

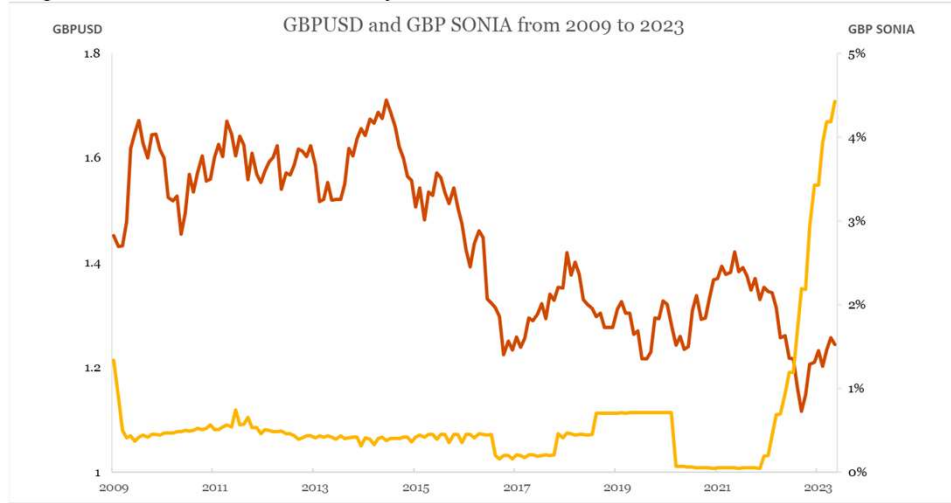
Finance and Treasury Advisory



Why now?

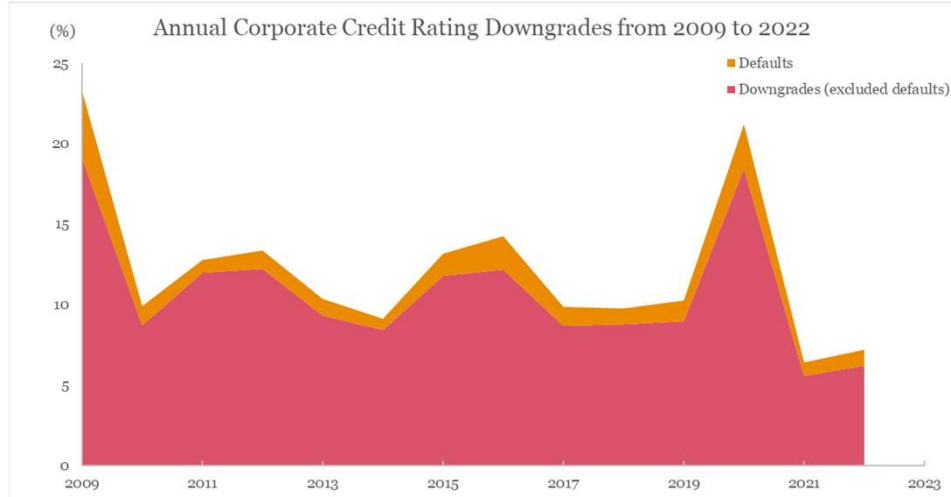
- In the last 12/18 months, there has been unprecedented volatility in financial markets due to the impact of the war in Ukraine, GeoPolitical risks and other significant economic uncertainties, most recently the UK Mini Budget and the market stress in the Banking sector.
- These factors have contributed to a significant inflationary environment, aided by significant increases in interest rates (which may be followed just as quickly by a significant drop) and large foreign exchange movements, generating further market stress.
- Credit downgrades peaked in 2020, and have been steadily climbing again. Often once the economic cycle turns, this is followed by further ratings downgrades and defaults.
- We are also facing a period of significant ongoing regulatory and tax reform – for example, the multinational top up tax (“Pillar 2”).
- These factors have given rise to much more complexity in treasury operations.
- As a result, corporate treasury activity has increased – e.g. greater need for funding, hedging strategies have become more important.
- During the COVID pandemic, Corporate Treasurers took on a more strategic role and the value of having a connected corporate treasury department became much clearer.

Figure 1: The recent market volatility of GBP:USD and GBP SONIA from 2009 to 2023.



Source: Datastream from Refinitiv

Figure 2: Annual corporate credit rating downgrades and defaults from 2009 to 2022.



Source: S&P Global Market Intelligence

- The international nature of business means that more groups are looking to centralise their treasury operations in a small number of locations.
- Ongoing uncertainty can lead to significant challenges in forecasting.
- Volatility can also lead to unexpected reserves blocks which could affect a group's ability to repatriate profits and ultimately to pay dividends.
- From a tax perspective, big swings in valuations can lead to the risk of significant taxable gains.

What are the current key considerations for treasurers?

- Increasing volatility means more or bigger swings in financial asset/liability valuations.

- Increasing interest rates put pressure on cash flows and credit ratings. A difficult economic environment may mean reduced access to credit facilities. This in turn makes counterparty credit risk more material for valuations of debt and derivatives, and it is likely that intercompany debt positions will have experienced a change in credit or option value (even on floating rate callable debt).
- The additional complexity created by new rules and regulations compounds these problems, and may lead to non-compliance, particularly in overseas locations. There can also be significant costs associated with preparing for rule changes.
- Volatility in balance sheet and/or P&L values leads to greater scrutiny across all stakeholders, including internal and external auditors and tax authorities.

How can PwC help?

- We have a dedicated network of Finance and Treasury specialists, covering Tax, Accounting, Transfer Pricing, Valuations, and Commercial Treasury advisory.
- Our specialists can help you:
 - Measure, analyse and explain changes in valuations and the financial statement impacts;
 - Review existing processes and identify any areas for improvement;
 - Assist with undertaking valuations, or implementing a robust valuation approach;
 - Help you understand and get ready for changes in regulations, accounting and tax developments;
 - Understand and comply with hedge accounting requirements, and manage hedging for tax purposes.

- Our advice could cover:
 - Treasury centre locations
 - Foreign exchange management
 - Cash repatriation
 - Structuring treasury operations
 - Transfer pricing of treasury transactions
 - Optimising hedging transactions from tax and treasury perspective
 - Cash management
 - Debt and derivatives valuations and pricing for transactions

Key contacts

Nebil Shubbar
 nebil.y.shubbar@pwc.com
 +44 (0)7525 284246

Iain McDonald
 iain.mcdonald@pwc.com
 +44 (0)7483 417 078

Rob Waddington
 robert.waddington@pwc.com
 +44 (0)7590 352551

Chris Raftopoulos
 christopher.raftopoulos@pwc.com
 +44 (0)7595 850124

www.pwc.co.uk

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