setting goals, it's beneficial not to be too prescriptive when setting out how treasury will achieve those goals. This affords employees freedom to be creative in their thinking about solutions and about their interactions with other functions.

By drilling down into current problematic areas, as they relate to the overall ESG strategy, it can reveal a wide range of new opportunities within treasury that can help drive the ESG agenda.

As an example, the over-reliance on paper documentation can help shine light on the advantages of digitalisation, where products such as DocuSign can ease document flow, and moving payments to card or virtual card can enhance spend understanding.

Seeking opportunities

With sufficient thought, areas of opportunity in treasury can be broad. This could involve funding mechanisms, where in the transaction banking space sustainable supply chain finance can be used to reward positive supplier behaviours whilst maintaining supply chain integrity. On the investment side of the balance sheet, ESG is becoming a vital (and visible) part of investment strategies, and so it is becoming increasingly easy to find products that support social and environmental causes, allowing corporate cash to be put to good use, and meet liquidity, security and yield expectations.

Another area of opportunity is in provider selection. In light of your own organisation's approach to ESG and sustainability, it's useful to begin defining the kind of supporting questions that will be asked of suppliers in future RFPs, including those despatched to potential financial and technology vendors.

After tackling current problems and opportunities, it then becomes a matter of defining resources. Some aspects, such as getting rid of paper, may be relatively quick wins. Others, such as evolving the diversity makeup of the treasury team can be a longer-term process. The planning should consider this accordingly. Having made the decisions around ESG, setting out the goals and how they will be achieved, the final stage is to communicate the strategy internally and externally.

By defining the initial goals and means of achieving them, a process of alignment with corporate strategy is possible. By then taking the initiative and seeking out new and innovative approaches to sustainability and ESG, treasury success can percolate up through the organisation. Depending on the size of the organisation and the stage of its development, this can even begin to open the gates for treasury to influence progress in this space across the wider business. ■

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Building a case

Having understood what needs to change within treasury, and why it needs to change, this phase is about finding out about the available solutions, the benefits of them, issues that may be faced in implementation, suitable internal and external partners, and the refinement of goals to something practicable and realistic.

Kathryn Outlaw
Vice President, Global Transaction Services
BANK OF AMERICA

As sustainability has become an important priority for corporations, treasury departments are being tasked with driving their organisation's overall environmental, social and governance (ESG) strategy. Once ESG goals are identified, treasurers must engage in a fact-finding mission to assess and understand potential solutions.

Identify your partner

A good resource for identifying available solutions and best practices is a banking partner who has experience with establishing its own commitments to sustainable business practices. The experience and knowledge of implementing ESG programmes can inform and direct strategies such as determining the appropriate solutions and potential costs.

Additionally, an ESG-committed banking partner can help understand any expected issues that may be faced in implementation, as well as how the new solution will impact day-to-day operations.

Identify potential solutions

First, the treasury team will identify possible solutions, consulting with their banking partner. For example, if the objective is to reduce paper and increase digitisation, multiple digital payment methods can be considered. Alternatively, treasurers can look into sustainable investments or set up a virtual corporate card programme to reduce plastic. It may be the case that implementing multiple solutions together achieves the treasury team's as well as the broader organisation's objectives.

Secondly, treasurers will work with partners to understand the benefits and costs of the possible solutions. If the treasury team is considering implementing a digital payment method, the per-transaction cost may be cheaper than printing and mailing checks. However, there may be an upfront cost to implementing this operational change. All impacted stakeholders, including operations and procurement, should be included in the discussion so they can highlight any expected benefits and costs.

Recognise the challenges

After deciding upon a proposed solution, treasurers must then identify any potential issues or challenges of implementing the solution by consulting with both external and internal partners. As an example, a company may face key technological hurdles from having to make necessary changes to systems to accommodate new payment methods. Another potential hurdle can come from receiving project approval. Treasury needs to understand the costs and benefits of the solution in order to convince their management that it's a worthwhile project to commit funding and resources to. The treasury team will also benefit from including all internal stakeholders and impacted departments in the evaluation process, responding to any concerns and balancing their potentially conflicting priorities.

Further, timelines for implementing may vary given the size of the company; smaller companies tend to be more nimble and faster to market than larger companies.

Understand the impact

Treasury teams must also understand how implementing new solutions will impact day-to-day operations and ensure all internal stakeholders are included early in the process. For example, implementing a new sustainable supply chain finance programme requires multiple changes to a company's procurement process. If a treasury team wants to implement a virtual corporate card programme, there will be changes to the company's operations.

At Bank of America, we provide educational adoption materials that can be shared with various departments throughout the company to help our clients understand how new solutions work, and to answer frequently asked questions.

The most important thing to remember is that implementing new systems and processes takes time. They are significant changes that impact a lot of departments within an organisation – not just treasury. The key to success is including representatives from these departments in the process early on, and also including a buffer in the timeline, in order to manage expectations.

Once treasury fully understands the costs and benefits of potential solutions and what it will require to implement those solutions (including impacts to day-to-day operations), it can set realistic goals and timelines for what it will achieve and when, in order to become more sustainable. ■

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Designing a new future

This is where treasury sets out the practical timelines for the introduction of new sustainable practices, works with other partners on refining the implementation, considers any change management issues, and plots how the intended scope of best practice will be introduced to current practices, with a design for how each new process can be integrated to best effect.

Rakshith Kundha
Managing Director, Global Transaction Services, APAC
BANK OF AMERICA

While previous stages are about defining the envisaged end state, the planning stage focuses on the implementation project structure along with key milestones and responsibilities.

To achieve the desired end state, the treasury team would need to have the support and involvement of various internal and external partners. In many cases, objectives and timelines may clash with internal stakeholders given varied priorities.

Understanding and navigating through these is a key requirement to arrive at a clear go-forward plan for integration of best sustainability process into legacy practices, as this is rarely a journey that treasury can make alone.

For example, if the treasury team is aiming to go paperless, it needs to ensure that all impacted groups, both internal and external, are ready and supportive. This would require an understanding of the current stage of business and preparedness of the relevant groups. Technology partners need to be roped in to help conceptualise and implement the required technology change for a successful transformation to a paperless treasury. Key customers and suppliers may not have suitable systems in place to go paperless or there may be unwillingness on the part of procurement, manufacturing or sales teams.

Similarly, if the objective is to be a catalyst to drive best social and environmental practices among suppliers, in addition to the procurement team needing to be equal partners, if not leaders of the project, there are supplier dynamics that would need to be evaluated. On the investment side, broader organisational policy may need to be considered and navigated through. Alignment with broader organisational thinking and direction on sustainability is key.

External partners also bring valuable insight into the planning phase on potential pitfalls and workarounds towards achieving the end goal. Best practices around sustainability and implementation insights can be gained from external partners. Banking partners may help define best practices for moving to a paperless treasury or towards implementation of a sustainable supply chain finance programme. Some may also have divisions that help advice on the best ESG-related investment options. External agencies may be able to define measurement matrices, and help assess vendor performance towards such goals around a sustainable supply chain.

Once challenges are understood and inputs received, the next stage would be to define a time and milestone based implementation plan that considers these dynamics. This must be tailored to not only overcome potential road-blocks but also leverage areas of strength and support. For example, the roll-out of a sustainable supply chain financing plan may begin with a highly supportive subsection of the wider procurement team or a particular supplier set to showcase success and ensure wider support.

Detailed action steps for each milestone would need to be defined along with measures of progress and success. This stage requires flexibility and plans may need to change multiple times based on discussions and feedback of partners, both internal and external, to ensure there is broad buy-in.

Lastly the project lead, core project group and governance structure would need to be identified and defined. Required resources need to be allocated to this group and the lead, as well as the core group should have the seniority, standing and access in the organisation to affect such a project. It may very well be that the lead is actually from a group outside treasury – for example, would a senior procurement manager leading a sustainable supply chain project with the treasury team members as a part of the key working group, improve the chances of success?

In this stage of the journey, the ability to engage, navigate and get buy-in from stakeholders while drafting a detailed, milestone-driven implementation plan is critical to overall success. Equally important is to have the right people, access and resources available for the implementation and governance of the project.

Plans will encounter unforeseen challenges but dialogue and inputs from partners, both internal and external, will make it more robust. Strong support and buy-in will lead to a smoother implementation and provide the ability to make quick course corrections as needed. ■

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Sustainability implementation

This is where treasury gets to roll out the plan, working with partners to acquire relevant data and expertise and build the systems, processes and procedures required to deploy any new practices (including deal execution, documentation, reporting, monitoring and roadshows).

Kathryn Outlaw

Vice President, Global Transaction Services

BANK OF AMERICA

Due to current challenges, companies have noticed environmental and social vulnerabilities at an increasing rate, directly affecting corporate and treasury performance. To advance the dialogue in ESG strategy, transparency and disclosure, corporates, including their treasuries, require the establishment of projects with strategic plans that describe goals and timeframes.

Implementations strategies should include:

- A full description of relevant projects.
- All specific environmental objectives.
- A breakdown of projects by the nature of what is currently financed – eg assets, capital expenditures, operating expenditures.
- KPIs and information on the projects' environmental impacts, aligned with the commitments and methodologies within the ESG strategy and programme.
- Details of how teams will achieve the following results:
  - Treasuries to control cash flows, creation of the bank infrastructure and risk management to mitigate performance risk.
  - Finance controlling accounting operations of the ESG programmes, including the production of periodic financial reports and controls.
  - Auditors will monitor the performance and governance of ESG.
  - PMO/Operations will design programme functionality and execute the project.

The methodology needs to be oriented to:

- Create and implement policies, processes and methodologies only for ESG purposes.
  - Annual reports featuring large quantities of detail on those areas can often obscure new information or messages.
  - Bank account infrastructure must allow transparency.
- Make it easy to find and access relevant information related to ESG programmes.
  - Put the ESG report on the investor relations section of the corporate website.
  - Marketing inside the website of all ESG-relevant press releases.
- Consider ESG language and strategy communication.
  - Ensure that the way in which the report explains itself will be grasped by the target investor base, stakeholders and clients.
- Implement Big Data and include relevant information.
  - Ensure the report includes historical data with a combination of current facts to demonstrate changes and developments.
  - Facilitate and promote connection channels inside the company and between the company and the investors.
  - Promote finance routine reviews to present at least biannual results. ■

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Keep it moving

This is a fast-developing space, and treasurers need to keep up to speed with their own activities. The need is to see if the goals set at stage one are being met, if these need to be revised, and if so, how this can be achieved. What's more, in this rapidly developing space, it is vital to know if the best available solutions are being used to meet those goals.

Harry Curtis
Managing Director, Global Transaction Services
BANK OF AMERICA

The possible sustainability practices that businesses deploy can differ enormously, depending on the industry. However, once everybody understands what sustainability is as an organisation, each functional unit – including treasury – is going to prioritise those steps that will reduce cost or improve profitability, whilst also improving what the impact their business or their function has on both the environment and society.

Actions, not words

If something is important to the long-term success of a business, it will be on the management scorecard, not, say, a separate scorecard for a "sustainability working team". If your business is not really serious about it, then question whether it is worth doing at all. If a company decides it's going to eliminate paper, or streamline cash operations, or stop trucking coin and currency all over the country, it needs to put it on the scorecard, measured, and hold itself accountable for those results.

Once goals are set and implementation is complete, the organisation's leadership teams must then call out progress against milestones, presenting them alongside financial and other performance metrics. When monitoring what the company is doing, it's important for you to ask if it's making a difference and being really honest when answering.

By constantly monitoring inputs and the scorecard, it is possible to determine if the business is having the desired impact. If so, celebrate that success. If not, you must re-assess the plans in place, adjust, and update the scorecard.

Keeping it going

Keeping up to date with progress in this space largely comes down to observation. Newer companies tend to leapfrog out-dated processes used by older competitors, such as having no retail locations, or automating processes from the start. Companies should be watching their competitors.

Equally, listen to employees that spend time on these activities, and ask customers about their experiences. At Bank of America, we start by asking ourselves "what are our own people telling us we need to do better?". It's amazing what can be learned by simply taking a walk to the loading dock and seeing what the company is throwing away, or how much packaging is wrapped around every delivery!

Make it realistic

Another element companies must keep in mind is that sustainable goals have got to be realistic. There is no use in creating a sustainable practice that puts you out of business. For example, if the business is heavily reliant on single-use cups for hot beverages, then switching to an entirely paper cup that is quick to disintegrate could deter customers.

Instead, the business should be figuring out how to either make them functional as well as recyclable or biodegradable, and how to offset any negative environmental impact of change. Pick the really serious problems though. Tackle the hardest problem first, and don't just do it to make yourself feel good or the company look better; do it to make a difference.

Reporting and governance

In the 'new normal', ESG programmes have become useful tools for public companies trying to increase investor appetite, operational efficiency, and decrease resource dependency whilst attracting a new generation of empowered workers.

Trends suggest that companies are expected to deliver investor-grade, high-quality ESG disclosures, for the benefit of external stakeholders and for management decision-making. For this reason, ongoing reporting and governance must meet expectations.

Directors will assist in assessing and communicating the company's sustainability goals regarding ESG projects. Companies that quickly understand ESG risk and opportunities have the advantage of crafting and controlling delivery of narrative and transparency.

ESG players have a key influence in many aspects to achieve goals:

External players

Stakeholders

Provide information data, business intelligence for each of the areas involved in order to ensure the right deployment and impacting positively.

Investors and shareholders

Investor and shareholder interests have led to an increase in the attention companies are giving to ESG disclosure and transparency.

Once an investment takes place, investors use ESG information to monitor performance, much in the way they use financial information.

In addition to investment due diligence and performance monitoring, investors exercise their influence and execute their ESG strategies through proxy voting and shareholder proposals.

Stock exchanges

Nasdaq published its ESG reporting guide16 to encourage disclosure and offer support to companies navigating the evolving disclosure standards. The guide is intended to help companies across geographies and market capitalisations with their ESG reporting efforts.

Guidelines are key as a result of the increased investor demand for ESG information and stock exchanges transparency.

Central regulators and policy makers

Promote and rule on non-financial reporting and requirements to disclose information.

Depending on the specific requirements, information must be disclosed about environmental performance, social and employee matters, human rights performance, and anti-corruption and anti-bribery matters.

Customers

Consumers support companies that align with their values. They have begun or deepened a business relationship because they perceived a company's products or services to have a positive impact on society or the environment.

Internal players

Governance

On a yearly basis, the governance needs to verify ESG programme performance, asking the key questions to verify the mission, goals and objectives are aligned with the guidelines.

Key questions:

- Does the board understand the risks and opportunities and how sustainability-related risks and opportunities impact the company's strategy?
- Who inside the corporate is responsible for ESG management and performance and what is the internal governance and finance structure?
- Does the entire corporate understand what types of ESG disclosures attracts investors and other stakeholders, and how is the board and the company responding to these expectations?
- With ESG reports, how often is the channel and type of content of that reporting revisited to modify changes and reflect current trends?
- Is the ESG strategy the responsibility of the full board, or is it delegated to one or more internal committees? Audit and finance committees could play an important role in reviewing and assessing the disclosure of material ESG matters. With increasing investor attention and reliance on ESG disclosure, the audit committee will likely also play a role in overseeing how ESG information is presented to investors.

Employees

Many now seek to work at companies that reflect their expectations with regards to purpose, culture, and professional development. Companies that deliver alignment on those expectations may be

Employee commitment

ESG disclosure can serve as a differentiator among companies and can enhance an employee's confidence, trust and loyalty, across generations.

What is expected from teammates?

- To embrace the ESG culture.
- Apply a risk framework and quality assurance.
- Be ethical and responsible in behaviour and handling of information.
- Be social media-responsible, aligning with the defined corporate culture. ■