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Luxembourg Association of Corporate Treasurers

MAGAZINE #107

TREASURER

THE CORPORATE TREASURERS' COMMUNITY MAGAZINE

INTERCONNECTIVITY

TREASURER
The Corporate Treasurers' Community Magazine

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#107

TRENDS ON TREASURY FOR 2022 AND TOP PRIORITIES

According to the last PwC global treasury survey released in September 2021, some top priorities seem to emerge and make echoes with priorities identified by EACT in its April European survey. The business partnering is number one priority. It means treasurers have understood that they can and should play a key role between finance and operations and be a key partner for other departments. We can mention on FX by adapting the strategy to open markets usually and previously closed, by offering local currencies to customers and suppliers, by authorizing and enabling e-payments and new payment methods, by integrating payments and easing reconciliations, by creating virtual accounts, by enhancing dashboards and reports for internal and external stakeholders, etc…
Raising the digital acumen was classified second and is parallel to the European digitalization and digital transformation identified by EACT. It is not only to move to more digital solutions but also to convince the C-level of the virtues of such a transformation. We have noticed that often the spirit, the momentum and vision were lacking. Treasurers must be convincing to "sell" digital projects and benefits of them. Not easy, but it needs to be addressed. The third priority is ESG. There, it is on one side not a surprise and on the other side surprising at such a high priority level. We are not convinced ESG is such a high priority. Although the digital transformation contributes to enhance environmental performances. It is certainly the financing side of ESG that is addressed by respondents. The fourth priority is cash optimization and is key, after a long COVID period and uncertainties around businesses (e.g., disruptions in deliveries, increase of transportation and freight costs, commodity market price explosion, lack of goods and semi-conductors, bankruptcies, harbors closed, etc…). Cash visibility has proven to be essential and lots of demands came from C-level for regular updates, simulations, stress-testing, etc.. on cash-flow forecasts. The fifth priority is the financial risk, including FX risk. Although it has be positioned lower compared to the past survey, it remains a key risk. It may be explained by market high volatility, uncertainties and growing related political risks.
In such a complex environment and after trouble periods for about one year and half, it seems that treasurers have opportunities, according to PwC. Opportunities to reposition themselves and to move ahead to take/keep the lead in finance.
From this survey, it appears that priorities for CFo's and Treasurers are slightly different, although aligned. The ranking may be different and risk perception also. For example, cyber-risks and tax implications are less priorities for treasurers and more important issues for CFO's. The same comment on talent management, which doesn't seem to be priority of treasurers. However, the required skills for facing this digital transformation and revolution are different, more specific, more IT-oriented in terms of profiles and more diversified. It means treasurers should also consider ways of recruiting in future and adapt to current changes. It is time to stop always hiring the same profiles. Times have changed. We understand why working capital and FX risks are better ranked by treasurers. Nevertheless, CFO's should not forget these two essential elements of finance risk management. Here again, it is surprising. After the lockdown periods, we could have expected these two risks higher classified and identified by CFO's.
We should recommend to treasurers to have sort of high-level road mapping to make a diagnosis of the current situation, what could be improved and where they want to move in the next years, in terms of organization and IT projects to prepare the ground for changes, to "sell" projects, to benchmark with peers, to become more resilient and to also recruit accordingly.
Therefore, as always, such surveys help determining what should be treasury's priorities and projects. It should help convincing C-level of this largely accepted vision of treasury and where it should go to.
We hope you will have a chance to read former EACT survey and this recent global PwC survey, which by its repletion every two years, give us after a decade, of trends and evolution. By interpretating results, by understanding the messages, we can ideally prepare and position treasury.
For a long journey, everyone would be better inspired to have its own road map not to get lost.
For more details about this survey, please visit PwC website global survey treasury 2021.


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François Masquelier,
Chairman of ATEL

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FRANÇOIS MASQUELIER (ATEL):

DIGITAL SIGNATORY, NEXT STEP FOR A MORE EFFICIENT TREASURY MANAGEMENT

The management of signing authorities remains a major problem for multinational companies and their treasurers. It is a source of pain points, error-prone activity, with no added-value, based on paper and highly manual. However, solutions are emerging to offer the digitalization of the management of signing authorities and thus allow increased efficiency, enhanced security, better internal controls, and speed of execution, essential for payments. This is a major step in the digital transformation of the modern treasury.

WHO HAS THE POWER TO SIGN?

Managing bank signing authorities for a business, with many bank relationships, accounts and countries covered, can be a crossroads for the treasurer. The management of signing powers, essential in bank account management, even when connected to the bank via a secure channel such as SWIFT or equivalent and even though the burden of verifying the signature lies with the originator. Often, this management is still done by the classic and "ancient" means to communicate a change of signatory. In the context of KYC, pieces of information are transmitted by post, express courier, or e-mail, or even hand to hand. Not only is it not automated, nor secure, but above all, it is completely manual. A wasting-time task, no one is enthusiastic to do, and which can distract treasurers from allocating more time to higher value-added roles. Unfortunately, the treasurer still awaiting complete and fully operational KYC solutions must address the issue of the transmission of bank signing powers. The dream of any treasurer would therefore be to become able to transmit, in a completely integrated way, the powers of signature in a digital form that is more easily integrable for the bank and identical for all. The management of powers of signature in a tool, for those who have one (i.e., TMS and / or Payment Factory or even ERP) should be automated, with an audit trail, segregation of tasks, documentation, and protection to prevent any fraud potential. Payments have demonstrated the risks they inherently carry, and fraud has seen a significant increase since COVID and furthermore, homeworking has demonstrated the risks when processes are not digitized and robust. We should also not forget that, according to the latest surveys (i.e., PwC Global Treasury Survey) raising digital acumen is priority number 2 and (i.e., EACT annual survey), digitization of treasury is number 2 too.

STANDARDIZATION, THE MISSING PIECE

As always, it hurts because the processes, formats and organizations vary from one to another. This is the same problem as with KYC. For this dream to come true, solutions must be developed, and fortunately some are emerging. We are thinking about solutions like DELEGA, for example. Who wouldn't dream of having an update of signing authorities in a single centralized system (gateway), by a team other than those who approve, prepare, and transmit payments? On top, it would be great that these signature rights updates be automatically transmitted to all banks, quickly in a standard digitalized format directly reusable by them. The technology exists, as it often does. All it takes is a FinTech to tackle it and meet this unsatisfied need.

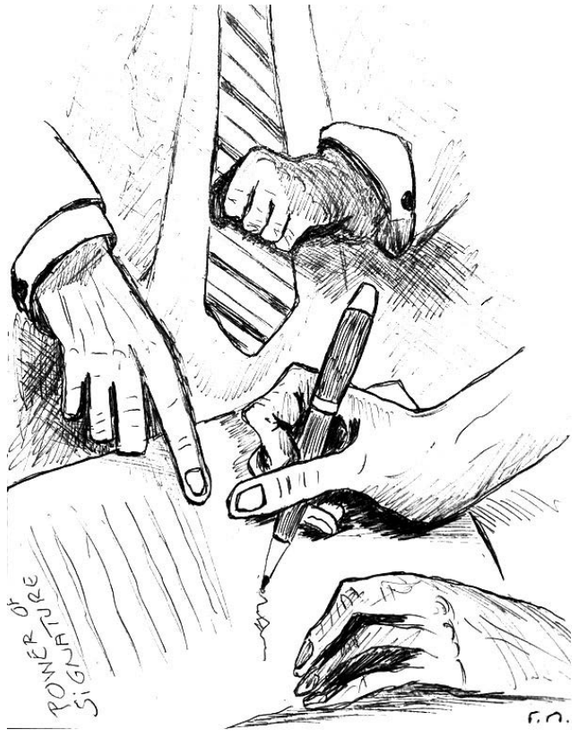
> **THE DREAM OF ANY TREASURER WOULD THEREFORE BE TO BECOME ABLE TO TRANSMIT, IN A COMPLETELY INTEGRATED WAY, THE POWERS OF SIGNATURE IN A DIGITAL FORM THAT IS MORE EASILY INTEGRABLE FOR THE BANK AND IDENTICAL FOR ALL.**
> François Masquelier, Chair of ATEL

BENEFITS OF A DIGITALIZED MANAGEMENT OF POWER OF SIGNATURE

What would be the gains of such a digitalized solution?

- Efficiency gain / Gain in human resources
- Speed of transmission of the pieces of information, including guarantee of receipt by the banks
- Enhancement of internal controls around payment processes
- Audit trails for tracking changes and initiators of them →

- Full integration with IT tools (e.g., TMS/payment factory/...)
- Guarantee of receipt of amended PoS by banks (irrefutable and unquestionable)
- Gain of time and additional security comfort for counterparties (i.e., banks)
- Opportunity to revisit processes related to payments and financial signatures
- Better controls on subsidiaries' power of signature (i.e., PoS)
- Comprehensiveness of communication to banks
- Virtuous as also beneficial for banks to reduce back-office costs



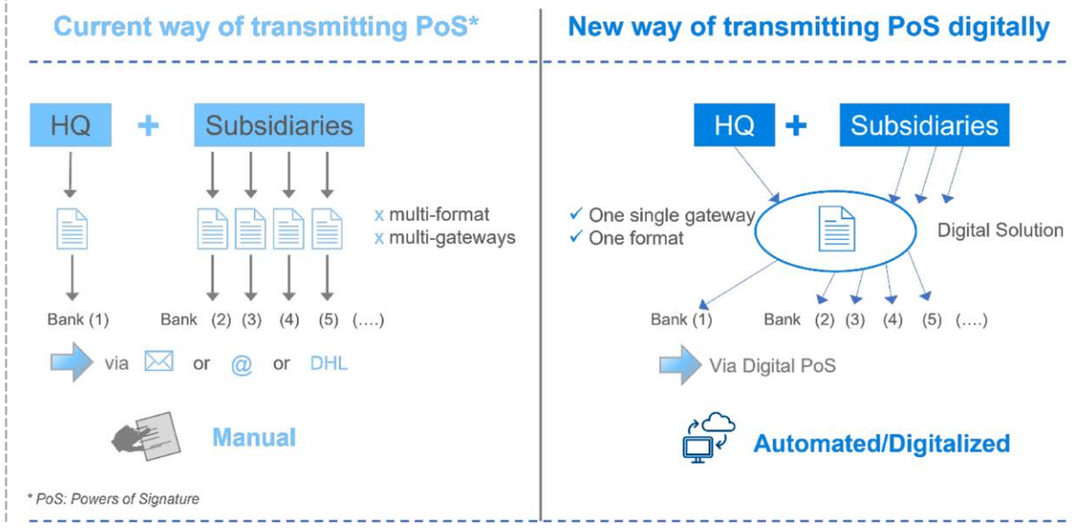
HAVING A SINGLE PROCESS THAT COVERS ALL BANKS CENTRALLY PREVENTS INHERENT RISKS.
François Masquelier, Chair of ATEL

When updating signing authorities (i.e., bank power of signature), you can never be sure that you have informed all banks without an (e)BAM module and that they have received and processed it. As BAM are not yet fully "Electronic", it is generally done by pre-designed mailings. This is the reason why, on the eve of an annual audit, to avoid bank confirmation problems (a classic issue faced by treasurers), we avoid transmitting new powers of signature that could, when reported by banks to the auditors, differ from those effective (for lack of time for the bank to integrate them given the heavy processes in place). We therefore see the risks and the tricks. Often, treasurers do somersaults to get their way and to get it done. Modern treasury organizations should systematically guarantee, secure, and automate any change in powers of signature.

TOO MANUAL PROCESSES MUST BE BANNED IN MODERN TREASURY

What always surprises me is the discrepancy between, on the one hand, an efficient and automated treasury, and certain processes, such as foreign exchange or KYC's or signing powers, which are always so manual in their management. It is an inexplicable and dangerous paradox that it is time to tackle. The idea of implementing a "first time right" approach to simplify while securing the process is interesting. Having a single process that covers all banks centrally prevents inherent risks. The complexity of signing powers, double if not more, at different power levels and amounts, makes power of signature mapping a delicate and yet inevitable exercise. It is at this price that treasury will be able to become even more digitized and that it will be able to mitigate the risks inherent in its management. Those

CURRENT POWER OF SIGNATURE TRANSMISSION VERSUS DIGITALIZED'S



who take this step will be ahead of their peers in terms of internal controls and security. The news of working from home has only increased the risks and problems. Here we have a fantastic opportunity to modernize the treasury and professionalize it.

CUSTOMERS STRINGENT SELECTION BY BANKS

Banks for KYC / AML reasons, but not only that, are always becoming stricter and more demanding because their profitability generated by their customers is sometimes low. The weakness comes from the downstream costs (at bank back-office level). If you lower costs for the bank, secure its processes, you encourage it to continue working with you. Failing to increase its margins and revenues for the customer, it must reduce its own internal costs. Isn't this a great opportunity offered? Too often, the client and the treasurer are no exception, forgets to think about the best interests of their supplier. A happy supplier is a supplier who will stay loyal. Think about it when considering a review of your internal procedures. This is an easy to "sell" project, avant-garde but so necessary and which will allow you to sleep soundly without fear of fraud. When resources are scarce, when costs are cut and when hiring an additional FTE is an impossible task, the solution lies in automation. Our best advice would be, to parody Olivia Newton-John, to advise you the following: « let's go digital, digital... Let me hear your treasury body talk. Let's get digital, digital. I wanna get digital. Let's get into digital (...)".

François Masquelier,
CEO of Simply Treasury

DISCLAIMER: This article was prepared by François Masquelier in his personal capacity. The opinion expressed in this article are the author's own and do not necessarily reflect the view of the European Association of Corporate Treasurers (i.e., EACT).

FOUR STEPS TO SECURE YOUR TREASURY OPERATIONS FROM CYBERATTACKS

The cybersecurity challenges facing corporates and their treasury teams have never been greater. Jeroen Kok, Executive Director at J.P. Morgan, gives four practical actions to create a stronger security strategy and to help mitigate cyberattacks.

The Colonial Pipeline, the largest refined oil pipeline system in the U.S., had to shut down completely after a crippling malware cyberattack in May 2021[1]. The attack prompted a state of emergency, created fuel shortages and forced the infrastructure business to pay a $4.4 million ransom to regain access to its IT systems. This is the stuff of nightmares for any treasury and payments professional, and it only continues to increase.
High-profile cyberattacks like this one make clear that the security of a company's core assets—in this case, electric power lines, pipes, gasworks and water supplies—is only as good as its digital security. The need to protect client and company data is crucial, and the stakes will continue to increase as the world becomes more digital. Considering that data breaches cost U.S. businesses more than $9 million on average in 2020-2021[2], doing nothing is not an option. As such, cybersecurity has become a key, board-level focus and all corporates must create a proactive and practical strategy to protect themselves, customers and other stakeholders.

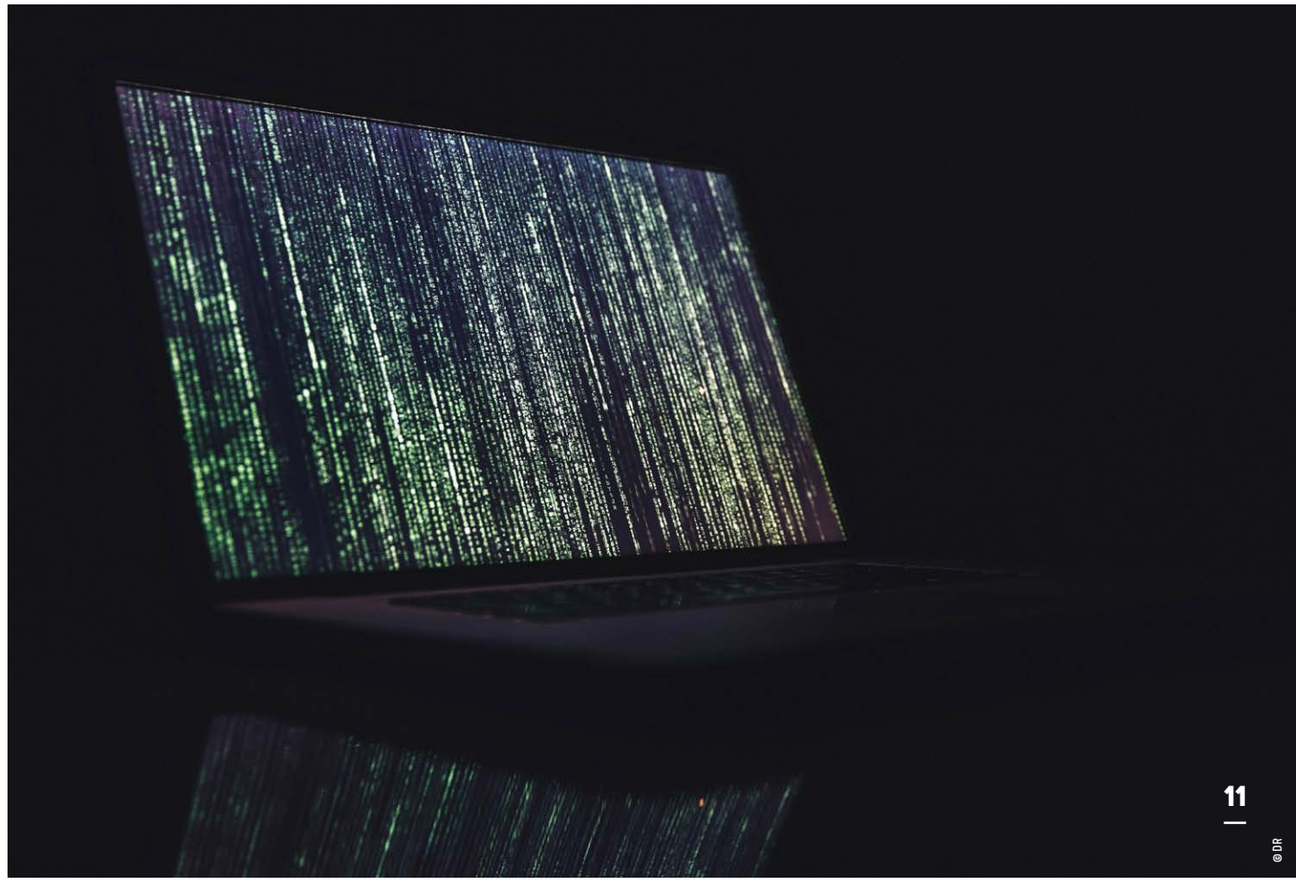
HERE ARE FOUR KEY ACTIONS YOUR BUSINESS CAN TAKE NOW TO SECURE ITS OPERATIONS FROM A CYBERATTACK.

1. CREATE A PLAYBOOK

To prepare your business for a cyberattack, or an attempted one, start by creating a business contingency plan and cybersecurity policy that is clear and comprehensive. This could mean the difference between a thwarted cyberattack and one that hobbles your business.

To create your company playbook, identify mitigation strategies across a range of scenarios, and then test those strategies. Consider the different access points and ways your business could be compromised. One vector is that your servers could be hacked. Another is customer identity theft, which could be leaked, sold or held to ransom.

Strong cybersecurity policies are built through strong communication and cross-functional partnerships across operations—leveraging the contacts, skills and experience of legal departments, business operations and HR, for example. Each business function will know what their most valuable assets are—and from there, a conversation can begin about how to protect them and what role the treasury team can play.



One element of your playbook could be to create backup systems in case your primary systems are hijacked by a ransomware attack. From a treasury perspective, that could mean that if you typically initiate critical wire payments through a company workstation, you enable the capability to do them through your bank portal or mobile app as a backup. Specifically, this may mean you empower staff with a secure method to use personal devices to make critical payments during an emergency.

2. DO TABLE-TOP EXERCISES

Anticipating and working through what would happen in the event of a breach of your digital systems is a great way to identify and fix weaknesses before a malicious event occurs. This is where table-top exercise comes in.

> **TO PREPARE YOUR BUSINESS FOR A CYBERATTACK, OR AN ATTEMPTED ONE, START BY CREATING A BUSINESS CONTINGENCY PLAN AND CYBERSECURITY POLICY THAT IS CLEAR AND COMPREHENSIVE.**
> Jeroen Kok, J.P. Morgan

One hypothetical attack could be a power transmission and distribution system being hacked and held to ransom for millions of dollars. A treasury team should be prepared in advance to know which steps are critical to keep the business running. Your action plan may include:

- Call law enforcement and the third-party negotiator.
- Identify your critical payments.
- Deploy pre-assigned, pre-approved individuals to use their personal devices to make the critical payments.
- Call your bank and tell them to reprocess all payroll files from the previous week.

A clear communication plan for both employees and the Press and media is also key. This might mean preparing internal and external briefs to reassure and inform your staff, and get ahead of the media in the event of an attack. This is a fundamental part of crisis management that should be established ahead of time.
By working through the various scenarios that could happen, your treasury can keep payments and reliable communication flowing, even if the rest of the business is frozen or under attack. →

→ 3. IDENTIFY YOUR CRITICAL PAYMENTS

We've looked at how to secure your critical payments in emergency situations. But do you know exactly what your critical payments are? This is a key area where treasury can help. Pre-identifying which payments have to go out immediately, and which can wait a few days or until systems are back up and running, saves valuable time and team effort when a cyberattack takes place.

For example, a hack may occur on Thursday and payroll may be on Friday. To prevent further distress and uncertainty for staff during a cyberattack, payroll is a critical payment that would need to go out. Therefore, your company's cybersecurity playbook should include a contingency plan for making that payment, for instance, via a third-party payroll provider or via your bank's previous payroll files. Debt payments are another non-negotiable payment to prevent your company defaulting on its commitments; and critical supplier payments are another aspect to consider in order to retain access to essential supplies and services.

4. ENGAGE YOUR BUSINESS AND BANKING PARTNERS

As with all comprehensive business strategies, a holistic approach is best. Educating every part of your business in your cybersecurity strategy may help reduce vulnerabilities throughout your operations. Biannual anti-fraud training for staff, for instance, could be one of the best investments in cybersecurity your business makes. This is because the vast majority of vector attacks happen through your employees, whether via opening a malicious email or a company laptop left in an unsecure location. It is critical that treasury staff are trained to identify and respond to cybersecurity threats.

Top six critical payment types to keep your utilities business operating:

- Payroll
- Critical supplier payments
- Customer refund payments
- Debt payments
- Tax payments
- Key commodity payments

> **EDUCATING EVERY PART OF YOUR BUSINESS IN YOUR CYBERSECURITY STRATEGY MAY HELP REDUCE VULNERABILITIES THROUGHOUT YOUR OPERATIONS.**
> Jeroen Kok, J.P. Morgan

It also means engaging your critical external partners to prevent fraud—including external counsel, vendors, banking providers, insurers and so on. Ensure your partners are just as engaged in preventing fraud as you are. From a treasury perspective, you may engage your banking partners to help protect your business. Fraud prevention services such as AVS, Check Positive Pay and ACH Debit Blocks can help keep your systems and processes flowing during a security breach or data leak.

TAKE THE NEXT STEPS TO PROTECT YOUR BUSINESS

The Colonial Pipeline suffered a catastrophic security breach, sending a clear message that the ongoing cybersecurity threat to corporates is very real. Now is the time to adapt and evolve to meet the challenges of digitization and mitigate the next cyberattack.

Three tactics businesses are implementing to mitigate digital risk:

1. Communicate to employees about cybersecurity threats and best practices through regular newsletters, trainings and townhalls.
2. Develop one-click reporting and tracking tools for visibility into what's happening across your operations.
3. Build a business recovery plan to outline how your business will resume operations following a cyberattack and other unforeseen disruption.

Cybersecurity has a massive impact on a company's survival and sometimes even society at large. Preventing an attack is the best solution. Now is the time to ensure your business is equipped and ready to handle these threats.

1. "Hackers breached Colonial Pipeline using compromised password," Bloomberg, June 2021. https://www.bloomberg.com/news/articles/2021-06-04/hackers-breached-colonial-pipeline-using-compromised-password
2. "How much does a data breach cost?" IBM, 2021. https://www.ibm.com/security/data-breach

Jeroen Kok,
Executive Director
at J.P. Morgan

THE FX RISKS

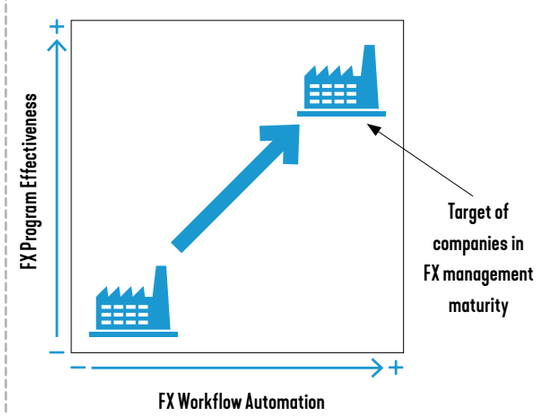
Are TMSs designed to perfectly cover all FX management processes and to fully automate them is a key question to address. In this article, we try to answer this question and to give indications on what best practices in this area are. How to optimize your FX management processes is critical as this risk remains highly manual in general and was identified in last EACT 2021 survey as the third priority for treasurers.

IDENTIFICATION OF FX RISKS

Identifying underlying FX exposures within a business remains one of the most challenging issues a treasurer can face. To succeed, treasury must collect across multiple geographic areas the underlying exposures, coming from operating activities (e.g., ale of goods, purchase of goods, delivery of services, etc....). Coordination and clear policies are required to properly consolidate exposures and manage them. It is essential to collect whole exposures in currencies, to analyze them and consolidate in real-time before applying any hedging strategy. In most MNCs, CFOs work with budget rates, which while creating many benefits can also relegate currency risk to that of a background issue for many in the business. The policy design and implementation to be effective is often a challenging process. To have a comprehensive overview or mapping of all FX exposures, it is necessary, to have IT tools to collect and consolidate exposures, given sometimes variety of business divisions with different patterns. And when such a toll exists it is not interfaced with the TMS. It explains the highly manual part of the pre-trade phase. The full picture is essential, with fair timing for incoming/outgoing flows, as the time slots will determine the hedging and because of swap points the final costs. The 2 components are both important: how much and when? Time is a real issue in FX. The faster →

→ you get access to the pieces of information, the better your hedging will be. It is also essential to track exchange rates used for booking (to mitigate impacts under IFRS9).
What is also often missing is a clear, transparent, and efficient collaboration between operations and treasury. Such an excellent cooperation could prevent lots of issues faced. By understanding the underlying business, treasury can better advice it on how to optimize hedging and protect margins. Eventually, depending on the industry, especially if B2C businesses, the amounts of daily exposures could be individually small and collectively high. The one-to-one recommended approach can only be done is processes are automated accordingly. In practice, we all know that natural hedging and macro hedging (although possible under IFRS) remain rather theoretical.
(NB: here we only focus on the transactional risks and let aside the translation risk which requires a different treatment, if applied).

TARGET IN AUTOMATING FX PROCESSES



MISSING PIECES FOR EFFICIENT FX MANAGEMENT IN TMS TOOLS

It is interesting to ask the question of whether a TMS can perfectly and completely cover all the functions necessary for optimal and automated FX management. At first glance, we would be tempted to answer that obviously any TMS, worthy of the name, must cover all the functionalities for optimized FX management. However, the truth is quite different and all of them have weaknesses or shortcomings that prevent a positive answer to our fundamental question. The TMS is a kind of database or directory in which the treasurer stores all financial transactions including FX hedges. It manages hedge accounting by creating hedging relationships, which will be monitored, revalued, and accounted for according to IFRS 9 rules. It also manages inter-company transactions with subsidiaries, which are those that are exposed to foreign exchange risks. The TMS manages what is commonly called "mirroring". For the most developed, they manage the accounting movements to be sent to the ERP. But if you look closely, it only manages the "trading" part (deal with the bank - external deal) mirrored by an internal deal with the exposed subsidiary and the "post-trade" part, until the hedging operation is settled upon delivery of the goods or services. The "pre-trade" part is totally hidden. However, one can only hedge judiciously what is identified, in time, regularly updated and stored in an operational system for the underlying exposures. Indeed, before buying 10 million Dollars against the Euro, the treasurer makes sure of the underlying risk he/she intends to hedge (in accordance with the group's internal exchange policy). The problem often comes from the management of two databases, neither coordinated nor interfaced and yet having to work in tandem. The lack of perfect coordination increases the risk of under- or over-hedging, discrepancies, non-documentation of the risk, disqualification for hedge accounting, exchange rate results (favorable or unfavorable), etc... According to a recent TMI survey, 73% of respondents consider technology would help in the pre-trade phase of the workflow (forecasting and exposure collection).

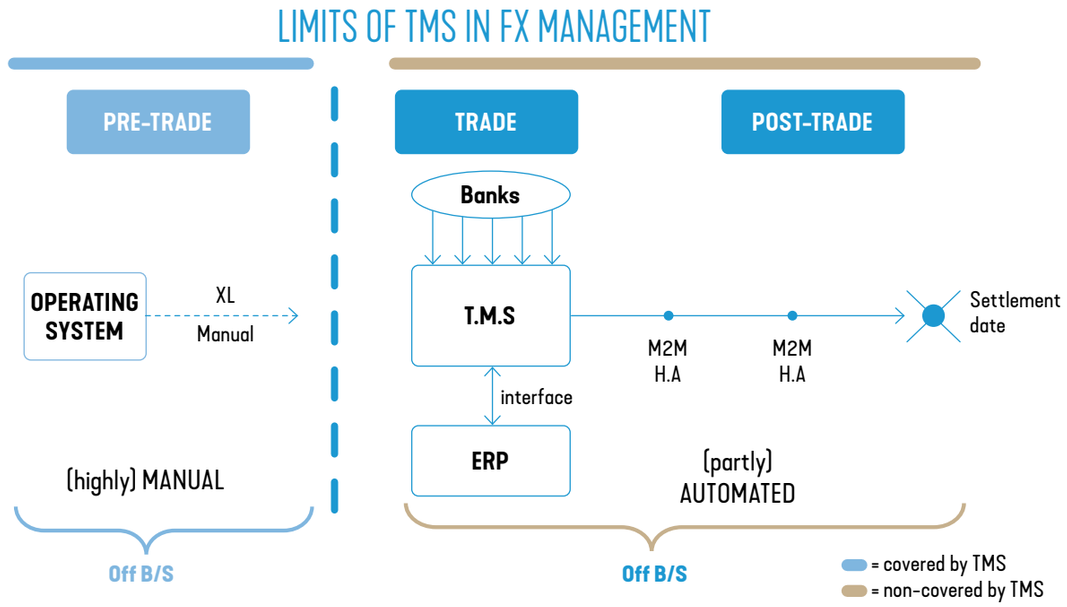
MANAGEMENT OF THE OFF-BALANCE-SHEET ITEMS

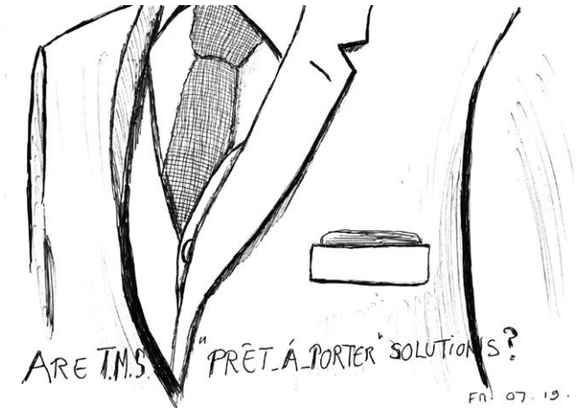
The often "off-balance-sheet" part (e.g., cash-flow forecast, "highly probable transactions", firm commitment according to IAS39, etc.) must be managed in the TMS system while the underlying is not yet accounted for because it is still off-balance-sheet. The change of status in the life of an underlying exposure, from "forecast" to "highly probable" and then "firm commitment" (OFF-B/S) to finally end up with an amount invoiced or to be invoiced in foreign currency (i.e. ON B/S), means that the accounting treatment will have to evolve to manage Cash-Flow Hedge and then Fair Value Hedge (even if this is theoretical for foreign exchange given the joint revaluation of the two legs on the balance sheet). This management of exposures is nevertheless essential and important because the hedging instrument and its usefulness or "raison d'être" depend on it. Without an underlying, or if the underlying disappears, the hedging relationship is extinguished. TMS are not interfaced with operational risk management tools and remain limited in terms of FX reporting. The idea of adding an intermediate module to optimize FX risk management makes sense.

ADDING A SPECIALIZED TOOL TO COMPLETE THE ARSENAL

The idea is to add a tool to manage the underlying risks or to interface this tool with the TMS. This layer of tools, such as KANTOX for example, allows to bridge the gap between the two worlds and to optimize the management of the exchange, while automating the often repeated and basic processes. APIs connections allow today to connect external systems to the TMS. The objective is to automate a process that is too often completely manual and done on XL, with all the relativity and lack of robustness of this wonderful tool from Microsoft. In general, the treasurer focuses on the price of the hedging instrument and negotiates it fiercely, looking for the best spread or the best execution. He/she forgets that the best price will be the one closest to the rate at the time the exposure of the underlying starts. He/she also forgets that by automating the hedging process, when the amounts are small and frequent, he/she can optimize the hedge by individualizing it, systematically and immediately, instead of hedging it by aggregates (bulks). The approach is often very "siloed". Moreover, the treasurer sees FX automation as a threat to his/her work, whereas it is a relief that allows him/her to allocate resources to other more important tasks, such as analysis. Treasurers also lose a lot of time when preparing and producing FX related reports, especially IFRS 9 reports, because TMSs are quite standard and somewhat rigid in the preparation of these reports. The treasurer must then resort to his/her "worst" and best friend, the spreadsheet. In the absence of an appropriate tool, the treasurer risks not perfectly respecting the established FX policy. Lack of resources, inadequate TMS, overly complicated processes, insufficient visibility on exposures, are the excuses most often given. They lead to poor coverage, too late, not aligned with coverage ratios, not compliant with the policy and ultimately ineffective. This can create frustration and dissatisfaction on both sides.

WHY IS OFTEN MISSING IN TMS FOR MANAGING FX RISKS?





FX RISK MANAGEMENT

Identifying underlying FX exposures within a business remains one of the most challenging issues a treasurer can face. To succeed, treasury must collect across multiple geographic areas the underlying exposures, coming from operating activities (e.g., ale of goods, purchase of goods, delivery of services, etc....). Coordination and clear policies are required to properly consolidate exposures and manage them. In most MNCs, CFOs work with budget rates, which while creating many benefits can also relegate currency risk to that of a background issue for many in the business. The policy design and implementation to be effective is often a challenging process.

PERFECT ALIGNMENT OF THE MANAGEMENT WITH THE FX STRATEGY

It seems to me that a good FX policy and strategy can only be validly implemented if one uses efficient and adequate tools to complement the TMS. In fact, some treasury software vendors have acquired companies to complement their products, proving that they do not cover all their customers' needs. The idea of complementing the existing to optimize FX management is vital, even more so since COVID. Coordination and the ability to act immediately 24/7 is also essential. There are solutions, such as KANTOX, which is a perfect accessory to any TMS and easy to implement. APIs allow to connect everything and to reach the FX Holy Grail, the Nirvana of hedging, the perfect automation, which also allows a dynamic and adjustable management at any time. Isn't it agility that the treasurer needs in these troubled times? ▬

François Masquelier,
Chairman of ATEL

JEAN DIEDERICH (APSI):

THE FUTURE OF "MONEY":

UNDERSTANDING TRADITIONAL "FIAT" MONEY, "CRYPTO-CURRENCIES", "STABLE-COINS", DIGITAL "CBDCS"

In this interview, Jean Diederich, Chairman of APSI and member of Digital Europe explains fundamental notions related to the future of money.

FIAT VS DIGITAL CURRENCIES

The main idea behind the financial technology (FinTech) revolution is that the Internet helps to create innovation and disrupts fundamental aspects of society like "Money" and Payments. Different visions for the future of money have appeared in the last years and the COVID-19 shutdowns have accelerated a shift towards digital and contactless payments, prioritising a digital vision of money over physical cash. On one side the digital currencies include "Crypto-currencies", "Stable-coins", and "Central Bank Digital Currencies (CBDCs)", on the other side, traditional "fiat" money is born since President Nixon's decision to decouple the USD from Gold in 1971. A system of national "fiat" currencies, issued by Central Banks, is now used globally worldwide. In this context it's important to understand that the term "fiat" derives from the Latin word "fiat", meaning "it shall be" or "qu'il en soit ainsi" or „So sei es".
As a consequence, the value of "fiat" money, in a broad sense, represents all kinds of money that are made legal tender by a government's Central Bank decree, called "fiat", and which is on the accounting balance of the Central Bank, like it's the case of the ECB, the FED, the BoE, the SZB, …. This has evolved in the second part of the 20th century, the development of computer technologies allowed "fiat" money to become electronic as all money transfers between central banks and commercial banks are done in an electronic form. It's important to understand that the electronic money isn't changing the value of the "fiat" currency.
Since the appearance of the Bitcoin, a battle started between public issuing of money and private issuing of money, on one side "fiat" and "CBDCs" are or will be public Central Bank issued currencies, where "Stable-coins" and "Crypto-currencies" are private issued currencies, bringing up a strategic discussion about who'll issue money in the future, or what'll be the mix? In China the fight is probably the most advanced. For the moment it's very difficult to predict what will happen from a political point of view in Europe and the US. That's why we just want to describe here the different forms of money in a neutral form and not predict what'll be the outcome of the ongoing battles of the future of "money" in the next years.
As we have already described what "fiat" money is, it's important to understand the different digital currencies in competition.

Let's start with the "Crypto-currency" form of money for which a payment transaction can be cleared with no trusted third party (like a Commercial or Central Bank, standing between the payer and the payee). It's digitally designed using cryptographic to ensure that the payer has the funds, and that each transaction is completed. The most widely known "Crypto-currency" is Bitcoin.
For most "Crypto-currencies", a transaction is a block in a blockchain, which records that a "Crypto-currency" amount was transferred from a payer to a payee. In some blockchains or Distributed Ledger Technology (DLT) other digital elements can also be recorded, for example the Ethereum blockchain can embed "smart contracts" that take actions when specified conditions arrive.
In order to be part of the Bitcoin blockchain, a certain technical knowledge is needed and if a participant loses its private key, that person's token can't be accessed and are lost. That's why many service providers have emerged (Exchanges) to enable participants to operate in a more user-friendly account-based setup, some provide "wallets" that store the private keys, some verify participants' identities, enabling to comply with AML/KYC regulations.
It's important to understand that a "Stable-coin" differs from a "Crypto-currency" through the fact that it's value is linked to some other valuable asset, via matching to reserves of that asset, such as "fiat" money (EUR, USD, … in some cases it could be gold). For example, Tether is "promising" that if a client gives it a USD, a EUR or a few other assets, it will issue an equivalent value of Tether "Stable-coin", while holding the USD as a reserve. In this context it's also important to underline that most "Stable-coin" sponsors are unregulated.
As a consequence, there is a large space for fraud of the underlying management of reserves. The most discussed "Stable-coin" was The Facebook-led, called Libra, now known as Diem.
Concerning CBDCs, design decisions interact with each other and are likely to influence the willingness of different types of actors to use the CBDCs. As "fiat" money, they are issued but a public Central Bank, as long as the national money has value, there is no danger that the value of a CBDC will go to zero. But as the CBDC's value is locked to the value of its national money, it will be affected by inflation as "fiat".
For the moment it's very difficult to predict the future mix of "CBDCs", "Stable-coins" and "Crypto-currencies" and how they are going to co-exist alongside with traditional "fiat" currencies?
Two final considerations are important, but will not help to predict the outcome of the ongoing competition in the next years:

1. "CBDCs" are for the moment in a stadium of proof of concepts and don't exist. Central Banks are late in the financial technology revolution, meaning "CBDCs" will not be rolled out on a global basis before 5 to 7 years, that's a long journey, which means that the privately let digital currencies still have a lot of time to go and impose themselves and get more and more a buy in form the citizens, who will stop this success?
2. As "CBDCs" initiatives are late, it's most probable that governments, authorities and Central Banks will start battling against (following the example of China), and trying to ban them or regulate them through financial authorities, but will this be possible in the short term?

Jean Diederich,
President, APSI,
NTA Luxembourg
DIGITALEUROPE

HOW VIRTUAL COULD THE BANK ACCOUNTS BE?

Virtual accounts are a concept often proposed by cash management banks. However, behind the concept there is a need to give more clarity on the terminology. We would like to differentiate "real "virtual accounts from the Virtual IBAN Accounts. The "real" virtual account concept offers broad functionalities and opportunities to increase efficiency and to reduce costs of cash management. Let's discover how.

VALUE OF VIRTUAL ACCOUNTS

The advantage with all type of virtual accounts is that banks can keep in control of the physical account, while treasurers create and administrate themselves as many shadow accounts as possible that they need, increasing efficiency by reducing complexity. In simple terms, as a Treasurer you can dramatically reduce the number of bank accounts to a handful, while allowing the businesses to open as many as they need.

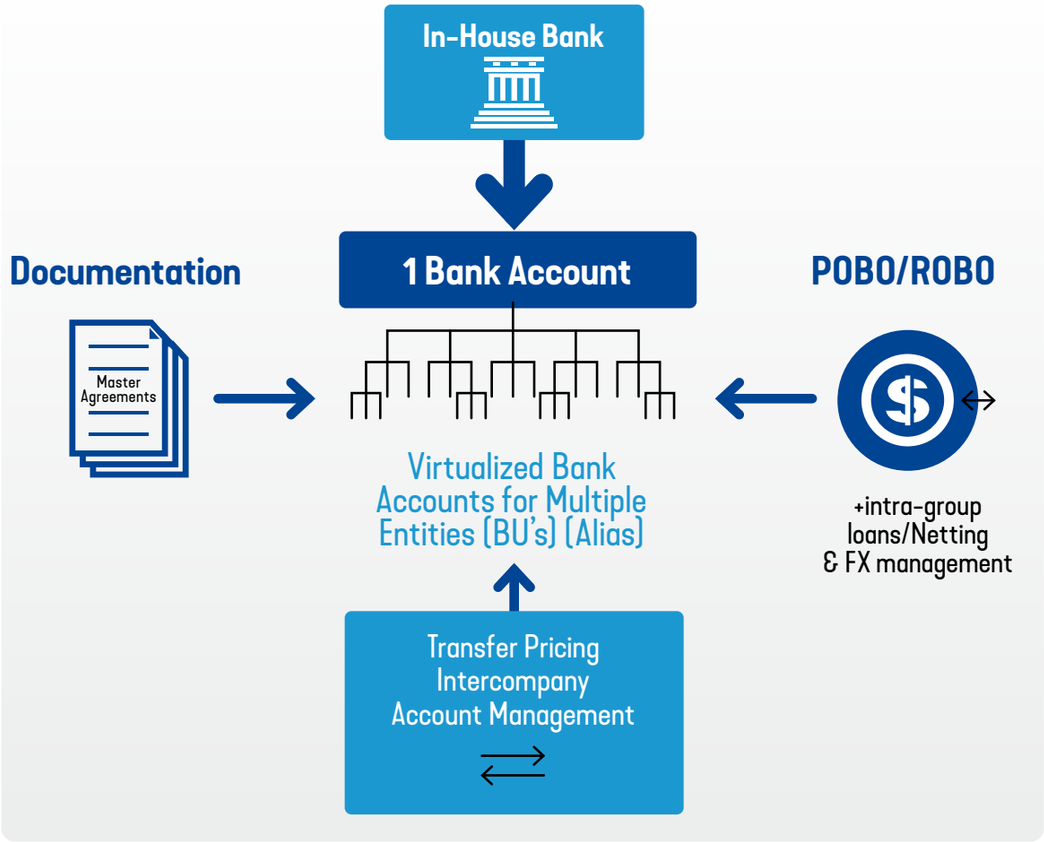
VBA's present advantages and benefits despite the need of appropriate tools. They can be an alternative to traditional cash management solutions, help centralizing treasury functions, be a substitute to liquidity management tools, reduce costs while increasing efficiency, enhance Straight-Through Processing (STP) reconciliation, and simplify bank relationships by reducing number of accounts at minimum. More importantly they allow a treasurer to harmonize the virtualization of all its accounts irrespective of the Banks and their capabilities (as we have seen not all V-IBANs are equal). What matters is simplicity: one process whatever the Bank, the country, or the currency, isn't it? Something you cannot get directly with the various offerings from Banks.

It is worth mentioning that virtual accounts are not a new concept. In fact, products that bear a striking resemblance to modern virtual accounts have been around for the last two decades, providing corporate treasurers and SMEs solutions for specific purposes. In a regulatory landscape becoming more stringent and with higher customer demands, combined with cost cutting focus and in a fast-changing world, the interest in virtual accounts has intensified. Operating bank accounts become an issue as the related costs keep increasing. KYC checks increasingly require more effort and disclosure.

VIRTUALIZED BANK ACCOUNTS FOR AN EFFECTIVE IN-HOUSE BANK (IHB)

While not a new concept, only a few MNCs have today managed to build and run a comprehensive IHB. That has →

VIRTUAL ACCOUNTS



taken them years, significant investments, and has proven to be not particularly cheap so far. Some even applied for a Bank license to do so, in the pre-PSD era.

Virtualized Bank accounts may eventually become the backbone of a company in-house bank system. Typically, companies look for key banks serving multiple products in multiple markets. With virtualized bank accounts, they can rationalize and get full control on their own bank account management. Have you ever dreamt of opening, amending, managing, or closing yourself your bank accounts, in a matter of seconds without having to fill tons of paper forms?

The idea is to rationalize bank accounts in two ways. First within a single legal entity by closing all bank accounts that have been opened over the years for accounting or segregation purposes, and second at a higher level within a group of companies by the virtualization and use of payments and collections on behalf of (POBO/COBO).

Not only very useful to manage and sort payables and receivables, reconcile and allocate them as we have already seen, but such a technology is also very appropriate to build a new type of liquidity management that we call "native cash pooling" Instead of managing daily sweepings between several bank accounts to centralize liquidity on a master account, in that case all liquidity is natively held on that master account, and the virtual accounts represent the various balances related to subsidiaries or businesses. No need to sweep cash physically anymore, you only need to daily track and book intercompany loans and borrowing positions. Virtualized Bank Accounts allow now to manage segregation of funds, intercompany loans, and borrowings management properly and automatically, booking, interest calculation and distribution, but also thin capitalization monitoring and risk and credit control.

> **WHAT MATTERS IS SIMPLICITY: ONE PROCESS WHATEVER THE BANK, THE COUNTRY, OR THE CURRENCY, ISN'T IT?**
> François Masquelier, CEO, *Simply*TREASURY

Also, with such a structure, you can avoid complicated and useless processes and benefit from better trading conditions. Imagine your affiliate in Honk-Kong must pay USD. It will buy USD from the HQ treasury center (or from the local bank). Then it will instruct the bank to pay USD to the supplier in USA. Conditions aren't always maximized and optimized locally, as volumes are lower. The treasury fully controls payment timing and related costs. With the IHB, the payment is directly transferred by the HQ on behalf of its affiliates and generates intragroup transactions and potentially current account movements. With virtual accounts, treasurers could even imagine one single bank account per currency to manage 100% of their treasury into a complete IHB. Companies like Fennech Financial Ltd offer now all of components and services required to run a highly automated In-House Bank. The price is much lower than you can think, in such a way that return-on-investment counts in months, not years.

VIRTUALIZATION OF THE ORGANIZATION FOR EFFICIENCY INCREASE

Clearly, one issue in processing incoming payments across any type of Virtual Account is the difference in naming between the beneficiary (who holds a Virtual Account) and the legal entity holding the actual bank account. This issue should be considered on the compliance and legal angle. While current European regulation and practice manages this reasonably well, this may not be the case for all the accounts and entities everywhere else in the world. But even in that case, virtualization of bank accounts at legal entity level still provides significant benefits, overlayed by the usual traditional tools you already use. Obviously, the power and size of the system and its smooth integration with your ERP must be appropriate. It requires organization, discipline, and new support processes. If you take out the small local bank, treasury becomes the only contact and can be inundated by local affiliates with questions. What we mean is that it is not only a question of IT, but also to revisit the organization and the processes.

TAKE-AWAYS

In conclusion, it is possible to leverage virtualized bank accounts to enable a 'payments and collections on behalf of' structure, a native cash pooling, internal short-term loans, centralized FX management, or netting, all leading to a comprehensive in-house bank. Virtual account concept has been certainly mispresented or wrongly named by banks. Virtual accounts promise corporate treasurers many benefits in terms of enhanced cash management as well as providing a clearer overview on company's accounts, allowing treasuries to have a largely more influential role within organizations. interest in Virtualized Bank Accounts will rise significantly now virtual account management (VAM) platforms offer treasurers a simple out-the-box solution. These give them ability to reinvent treasury management. That is not the future but the reality you should consider.

François Masquelier,
CEO, *Simply*TREASURY
Luxembourg

DISCLAIMER: This article was prepared by François Masquelier in his personal capacity. The opinion expressed in this article are the author's own and do not necessarily reflect the view of the European Association of Corporate Treasurers (i.e., EACT).

IS YOUR SUPPLY CHAIN A BETTER LIQUIDITY INVESTMENT OPTION THAN BANK DEPOSITS?

Iris Rousselière & Alex Lhéritier

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The minimum requirements introduced by the Basel III framework and the prolonged negative short-term interest rates environment have led banks to charge for demand deposits and deposits with residual maturities of less than three months. Money market funds and even secured structured products have also been losing money for a while. Hence corporate treasurers have been forced to accept burning cash to preserve their liquid investments. Fortunately, no storm lasts forever, but before the situation improves, our wisest advice is to escape this cash dilemma and pave for the future by investing into the supply chain where myriad benefits are within reach.

Working hand-in-hand with treasurers and CFOs to innovatively optimize their financing strategy, liquidity, payments and treasury efficiency, we observe four promising trends in supply chain optimization.

INVENTORY BUILD

Due to the ongoing supply chain disruptions, cash-rich clients have decided to rebuild their inventories. It is the quickest way to invest cash and avoid the cost of cash balances. Although conceptually simple, it requires a strong understanding of the activity and detailed classification of different inventory categories.

DYNAMIC DISCOUNTING

Supporting your suppliers through earlier payments in exchange for discounts brings many benefits for the buyers:

- Attractive risk-free returns. Buyers are effectively investing their own cash in order to capture discounts, which translate into risk-free returns.
- Immediate reduction of the cost of goods and services purchased, which can support procurement KPIs.
- Enhanced supply chain resilience and reduced likelihood of any disruptions.

Conversely, benefits for suppliers include:

- Reduction in days sales outstanding (DSO) and thereby cash conversion cycle improvement.
- Access to external funding, often at a lower cost than other options available, enabling better management of unexpected costs or investment in growth and innovation.
- Choices in financing a single invoice, several, or all of them.

On the implementation side, resorting to digital solutions/platforms can be extremely helpful to avoid the operational burden arising from the management of dynamic discounting programs.

SUPPLIER SHORT-TERM FUNDING

Should you want to further strengthen your supply chain, another option is to provide your suppliers with direct financing. In such cases, we would highly recommend implementing a counterparty risk assessment framework to avoid adding any risks to your liquidity investment.

ESG REPORTING

Close to 80% of retail and consumer staples companies' carbon footprints come from the supply chain. To tackle global warming, suppliers will have to be involved in the company's CO2 reduction effort.

One way is to associate them with the reduced funding costs you can extract from your banks and investors. Our experience has shown that most ESG or sustainability-linked financing instruments today can help you reduce your funding costs by 5bps to 10bps.

We foresee the rise of supplier financing programs, where suppliers are no longer tiered according to their size or strategic importance, but instead based on their ESG rating or commitment. This is an efficient way to foster the alignment between your suppliers and your own ESG strategy.

TIME FOR ACTION

Forecasted returns that can be achieved through the above options range from 2% to 12% of the investment, via increased EBITDA and lower cost of funds, i.e., way higher than any secured liquidity investments.

We assist our clients at various stages to ensure that their projects make a real impact. Together, we build a solid cash forecasting and working capital monitoring framework to identify the optimum available liquidity to invest. We estimate the potential benefits of supply chain investment to build a business case and support the change management. We support the selection of the relevant digital/platform providers and, when required, we assess counterparty risk profiles, or review counterparty risk policy/process. Ultimately, we implement the above and transfer ownership/expertise to our clients.

RETURNS [...] RANGE FROM 2% TO 12%, I.E. WAY HIGHER THAN ANY SECURED LIQUIDITY INVESTMENTS.

Iris Rousselière,
Head of Treasury Transformation, Redbridge

Alex Lhéritier,
Head of European Coverage, Redbridge

TOWARDS A EUROPEAN CAPITAL MARKETS UNION OR UTOPIA?

The famous CMU that has been much talked about for a few years now does not seem to be a long, quiet river, but rather a complicated, tortuous, and very long climb. The fragmentation of the European market is often the major problem to progress and standardization, once again penalizing us vis-à-vis the Americans. It is necessary to combine giving up national prerogatives, accepting international supervision and coordinating rules as well as standardizing measurements. Is this a pipe dream or a reality? That is the question to be asked. Let's take stock.

THE EUROPEAN COMMISSION'S FINANCIAL PRIORITIES

The CMU is one of the priorities announced by U. Van der Leyen to achieve a true union of capital markets that would allow the creation of a true single market, a "common" capital market, throughout the EU and that would aim to circulate investments and savings in all the States of the Union. Is this not one of the objectives of the Treaty of Rome? Commissioner Valdis Dombrovskis has been asked by the President to relaunch the CMU. In June 2020, the "CMU high-level Forum" published a report entitled "A new vision for Europe's capital markets". The Commission then validated a new action plan (i.e., it contains 16 actions). The Brexit has not helped the situation and the need is more than ever. A September 2020 report suggested that the single market in financial services must be deepened. Fragmentation is bad for finance. So, is this pharaonic project a sea serpent, the Lochness Monster, Everest, the myth of Sisyphus? No one can say. It seems to us that it is necessary, feasible and it is not because the cliff is steep, that the climber should not tackle it and finally the balance between bank financing and capital markets is not as good as in the United States. After a false start in 2015, much ado about nothing, it seems to us that the time has come for action.

BREXIT EFFECT

The most critical would say that the English Commissioner at the time did not help, nor the financial crisis that restricted credit. The first draft was too technical and not supported by the economic agents in charge. The exit of England from the EU changes the situation and financial stability is more necessary than ever. The EU wants its independence and sovereignty from London. The EU has decided to be uncompromising regarding the "exits" from the union and not to leave them a free hand. This is to be welcomed. But the fourth wave, or industrial revolution, requires huge, risky investments, which traditional bank credit alone may not be able to meet. The flow of capital has been slowed down after the sub-prime crisis. Moreover, the fierce competition of an overly fragmented market does not help to unite the market. The aim is obviously not for Dutch pension funds and German dentists to finance the real estate bubble in Spain or Portugal. This is not the wish of the President of the Commission. As has been said, integrated and convergent supervision will be necessary, as well as strong political support and consensus. This remains a complex and ambitious project that is not expected to be easily achievable in the short term. The goal is to reduce costs, open up the market, compete with other financial centers and develop a strong alternative to bank financing alone. Pessimists see the capital market union as a kind of Spanish inn where nothing is or will be simple. The investor base must be broadened, and the smallest structures must be financed. Harmonization, as is often the case, is the keystone of this project. Everyone is pulling the wool over their eyes. Let us also note that the WIRECARD case has not spared the EU either, which will have to regulate and prevent this type of unacceptable business.

DIFFERENCE BETWEEN EUROPE AND THE USA

In the USA there is only one market authority, i.e., SEC, while in Europe ESMA (European Securities and Markets Authority) does not have full supervision of all markets in the Union. The CMU will also require a banking union or an increased circulation of liquidity in Europe. We must encourage mergers and the strengthening of our banks, avoiding an overexposure to the debt of the country from which they emanate (e.g., Italian banks hold 20% of the total Italian debt). There is still a long way to go. But the essential question remains whether to imitate the US or to distance oneself from it. Disintermediation, which is predominant on the other side of the Atlantic, is partial in Europe. Many companies are listed in Europe, but their capitalization is far from that of American companies. The ratio of bank financing to capital markets is 65% markets to 35% banks, while in Europe it is 85% banks to 15% capital markets. The figures seem harsh, and the reality of some countries is more nuanced (if we take into account the "big European countries", the balance is certainly better). Nevertheless, the difference calls for a reaction to reduce the dependence of bank financing on capital markets. As always, the truth may lie somewhere in between, and the revolution impossible. The "Rome of the European capital market" will not happen overnight. Isn't the question also a bit cultural? Pension systems are evolving and will also influence financing methods. The question is not only political, of course. In this long journey towards a large and dynamic capital market in Europe, we will have to involve all the stakeholders and accept to tolerate a certain period to move towards a better balance between the two forms of financing, both of which are essential, but in the right proportions, to avoid the domino effects of financial crises. The road is long, the path tortuous, but the destination essential. Let's give the present European Commission a chance to relaunch the CMU with more success than since 2015.

François Masquelier,
Chairman of ATEL - Luxembourg

EUROPE NEEDS A EUROPEAN RATING AGENCY – **NOW MORE THAN EVER !**

> **A EUROPEAN RATING AGENCY NEEDS TO OFFER A EUROPEAN PERSPECTIVE ON CREDIT RISK.**
> Marc Lefevre, Scope Group

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Much as Europe and America have in common as wealthy capitalist economies, one area where they still differ is the way in which businesses get funding.
In the US, the capital markets have for long provided the most important source of financing, going back to the boom days of railway construction in the late 19th Century. US businesses today obtain more than three-quarters of their external financing directly from investors by issuing bonds.
Europe is different. Here, less than a quarter of external capital comes directly from investors. The other, much bigger source is conventional loans, supplied by European banks since as long ago as the late Middle Ages.
The European Commission (EC) has been eager to reduce European businesses' dependence on the banking sector and strengthen capital-market financing for some time. As far back as 2015, the EC set about creating a capital markets union that would broaden and deepen Europe's financial markets and more closely integrate them. In September 2020, the EC revised and enhanced the planned integration of national markets in a true EU-wide internal capital market. Brexit and the launch of EU bonds as part of the Next Generation EU economic recovery package have provided additional momentum for creating a single robust capital market in the euro area and the rest of continental Europe.

STRONGER ORIENTATION TOWARDS CAPITAL MARKETS INCREASES THE IMPORTANCE OF RATING AGENCIES

As capital markets become more important for European businesses, so too do external credit ratings. With a conventional bank loan, a bank typically rates the credit of a prospective borrower by itself. Rating agencies fill this role in the debt capital market. Unlike banks, rating agencies publish a large part of their credit ratings. In doing so, these independent agencies create transparency for investors while enabling them to compare different issuers more easily, providing an indispensable and fundamental service.
US agencies have long been the dominant providers of this essential service, even in Europe, profiting hugely from the rapid growth in international debt capital markets in recent decades. Yet they have not been without their critics, especially when it comes to their analytical practices and business conduct. As a result, investors, issuers and regulators in Europe have called for some time for a greater diversity of credit opinion and alternative rating approaches, ideally through the creation of a European rating agency. European policymakers renewed their appeals for a European challenger to the market-defining opinions of US rating agencies after the global financial crisis of 2008 and the ensuing European sovereign debt crisis of 2011.

WHAT DOES IT MEAN TO BE A EUROPEAN RATING AGENCY?

Widespread as agreement is that Europe needs a rating agency of its own, there is an equally wide range of opinions on what exactly would or should set it apart.
Would it only need to have its headquarters in Europe? Would its analysts need to be European? Or would it need to have a specific analytical approach? What else differentiates a European from an American rating agency?
Our answer is simple. The three US agencies have very similar methodologies and rating approaches that have evolved from a traditionally American view of business, but a European rating agency needs to offer a European perspective on credit risk.
However, such a perspective cannot mean adding a European variation to the so-called home bias that many studies have documented for the American agencies. Rather, it means recognising that credit ratings need to take into account the diversity of Europe and the complexity of its regulatory, geopolitical and cultural dynamics, incorporating them all in the analysis of credit risk. The goal is always to provide a more accurate assessment of the business and risk profile, yielding what is a more realistic evaluation.
To meet this requirement, ratings need to be prepared by analysts who understand the local language and who are familiar with the cultural background of each rated business. In addition, rating methodologies must reflect European businesses' distinctive features. The following examples illustrate how the dominance of Anglo-American rating approaches that overlook European perspectives may lead analysts to distort parts of the business risk and financial risk profile of European issuers, causing structural disadvantages for European issuers on capital markets.

DIVERSIFIED BUSINESS MODELS – RARE IN THE US BUT VERY COMMON IN EUROPE

The importance of US capital markets in business and credo of maximising shareholder value tend to make businesses concentrate on one core area. Diversified business models are in the minority in the US, whereas in Europe they are relatively common, often with owners and executives who purposely avoid a narrow focus on maximising near-term shareholder value. Corporate philosophies are often orientated toward longer-term criteria, particularly among family-managed businesses. US-style rating models often do not adequately reflect the creditworthiness of such diversified European businesses. A European rating agency, by contrast, should respect diversification in its credit ratings, because diversified business models often exhibit greater stability. At the same time, rating analysts need to ensure that a rating properly reflects the sum of the risks in each sector that a business is in, not just those in an arbitrarily defined core activity.

UNFUNDED PENSION LIABILITIES – A UNIQUELY EUROPEAN PHENOMENON

US rating agencies treat all a business' unfunded pension liabilities as debt and discount them at the current market rate, which can lead to significant volatility in net indebtedness when interest rates change. This approach often puts European businesses at a disadvantage compared with their international competitors. After all, having a large amount of unfunded pension liabilities is primarily a European phenomenon.
Granted, there is debate over whether pension liabilities are financial liabilities. But there is just as much debate over whether pension liabilities have a completely different maturity from five-year loans or bonds with a similar maturity.

THE SOVEREIGN-BANKING NEXUS: WHO CONSTRAINS WHO?

One of the most striking limitations of Anglo-American methodologies is that bank ratings are capped at the rating of the relevant sovereign. Considering that banks typically hold large quantities of government bonds from their country of origin, this constraint generally makes sense. However, rigidly capping a bank rating with the sovereign rating can lead to paradoxical results – especially when that bank holds relatively few government bonds while also having a pan-European or global business model.
Another argument for US approach claims that governments must step in when a bank is in distress and so the respective sovereign rating must constitute an upper limit for that bank. This too is only true for European banks in certain cases. The creation of a European bail-in regime has established clear rules for how to restructure and, if necessary, liquidate distressed banks. For a European rating agency, bearing this regulatory framework in mind is obvious, preventing a mechanistic linking of bank to sovereign ratings. Instead, analysts should focus on each bank's particular business model.

> **EUROPE IS A PIONEER OF PUTTING SUSTAINABILITY AT THE CENTRE OF ECONOMIC POLICY MAKING.**
> Marc Lefevre, Scope Group

ESG INFLUENCES THE CREDIT RISK PROFILE – OF BUSINESSES, BANKS AND SOVEREIGNS

Europe is a pioneer of putting sustainability at the centre of economic policy making, originally with the promotion of renewable energy and a market for carbon credits but increasingly for industry, commerce and financial markets at large. A European rating agency should have the same standards and take a leading role when it comes to integrating relevant ESG factors in credit risk analysis notably given the rapid growth in the market for ESG-linked bonds. This is true for businesses, banks and, most of all, for the long-term credit ratings of sovereigns. After all, if a country faces significant environmental risks and does not take appropriate steps to address them, the result could compromise that country's credit rating in the long term.

ESG IS INCREASINGLY RELEVANT AS A STAND-ALONE ANALYTICAL PARAMETER

In addition to its role in analysing credit risk, ESG factors are becoming standalone parameters in analysis and decision making. The volume of sustainable assets under management is growing continuously. Asset and portfolio managers who invest their clients' money in specific businesses need ESG scores, ESG research and ESG ratings to make the most of this trend. Although there is still a wide range of analytical approaches to ESG ratings at present, the number of players in the field is shrinking. US rating agencies are buying up European providers of ESG analytics and incorporating ESG ratings into their oligopoly. Europe needs to be present in this arena with its own analytical opinions, especially given its pioneering role in ESG. Otherwise, American agencies will be the principal source of analysis when it comes to evaluating the sustainability of European businesses.

CONCEPT OF DOUBLE MATERIALITY IS BECOMING MORE COMMON IN ESG

When it comes to integrating ESG in credit risk analysis, the ESG risks of the respective business or country get all the attention. In Europe, however, the concept of double materiality is becoming more and more common. This concept puts equal emphasis on the ESG risks facing a business and the impact the business has on the environment and society. A key driver behind this development has been the introduction of the EU Taxonomy and the reform of disclosure regulations. Starting in 2023, large listed European businesses will have to systematically disclose information on the sustainability of their activities and revamp their reporting accordingly. In keeping with the principle of double materiality, a European rating agency not only needs to identify risks when it evaluates sustainability, it also needs to quantify the impact that a business has on the environment. Both perspectives will become fundamental principles in the European capital market.

SUPRANATIONAL ENTITIES – A NEW TYPE OF ISSUER CAPTURES THE EUROPEAN CAPITAL MARKET

Supranational issuers like the European Investment Bank and the EU itself are playing an increasingly relevant role in capital markets. The EU is transforming itself from an occasional issuer to the region's largest supranational issuer. In response to the recession caused by the coronavirus pandemic, the EU created the Next Generation EU programme, for which it will borrow up to EUR 800bn on the capital markets in the coming years. Some EUR 250bn of that will be in the form of green bonds. A European rating agency needs to closely follow the rise of supranational issuers in its analyses and develop an accurate risk profile for these institutions with the help of modern methodologies and rating approaches. The role of the euro as a global currency is tied to this, as are the resulting advantages for countries that issue in euros. Here too, a European rating agency can be a principal contributor in setting the analytical course.

EUROPE NEEDS A EUROPEAN RATING AGENCY – NOW MORE THAN EVER

As a single European capital market materialises and becomes more important for corporate and government financing, the need grows for greater diversity of opinion to that offered by the US oligopoly, alternative rating approaches and, most of all, a European perspective on credit risk.
Credit ratings are a fundamental building block of capital markets as will ESG ratings. The conventional Anglo-American rating approach can lead to structural disadvantages for European issuers. If European policy makers are serious about their efforts to enhance the role, resilience and independence of Europe's capital markets, then ensuring that there is a strong European source of credit assessment is essential. A robust rating agency – independent, credible and sensitive to the unique characteristics of European capital markets, legal systems and policymaking – is critical for Europe's financial health and sovereignty.

> **THE NEED GROWS FOR GREATER DIVERSITY OF OPINION TO THAT OFFERED BY THE US OLIGOPOLY, ALTERNATIVE RATING APPROACHES AND, MOST OF ALL, A EUROPEAN PERSPECTIVE ON CREDIT RISK.**
> Marc Lefevre, Scope Group


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Marc Lefevre,
Executive Director and Head of Business Development France, Belgium, Luxemburg at Scope Group

JEAN-MARC ANCIAUX (ING LUXEMBOURG):

TREASURY IN 2021: CHALLENGES OF THE "NEW" TREASURY

Jean-Marc Anciaux, Head of Group Treasury ING Luxembourg and ING Group Global Head Collateral Management & Repo explains how increased regulation has created a more central role to be played by treasuries since the 2008 financial crisis and reveals how ING is striving to enhance the efficiency of its treasury activities.

What is an efficient Treasury organization in 2021?
The need for a unique treasury organisation that efficiently support clients and manages the risks induced by their activities arises from the very different legal status and different balance sheet compositions of banks located in Luxembourg. As part of large banking groups outside the Duchy, some banks are also considered systemic by the EBA. That automatically means more regulatory obligations (not to mention additional capital buffer requirements). While every treasury organization will need different competencies and different people, they always need to act as a single team. No silos, please!

What has changed?
It was vital to acquire new competencies to stay tuned to the rapidly evolving regulatory environment following the 2008 financial crisis. The "old treasury" only managed cash balances and the interest rate (IR) risk. The "new treasury" needs not only to deliver its previous activities but must also respect a robust internal and regulatory liquidity framework. This enhanced risk and governance (ILAAP, ICAAP) have had to become part of the treasury DNA. Balance sheet composition is suddenly key to a better assessment of the liquidity position and adherence to regulatory liquidity metrics (LCR, NSFR). IR risk is no longer only measuring exposure to financial markets, it now also incorporates some stress testing, tightly linked to capital requirements. The implementation of IRRBB is a very technical regulatory requirement requiring new skills and dedication.

What has ING implemented to be efficient?
ING decided three years ago to bring liquidity management, ALM, interest rate management and capital management, throughout the Group, under a single umbrella reporting to the CFO. Such a structure addresses the way core financial matters are more inter-linked than previously. Our goals are threefold: to support our client's activity and be competitive; to minimize the costs of the capital and liquidity structure and to maximize and stabilize bank P&L by transforming interest rate and liquidity risks. We strive to have a clear dashboard of all metrics (liquidity, solvency and leverage). This ensures ING supports its clients' activities according to detailed dynamic plans that show expected business developments per product for up to three years. IRRBB forces the treasurer to consider other stressed scenarios that go well beyond the traditional outright BPV (basis point value) and rotation risk. The treasury role is no longer limited to following ECB policy, now the treasurer must also be sensitive to ECB prudential side developments. This enables Group Treasury to establish its funding plans to ensure all regulatory requirements are met in normal and stressed scenarios.

Jean-Marc Anciaux,
Head of Group Treasury
ING Luxembourg
ING Group Global Head
Collateral Management & Repo

THE "NEW TREASURY" NEEDS NOT ONLY TO DELIVER ITS PREVIOUS ACTIVITIES BUT MUST ALSO RESPECT A ROBUST INTERNAL AND REGULATORY LIQUIDITY FRAMEWORK.
Jean-Marc Anciaux, Head of Group Treasury ING Luxembourg

TRENDS

"SETTLE-DOWN" **SYNDROME** POST-COVID

TOUGH OR IMPOSSIBLE RETURN TO THE OFFICE...

The covid has changed our lives, no one can deny it. The way we work has changed radically and suddenly. We have gone from all "on-site" and physical presence to all "home working" and no physical presence. The middle ground and the future of work, we are told, will be hybrid and a mix of telecommuting and on-site presence. But one perverse effect of these forced confinements is that many employees have become complacent. You could say that they have become sedentary, they have become "grandpa's" preferring the cozy warmth of their homes to the heat and excitement of the city office. They get up in the morning and take the time to have breakfast with their children, to drive them to school or to the gym, to have lunch at home, to play sports more pleasantly than to run through the exhaust pipes of cars in a city center, etc. etc. So, this new comfort, without more commuting, without traffic jams, at home, in the garden, without car traffic, train delays, stress and travel fatigue, appeals to many. They have "grand-daddyfied" themselves. They are well at home, safe and work with a new and pleasant flexibility of schedule. The return to work stresses them, anguishes them, and disturbs them so much they appreciated this new life. They have become sedentary and are asked to become work nomads again. This is a new syndrome, the "post-confinement syndrome". It is perverse because if everyone would like more work from home, a 100% is not possible or sometimes not possible (case of workers from abroad) for social security or tax reasons. The world will therefore become hard and cruel, and we will have "bore-outs", depressions and other problems linked to the return to normal, even if it is different.

"IT'S THE END OF THE WORLD AS WE KNOW IT" (REM)

The world has changed and the return to the way things were must be gradual to be successful. Salespeople in any organization will tell you that virtual meetings are generally easy to get. However, we find that on-site physical meetings are much more complicated to get. The new life must be rethought to avoid clashes back at the office.

These executives have become so "sedentary," if I may say so, that they don't want to come back to work. We do not think that they work less or less well, but differently. Taking away what was, for many, royal will hurt a lot. We fear great danger and discomfort in the teams, and we must be prepared for this. However, simply adjusting schedules and hybrid work will not be enough. They have developed "bad habits" that will be difficult to correct. Everyone now dreams of working from the country house in Normandy, the vacation home in southern Italy, being close to a beach, the mountains, and their loved ones. But the harsh reality of the working world is different and does not allow it or will not allow it anymore. The shock of returning to the office will be hard and will leave its mark on everyone. Some don't think about it and don't prepare themselves for it. For the social aspect of the job, the same principle applies. I will virtually follow conferences, say the most pro-active, I will no longer go to networking events, say the laziest, and this essential aspect of professional life will isolate them, stigmatize them, weaken them, and make them very vulnerable. We can fear a lack that will be fatal when changing position, company, job, etc...

THEY WANT TO HAVE IT IN BOTH WAYS...

Life is a choice, and we will have to make some but wanting as the popular French adage says: "to have the cake and eat it, too" is perhaps utopian. The world of before was not so bad as that and adapted slightly can prove to be beneficial and more effective. The world after Covid lockdowns is no longer and can no longer be. Some people forget it at the risk of having a painful and fatal awakening, sooner or later.

BACK-TO WORK PREPARATION

So, let's prepare for it, not dread it, and find the right balance to satisfy employees and employers. A virtual workshop can be efficient, good, and satisfying. But nothing will replace a good old-fashioned meeting in the presence of colleagues, in the company premises, where ideas are exchanged, and where we understand each other better. The effectiveness of a face-to-face brainstorming session cannot be challenged by a "ZOOM" or "TEAM" conference call, without body language, sometimes using voice alone and with the weaknesses of technology to boot. In a world of perpetual and rapid change, we must adapt our ways of working. The post-covid will force us to reinvent ourselves. We must "put water in our wine" (as French use to say) and forget the special parenthesis of lockdown periods.

BUSINESS AS USUAL?

It is a situation for which there is no playbook. We therefore need to adapt as best as possible. Of course, there are people looking forward to being back to work, because of lack of social networking, too small apartments, inconveniences of kids at home, etc... and there are many. They are also afraid of missing out. Especially young people need to network by spending time in the offices, learn through informal exchanges and get a peripheral vision which is harder to do in WEBEX or ZOOM lands. But the others who enjoy covid lockdowns would love to stay at home for working. These employees have appetite to missing out. Coming back to workplaces may be in many cases a change, to be managed properly. We are not yet at a point where we can say there is one approach that is working well. It's about being prepared to innovate and try different things. There are many considerations, cultural, regulatory, and contextual matters to contemplate, which make choices difficult for management. Refusing to face a guaranteed problem as this would be foolish and risky.

François Masquelier,
CEO of Simply Treasury
Luxembourg October 2022

DISCLAIMER: This article was prepared by François Masquelier in his personal capacity. The opinion expressed in this article are the author's own and do not necessarily reflect the view of the European Association of Corporate Treasurers (i.e., EACT).

2022 THE YEAR OF THE STRATEGIC TREASURER

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As 2021 draws to a close, Ed Lopez, Chief Revenue Officer at Calastone, shares a final round of insights from a rounded mix of treasurers and treasury professionals.

What a difference a year makes. Although 2021 began amid uncertainty and trepidation, it proved to be a year of change and innovation – and that change is certainly reflected in the world of treasury management where technology, real-time data and new working patterns are elevating treasuries into a strategic function.

At the beginning of this year we spoke with **François Masquelier**, Chairman of the Association of Corporate Treasurers of Luxembourg (ATEL). He reminded us of something that every treasury leader aiming to build the best technology platform needs to bear in mind: it costs money.

"You have to make the business case," said François. "You have to explain why you should invest.

And one big source of resistance here is the users themselves. Treasurers are typically very cautious and very conservative – it comes with the job."

We also had an interesting perspective on the practical challenges of implementing treasury technology when I spoke to **Ingmar Bergmann**, who was at the time of the interview, Treasury Leader at Ventient Energy. He is currently interim treasurer and setting up and building out the treasury function of a carve out in the pigment business.

Ingmar's view was that the biggest challenge he faced when implementing a single new treasury management system (TMS) for Ventient Energy?

Ingmar explained that every department will have its own ideas of what a TMS should do: "The real challenge lies in the company's own understanding of what they are getting and what it will do."

For **Patrick Kunz** – Treasury Leader for Booking.com, the Netherlands-headquartered online travel portal, and Pecunia – Treasury and Finance, a treasury consultancy – the volatility of the past year has already shown many corporations the value of better treasury technology. Patrick explained that with the right technology in place, treasury can make a valuable contribution to strategy – not least because of its privileged access to critical data.

"It is treasury that sees the cash position first, so then the question is how does that inform the long-term financial strategy of the company," he said. "What I have learnt is that you really need good-quality information from everywhere in the company."

But even in companies with established TMS systems, there is room for improvement. Most treasurers would agree there is a need for more sophisticated technology in areas such as liquidity management and cash-pooling, automation of investment processes right through to settlement, foreign exchange operations and the need to build a real-time picture of risk.

I asked **François Masquelier** if this was the moment for a total transformation?

"The reality is that when you look at the way that treasury systems actually operate you will find something that looks like a kind of Lego building, with all sorts of solutions piled one on another, with old-fashioned spreadsheets being used to fill the gaps," he said. "A lot of companies have focused on core business digitization and forgotten finance. But now companies are becoming more ready to consider modernising the whole finance function. Treasury is the perfect digital lab for this."

However the global treasury environment is not a uniform space. The challenges look very different if you are a treasurer working in Africa compared with those in Europe or the US. In mid-year we asked **Vasu Reddy**, a treasury expert and former Divisional Treasurer with GE Capital, who has long experience of large company treasury operations in Sub-Saharan Africa, to give his perspectives on treasury and technology in emerging economies. It turned out that one of his top tips for running efficient treasury operations was very relevant to all treasurers. "Stay close to your banking partners!" he said. "As a treasurer, banks are your most vital information network. The banks have contacts with regulators, they are tuned into currency markets and they have the best political connections. That's why I always set up regular bi-monthly calls with my main banking partners, talking to economists and dealmakers who have the full regional perspective."

That brings us to one of the great topics of the moment, which is integration with partners. This was an issue that came up in a roundtable discussion with **Jeannot Jonas**, Assistant Treasurer at building controls group Carrier. Jeannot pointed out that much depends on how many bank relationships the treasury needs to support and how big the workload of integration is going to be.

"In our case, we have a lot of bank relationships, probably more than we really want," he said. "That's why large companies like Carrier are likely to prefer a bank-agnostic platform. That way, if you change your relationship banks you don't have to give up the platform."

So what can we look forward to in 2022 and beyond? We always ask our Q&A guests for their predictions for the future, and our 2021 discussions certainly provided some ideas. For **Patrick Kunz**, one of the promises of future technology is that we improve at seeing the future itself, with new AI technologies being used to predict markets better. For **Jeannot Jonas**, the potential of cryptocurrencies and blockchain technology offer future possibilities, especially in the relatively slow-moving bond market.

For **Roger Comins**, of GTreasury, the big issue is usability – he sees treasury technology moving to a more consumer-like experience with functionality driven by a single click. Calastone's own **James Griffin**, Head of Americas, expects embedding ESG metrics in treasury technology to become more of a priority.

But for the biggest picture of the treasury future I have to agree with **François Masquelier**: the focus will be on getting rid of repetitive, high-volume and low-value tasks, reducing risks and costs – and making treasury more strategic.

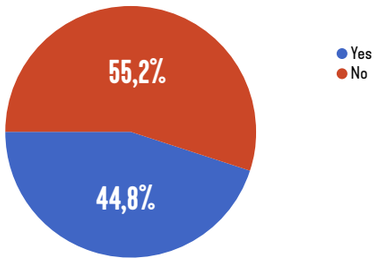
As our journey into 2022 becomes evermore immediate, I wish you all the best for the New Year and your efforts in digitalising and digitising your businesses.

Ed Lopez,
Chief Revenue Officer
at Calastone

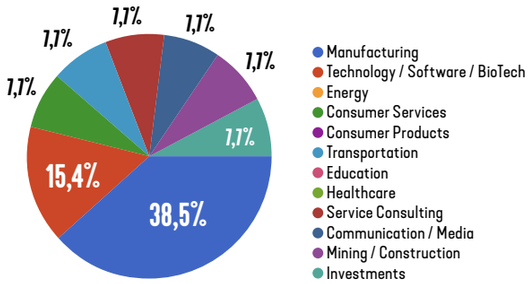
ATEL MONEY MARKET FUND SURVEY

How do corporate treasurers access the short-term money market and could they do so better? A recent survey by the Association des Trésoriers d'Entreprise à Luxembourg (ATEL) and Calastone shows that many treasuries are still reliant on costly and error-prone manual processes for short-term corporate investment.

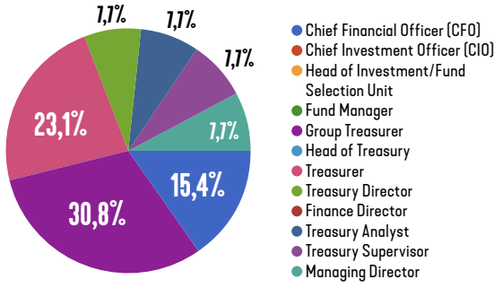
1. Are you involved in your firm's processes and decisions regarding managing short-term liquidity through institutional Money Market Funds?



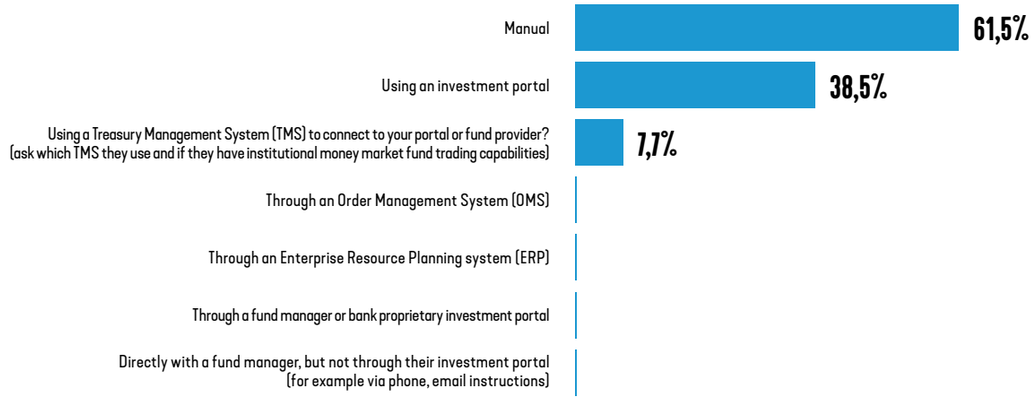
2. What is your firm's main area of business?



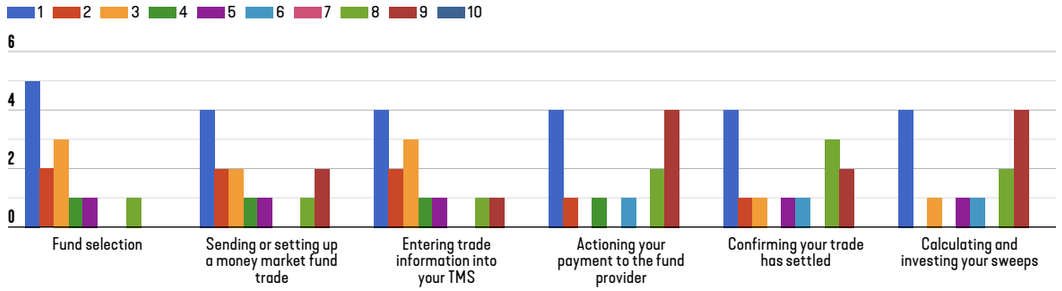
3. What is your role? Select the job role that best describes your remit.



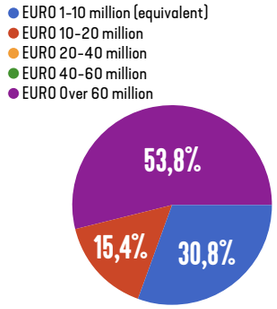
4. How do you trade into money market funds? Are you:



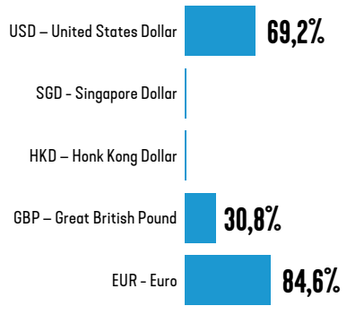
5. There are the 4-5 steps in the money market investment process. Rank how manual they are for you on a scale of 1-10? (1 being the most manual and 10 being the most automated)



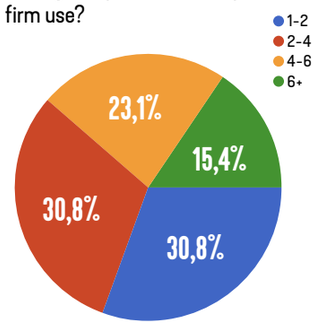
6. How much are you investing approximately?



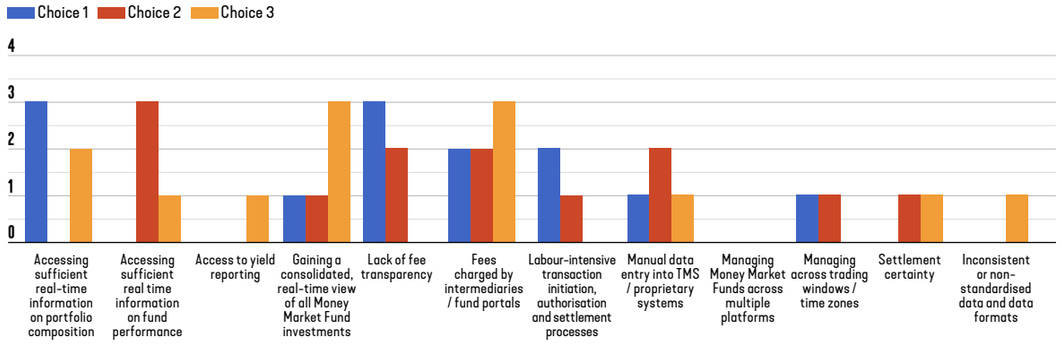
7. Which currency Money Market Funds does your firm invest in?



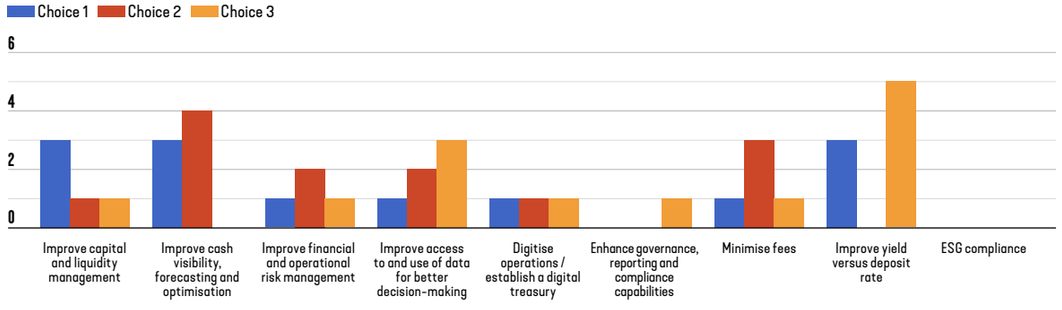
8. How many Money Market Fund managers / providers does your firm use?



9. Which would you say are your top 3 issues and challenges that you face today when accessing and managing Money Market Funds? Select the top 3.



10. What would you consider as your top three strategic priorities for your Money Market Fund investments over the next 12 months? Select the top 3.



FRANÇOIS MASQUELIER (SIMPLY TREASURY):

SUSTAINABLE ACCOUNTING

A NEW INTERNATIONAL SUSTAINABILITY STANDARDS SOON?

The IASB has decided to establish the ISSB, long-awaited. All stakeholders have struggled with a huge quantity of sustainability standards, ESG frameworks, and other KPI's and metrics, which are often described as an alphabet soup. With the issuance of the ISSB standards in 2022, IASB plans to provide the foundation for a global and comparable Environmental, Social and Governance (ESG) reporting accounting standards.

NO "GREENWASHING"

This initiative is in line with actions from regulators and EU to rule ESG and reporting to avoid "greenwashing". Financial watchdogs across the world are sharpening their scrutiny of potential "feel-good marketing-strategy" in the investment industry on rising concerns that the capital is being deployed based on misleading claims. The avalanche of new money pledged towards tacking climate change has prompted regulators to step up their work on setting standards to ensure banks, insurers and asset managers provide disclosures on the ESG credentials of the investments they are pitching. It is the same with accounting standards which should reflect the fairness of ESG assessments. ESG is no longer a tick box exercise that you can execute and walk away from. Treasurers have a role to play and should take their part of it, including in the accounting standards.

A NEW STANDARD

When issued, the ISSB's standards will make a significant step in responding to investors' needs for reliable sustainability reporting for them to assess enterprise value and make investment decisions. The formation of the new ISSB is to set up in the public interest (and all users), a comprehensive global baseline of high-quality sustainability disclosure standards that provide investors and other capital market participants with reliable pieces of information about the companies' sustainability-related risks and opportunities to help them make informed decisions.

WHY ESG REPORTING MATTER?

ESG reporting matters because we need to build trust and enhance transparency. But if done properly, such reporting may create opportunities, on top of risks and create value. It can only help improving faith of stakeholders and

> **ESG IS NO LONGER A TICK BOX EXERCISE THAT YOU CAN EXECUTE AND WALK AWAY FROM. TREASURERS HAVE A ROLE TO PLAY AND SHOULD TAKE THEIR PART OF IT, INCLUDING IN THE ACCOUNTING STANDARDS.**
> François Masquelier, CEO of Simply Treasury

have positive effects on cost of capital, promotes more meaningful employee engagement and provide wider access to capital markets and third-party lending. When done properly, such reporting will help companies to get a competitive advantage on peers and potentially identify opportunities. In enterprise risk management, people tend often to focus on risks and forget opportunities. The difficulty will be in defining sustainability-related financial disclosures, metric disclosure requirements and narratives to be produced. We all know that there is urgency to produce such an accounting standard. However, we know it is not an easy task for standard setters. Then, once validated, preparers will have to implement and to apply them, which inevitably will generate extra-costs, workload, and review by auditors. That is the price to pay for having better and more comprehensive financial statements, including the ESG dimension.

CHANGES FOR USERS AND PREPARERS

The investors, who are looking for ESG assets, require more clarity about ESG initiatives and achievements, a more comparable and reliable investment-decision set of rules to enhance ESG reporting. And according to half of the investors, roughly, lack of ESG standards and ad hoc reporting mitigate appetite for such assets. If you cannot make sure the assets you invest in are of ESG high-quality, some prefer to stay out. We, treasurers, will follow these developments carefully to make sure they respond to market demands without creating unnecessary requirements and too complex disclosures. The role of EFRAG will be key in this process, prior to the EU adoption.

François Masquelier,
CEO of Simply Treasury

DISCLAIMER: This article was prepared by François Masquelier in his personal capacity. The opinion expressed in this article are the author's own and do not necessarily reflect the view of the European Association of Corporate Treasurers (i.e., EACT).

WHITE PAPER

FOCUS

MULTI-LEVEL TREASURY MANAGEMENT

How to optimize the financial risk management through better sized IT solution?

CONTEXT AND CHALLENGES

After lockdown periods and a post-COVID crisis, finance teams must face uncertainties. In such a difficult context, financial and cash management is more than ever at the heart of CFOs' concerns. However, to fulfil properly its mission, Treasury needs to rely on ad hoc IT solutions. The good news is the emergence of more affordable solutions in every way, and this is a revolution because now a mid-sized company can access the technology, just like the larger ones. "Formula One-type" treasury solutions are no longer reserved exclusively for the largest companies.

What the CFO will be looking for is modularity of solutions to adapt precisely to his/her needs, no more, no less, and thus avoid overpaying for a solution that is oversized for his needs. He/she is also looking for IT security and ways to mitigate the operational risks of fraud (internal or external). For example, by using artificial intelligence to detect fraud, atypical or abnormal behavior and thus prevent it. Haven't we learned that the two best responses to the financial crisis are centralization of treasury operations and process automation?

The choice of a treasury solution is still too complicated for many companies who, in the jungle of solutions, do not always manage to find their way and the solutions at different levels, allowing management efficiency, ease of use and the production of adapted reports and dashboards. A pipe dream? No, if the selection of tools is accompanied and the choice is made for modern modular solutions, including security as a keystone.

Bruno Penguilly and Thierry Lodomez (Key Business):

Multilevel treasury management

INTERVIEW

Bruno Penguilly and Thierry Lodomez, respectively CEO and Sales & Marketing Manager, present accept to answer our questions. Interview.

Can you explain your activities in a few words?
Key Business offers an integrated solution which is unique within the financial management market; it provides a range of functionalities, in line with the expectations of national and international companies. We offer a cash management solution which meets treasurers' needs and expectations in terms of actual and forecast cash management in an international environment. Users can integrate budgetary aspects, financing and reporting. Many companies have used our solution to manage their in-house bank and intercompany cash flow and to generate adequate reporting. Our solution monitors and manages corporate financing and provides simulations, comparisons and analysis for all kinds of borrowing. In addition, we also offer a payment factory which will connect directly with the Swift network through SWIFT Alliance Lite 2 or the existing and in-house office service. This tool is ideal for cash centres which want to centralise and to secure their payments with our anti-fraud solution. We have a global partnership with Epithete (Euro Information) service bureau. To optimise the work of accounting teams, we also offer a posting function for the automatic posting of bank statements and the letters of related customer/vendor accounts. This function helps with security and saves time, as it's interfaced with ERP tools on the market. In addition to this integrated solution,we can help companies when it comes to debt recovery. Our tool makes it possible to automate a series of tasks and to structure the information to speed up the debt recovery process. The objective is to reduce DSO and litigation.

> **Clients are primarly looking for a comprehensive tool, a guarantee of service and a very predictable implementation.**

What do you mean by Multilevel treasury management?
In theory, our product is multilevel: first of all, it delivers several levels of certitude related to future collections or payments. This allows you to generate various hypothesis: In case of the French PGE (Plan de garantie de l'Etat), our clients were able to produce 3 levels of certitude for their bankers. But they could also forecast their treasury with several time horizons: very short, short, long, very long. At the heart of our system, you find a very collaborative tool, with a strong capacity to source data from as many ERPs as you want. A central treasurer can receive previsions from various colleagues, analyze and select the more relevant ones which are integrated into the system. This multilevel approach can generate cash flow forecasting with a 'temporal' approach, a 'certitude' approach, an 'entity' approach and a 'source' approach.

What are corporates looking for today?
Overall, they are looking for a comprehensive tool, a guarantee of service and a very predictable implementation both in terms of timing and budget. Key Business guarantees an implementation in 15 days. But clients also want to be listened to and they expect a made to measure service. We pay real attention to their requirements, working closely with them to respond to theirspecific needs. For example, we regularly invite our clients to participate in workshops to help us to develop our software. Finally, I would say that we guarantee the security of all our software. We believe in technology, we detect fraud and we were among the first to implement biometric identification, back in 2007.

KEY FIGURES

More resources on the horizon:

74%

of CFOs expect the level of resources for both employees and technology within their treasury department to increase in the next three years, bridging the gap between wider responsibilities and aspiration.

Source: "Re-thinking Treasury: the road ahead" - Key findings of HSBC survey 2021

Room for improvement of FX risk:

57%

57% of CFO's say they suffered lower earnings in the past two years due to significant unhedged FX risks.

Source: "Re-thinking Treasury: the road ahead" - Key findings of HSBC survey 2021

We need to add a statistic on increasing risk of fraud and cyber risks !!!!

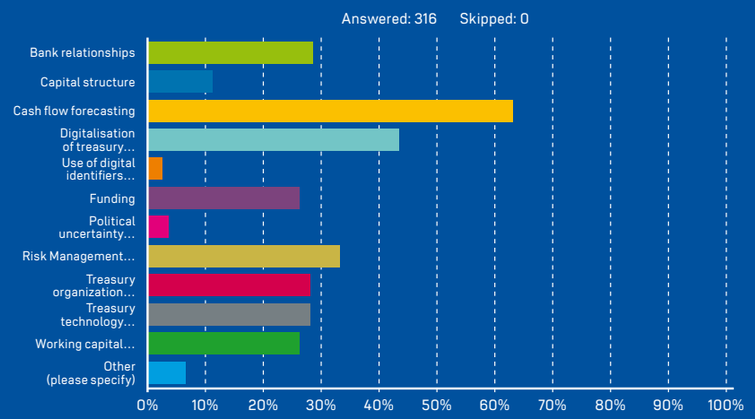
TREASURY TOP PRIORITIES

(Source EACT annual survey 2021)

The 2021 EACT survey determined what the treasury trends and priorities for multinational companies will be in the next 12 to 24 months. This year, not surprisingly, **future cash-flow forecasting** (#1) is largely in the lead, followed by the **digitalization of the treasury function** (#2), **financial risks managemen**t (#3), followed by a few priorities at equal levels, such as **treasury organization, treasury technology** (including replacement of existing TMS), **working capital requirements**, financing, and banking relationship management.

MAJOR PRIORITIES OVER THE NEXT ONE TO TWO YEARS

Which of the following are likely to be your major priorities next 12 to 24 months? Please choose 3.



We are not surprised that Cash-Flow Forecasting comes out on top when the COVID crisis has been hitting us for the past year. The uncertainties surrounding the economy explain the difficulty in producing reliable and accurate forecasts. In addition, the C-level has repeatedly called for stress scenarios and sensitivity analyses to predict the most diverse situations. The digitalization of the treasury function, itself part of the modernization of the finance function, was ranked second. Here again, it seems to us that the need to dematerialize, digitize and automate is logical to make companies more resilient and efficient in their financial management. Finally, in this top tier, the management of financial risks, including currency risk, which can be explained by the increased volatility of the markets. As can be seen, despite the health crisis, the priorities have remained relatively identical, even if the ranking order is somewhat different. However, amazingly, the funding issue is not included in the top 6 priorities. After the COVID crisis, many businesses were under pressure and face liquidity problems. We could have expected this issue higher ranked.

TAKE AWAYS

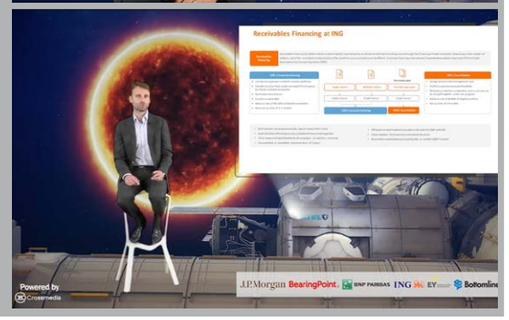
We must recommend 8 tips to CFOs and Treasurers who want to optimize their IT tools and get the best out of it at the minimum price.

1. **Choice of a comprehensive TMS solution** at the size of treasury needs and not over-sized. This solution must be modular, flexible, in SaaS or on-premises, cheap, with fast implementation, integrated to all other IT tools of the finance department and bullet-proofed in terms of IT security with best-in-class biometric recognition.
2. **Search of new technologies** rather than solution that are not SaaS native or with heavy legacy, for an easier implementation. The bank connectivity must be multi-channel and protocols depending on bank counterparties and geographic zones.
3. **After a treasury diagnosis of "AS IS" state,** preparation of an IT roadmap and a solid business case to get approval on the investment for the "TO BE".
4. **In case of Request-For-Proposal (i.e., RFP),** it is crucial to base the short list of IT vendors and solutions on a benchmark to identify best-of-breed systems and maximize chances of a successful and at lowest cost implementation.
5. **Commitment on the number of days** for the implementation (ideally capped) and guarantee of an internal team of consultants provided by the IT vendor.
6. **RFPs are often never detailed enough and therefore,** if not the final scoping document must be highly detailed and comprehensive to get the maximum commitments from the supplier on the deliverable.
7. **Conversation with peers and key-users** to share experience and feedbacks.
8. **Reporting capabilities of IT vendors** are often a weak point never investigated in detailed. Nevertheless, it is the final stage which enables upstreaming of efficient dashboard to the C-level.

CONCLUSIONS

Resilience should come from a good organization and be based on a robust state-of-the-art tool. The multi-dimension approach is essential to produce accurate and in real-time cash-flow forecasting at treasury level. The first dimension is (1) the CERTAINTY LEVEL of the cash-flows (i.e., classified in "certain", "high probable", "partially certain", "uncertain"). The second dimension (2) is SOURCES OF DATA (i.e., from the TMS, the payroll systems, the ERP's for A/Cs & A/Ps, or any other feeding system). This second dimension must be also fed with assumptions and stress-scenarii (to be reviewed and validated on a regular basis and updated based on actual figures).The third dimension (3) is TIME HORIZON (i.e., very short-term through medium-term and long-term periods). The fourth one (4) is the FLOWS PROVIDERS (i.e., multiple entities which will feed the Cash-flow Forecasting and update it on a regular basis).

A modern TMS must deliver accurate, fast-produced, and adjustable cash-flow forecasting for an optimal cash management. The boundaries between solutions are becoming more fluid and that barriers are being lowered, offering new opportunities. Cost pressure and efficiency improvement will help convince treasurers to review their technological strategy. The need for more real-time information and a more predictive approach is forcing us to reinvent ourselves. COVID has increased further need for real-time treasury, the "Treasury-On-Demand" concept. In a context of increasing frauds and cyber-risks, with more home-working and cost-cutting, selecting the right partner is key. Automation, in whatever form, is the primary objective. The treasury is the depository for a mass of financial data. To evolve, it needs to transcend its initial roles and focus more on quality and speed of delivery of reports to the C-level.



ATEL ANNUAL CONFERENCE

The ATEL Annual Conference took place on the 30th of september. The event was organized in the form of a "Parallel" conference: a physical event at the auditorium of ING and pre-recorded content for people at home or abroad. The event was sponsored by EY, BNP Paribas, BearingPoint, Bottomline, ING and JP Morgan.

MORE INFORMATION ON
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Tom Leitch, Bottomline


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ATEL WINTER CONFERENCE

The ATEL Winter Conference took place on December 16th. The physical event took place under CovidCheck rules with 50 participants while 200 people joined the digital native event online. The event was sponsored by Delega, Redbridge, Scope, Arvato and i-Hub.

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JÉRÔME BLOCH (360CROSSMEDIA):

TRENDS 2022

METAVIDEO, CULTURE AND TRAINING

Launched with noise by Facebook in 2021, the concept of "metavideo" will invade internal and external communication of companies as well as the transmission of skills. According to Jérôme Bloch, CEO of 360crossmedia, this concept, giving the illusion of reality to viewers, will lead the trends for the coming year. Analyze.

FIRST TREND: CREATE METAVIDEO

It took most businesses 18 months to get started with Zoom, Webex, Teams and more. But no sooner are the technical difficulties overcome than the real problem emerged: the engagement of viewers in the face of often boring content. Who dreams of watching a streaming conference filmed from the back of someone's living room? Who listens to a speaker who does not look them in the eye? The future lies in metavideo, an optimized video with a frame that comes as close as possible to reality, or better yet, that creates a digital environment capable of surpassing reality. In Luxembourg, the ATEL annual conference, for example, broke new ground in this direction and reached more than 24,000 views while the association has only 300 members. The key to being able to use this type of technology is to solve the problem of traditional videos: An often-prohibitive cost and production delays out of phase with our "instant" timeframe. Many solutions exist, but only companies with a strong digital culture can implement them.

SECOND TREND: CONSOLIDATE YOUR CORPORATE CULTURE

Teleworking has brought corporate culture back to the center of the debate: Companies have realized that it acts as a real operating system for all employees, wherever they are. Companies with strong cultures managed to run smoothly during lockdown, while others played cat-and-mouse with their employees. As a result, productivity gaps appeared representing very significant money. The second 2022 trend will encourage companies to make their corporate culture more tangible: Much like those Silicon Valley firms that wear their slogans on clothing. Leadership, HR, communication, sales, production and soft skills – every aspect of the business will be documented and shared to attract, train and keep the best employees. This investment will prove to be all the more strategic as the new generation is happy to join companies offering lower wages, but stronger values and culture.

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> **THE FUTURE LIES IN METAVIDEO, AN OPTIMIZED VIDEO THAT CREATES A DIGITAL ENVIRONMENT CAPABLE OF SURPASSING REALITY.**
> Jérôme Bloch (360crossmedia)

THIRD TREND: TRAINING

In the same vein, training will allow employees to grow at the same time as their employer, a sine qua non for making the relationship last. The new generation of employees want to enrich their skills throughout their professional careers in order to access new career opportunities. This radically changes the employer-employee relationship: The first having to boost the skills of the second while ensuring that it offers prospects that reduce the chances of them moving to another company. This concerns hard skills – regulation, cybersecurity, etc. – but also soft skills: How to use LinkedIn, speak in public, master new tools such as Zoom or the art of management. Ultimately, this creates a win-win relationship capable of creating strong value.