ATEL
Luxembourg Association of Corporate Treasurers

MAGAZINE #104

TREASURER

THE CORPORATE TREASURERS' COMMUNITY MAGAZINE

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#104

IS IT FEASIBLE FOR TREASURER TO WORK FROM HOME **CONSIDERING THE CORONAVIRUS OUTBREAK?**

"Telework" or remote work finds a perfect opportunity with COVID-19 to test itself, if the treasurers had not already tried it. It is true that the treasurer by the nature of his/her work likes to stay in the office and needs to be present on site, sometimes for technical, security and organizational reasons. They can work remotely partially and occasionally, if the situation imposes to do so. On the other hand, the many tools it uses and the proximity of markets, especially with information tools such as Refinitiv or Bloomberg, requires sharing them on the spot and in the workplace. It's also a good opportunity for those who don't have a BCP (i.e. Business Contingency Planning), and I know there are many, to test it "live".

The treasurer must act quickly, daily and be proactive. Doing your job from home, if circumstances require it, why not? However, I think that would only be temporary. Possible precautionary measures imposed or possibly taxable for health reasons may require the treasurer to work from home. It is true that technical means allow many things that in the past remained impossible. Keep in mind that task segregation, internal controls and precautionary rules against computer risks preach for the treasurer's work in the office, more than that at home. Its role is already too often isolated and far removed from operational activities, so to further distance it would cut it off from the real world of the company. I have always believed the flexibility given to teams is essential in today's world, but personally I have always prioritized proximity to teams. So, it's personal. When the health crisis requires it, what other choice do we have? Some tasks may still be tricky to perform, depending on the degree of complexity and computerization of the business, the home. Some solutions, depending on the set-up can be only accessible from the office.

I don't see the treasurer with a mask and latex gloves approving payments and dealing hedging instruments. Once again, it is an opportunity for the less well-organized treasuries to revisit their BCP processes and demonstrate their ability to work, if necessary, remotely with the same efficiency. In the end, it is on a case-by-case basis that this situation must be considered and allowed, as it may resurface in the future. It's prevention and ultimately simple risk management... too often forgotten...

François Masquelier,
Chairman of ATEL

JAN DIRK VAN BEUSEKOM (BNP PARIBAS):

FROM PROPRIETARY SOLUTIONS TO CO-OPERATION AND PLATFORMS

Jan Dirk van Beusekom, Head of strategic marketing for cash management and trade solutions at BNP Paribas, says the bank is embracing a wide range of technologies and partnerships that can help corporate clients improve their working capital management.

How can new technology make life easier for treasurers, especially in increasing visibility and control over cash?

Finding cash internally or reducing the need for working capital is currently of the utmost importance. Internal solutions are often cheaper and easier than tapping external sources, especially in times of crisis. Working capital management involves trade finance, global markets including foreign exchange, interest and commodity hedging, leasing, supply chain finance, factoring, cash management and other disciplines, which in most corporates and banks tend to be decentralised. That makes it more complicated for treasurers to find what they're looking for.

Corporates are increasingly seeking support in the quest for cash, working capital optimisation and speeding up the cash conversion cycle. With the latter, much depends on one's position in the value chain and power to extend payment terms without upsetting relationships with suppliers. There are fewer options regarding receivables, except with insight into collection methods – for example persuading clients to switch from cheques and manual transfers to direct debits or instant payments. To enable our corporate customers to analyse their own clients' payment behaviour, we provide them with dashboards both for cash – CashBoard – and trade - TradeBoard.

We have also developed Centric, a single sign-on working capital portal giving treasurers and other corporate stakeholders access to features including Connexis Cash, Connexis Trade, the Supply Chain and FX+ modules, as well as fintech partners such as CashForce. This offers treasurers visibility and control over the chain from procurement to sales, and the ability to discuss with procurement and commercial colleagues how best to optimise working capital. To keep free cashflow above strategic and reserve optimal levels, not to mention operational cash, treasurers need a broader view of working capital and their cash conversion cycle.

> **CORPORATES ARE INCREASINGLY SEEKING SUPPORT IN THE QUEST FOR CASH, WORKING CAPITAL OPTIMISATION AND SPEEDING UP THE CASH CONVERSION CYCLE.**
> Jan Dirk van Beusekom, Head of strategic marketing for cash management and trade solutions, BNP Paribas

How are you helping treasurers to improve working capital management?

Covid-19 notwithstanding, most corporates continue to implement their centralisation and harmonisation projects. We advise clients to join one of our initiatives, since today everything is about imagination, resilience, rate of learning, being part of an ecosystem and embracing a hybrid digital and physical world. Not just methods and tools but the entire environment, business models and our attitude toward competitors have changed. We are competing on user experience, which needs increased creativity to meet client expectations, and resilience in the face of virtual and real viruses as well as climate change.

We are creating communities in areas including digital technology, cyberresilience, corporate social responsibility, payments and treasury in general, such as the Journeys to Treasury initiative with the European Association of Corporate Treasurers, SAP and PwC, or our Treasury Board events. We are also active in supply chain initiatives on blockchain and consortia such as Contour and Marco Polo. We were a co-founder in 2018 of the Trade Information Network, which aims to fill the financing gap in early stages of the supply chain and make it easier for suppliers to obtain financing from their bank or other network members. It enables companies to share transaction data including purchase orders, invoices and shipment information simply and securely with banks when they request financing.

What technology is already in place or on the horizon today?

There is a shift from proprietary and individual solutions to co-operation and platforms, even as technology drives further digitalisation. Technologies already at hand include robotic process automation, APIs and cloud-based applications; blockchain and artificial intelligence are maturing, while we are monitoring areas such as biometrics and intelligent process automation. The EU's revised Payment Services Directive has helped open up markets to new entrants, obliging banks to become more innovative and co-operative, and expanding the scope of APIs, which have been used for a long time in intrabank processes. Given the multitude of accounts and counterparties, a practical solution is to start small, with information from one bank, for example using CashBoard, then bring in ERP systems, and finally an application such as CashForce to assemble data from other banks.

Jan Dirk van Beusekom,
Head of strategic marketing for cash management and trade solutions, BNP Paribas

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THIERRY LODOMEZ (KEY BUSINESS):

VERSATILITY PROVIDER

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Thierry Lodomez, Sales & Marketing Manager, presents Key Business, a publisher of financial management software covering a wide variety of treasury activities, ranging from cash management solutions to payment factories and posting functions.

Who are you? Having acquired Key Business, what is E-Finances' strategy within the Luxembourg market?
Key Business, a publisher of financial management software, was founded in 1988, more than 30 years ago. Today, it is a well-known European player which is recognised for its expertise and its ability to meet its clients' needs. The decision by E-Finances, which is also a publisher of financial management software, to acquire Key Business has helped to transform the company into a European leader with more than 620 clients who use innovative, secure and malleable solutions. Our aim is to enhance our position as a specialist and European leader within the Luxembourg market. Because of the importance of finance in Luxembourg, the country's market is key. It's a leading financial centre and we can offer relevant cash management solutions to Luxembourg companies and groups.

What solutions do you offer your clients?
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 in Luxembourg. 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. This function generates amortisation schedules and offers complete reporting while managing IAS/IFRS standards. 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. 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.

ALL DEVELOPMENT IS DONE BY OUR OWN TEAMS IN EUROPE SO THAT WE ARE LITERALLY AS CLOSE AS POSSIBLE TO OUR CLIENTS, WHICH ENABLES US TO CUSTOMISE OUR SOLUTIONS TO MEET THEIR REQUESTS.
Thierry Lodomez, Sales & Marketing Manager, Key Business

What added value do E-Finances and Key Business provide the Luxembourg market?
Firstly, I would say that we guarantee the security of all our software. This security stems from our experience. We were the first publisher to integrate biometric recognition in our solutions in 2007. We pay real attention to our clients, working closely with them to respond to their needs. For example, we regularly invite our clients to participate in workshops to help us to develop our software.

All development is done by our own teams in Europe (Brussels and Nantes) so that we are literally as close as possible to our clients, which enables us to customise our solutions to meet their requests. Lastly, E-Finances and Key Business are two people-centric companies; their shares are held by the companies' managers and employees. This makes us different and stronger than large international groups. Our strategy is clear and focused on the long term, rather than on the changing world of investment funds. We focus solely on the European market, of which Luxembourg is the preferred financial centre.

Thierry Lodomez,
Sales & Marketing
Manager, Key Business

INTENSUM

THE CHANGING ROLE OF TREASURY: COVID-19 AS A CATALYST FOR TRANSFORMATION

STAY ALERT, PROTECT LIQUIDITY, SAVE THE COMPANY

Invisible liquidity represents lost opportunity. Trapped cash or unutilised liquidity weakens working capital and supply chain. And while it may have been acceptable pre-lockdown, ignoring these issues certainly won't be in a post-lockdown environment. Bill Wrest, Senior Strategist at Gresham Technologies (Gresham), explores the impact of COVID-19 on the Treasury from shifting expectations to new opportunities.

More than ever before, Treasury is responsible for maintaining liquidity, cash flow and ensuring the supply chain remains robust and healthy. CFO's will be looking to Treasury to maintain and improve cash, working capital and protect the company through these unprecedented times. This is moving Treasury pivotally from being operationally driven to strategically driven as the first wall of protection for the company. Treasury is faced with the need to be reactive, not proactive, in managing its cash and payment flows. At the same time, it may need to look at receivables and terms of settlement to ensure better cash flow and use of liquidity, whilst also looking at contingency and back-up facilities with key banking partners. Irrespective of how a Treasury entered lockdown, there is now a heightened need for a single consistent view of all bank accounts, irrespective of the number of banks and accounts involved, that requires consolidating multiple data streams that use a myriad of data formats and underlying technologies. In these times, repatriating excess liquidity can also act as a protective buffer and mitigate the need for drawing down on banking facilities or reliance on intra-day facilities to ensure daily payment flows.

BANKING REALITY CHECK

For most corporate treasuries, multiple bank relationships are simply a fact of life. Everyday realities such as winning a new contract almost inevitably also involve opening an account with the same bank as the customer. It's therefore easy to see how treasuries can find themselves with hundreds of banking relationships and systems to manage, often resulting in disparate pots of liquidity.

Lockdown is driving Treasury to work differently and with that comes the need for an efficient Cash Management System. Some corporates have already invested in top end Treasury Management Systems (TMS's) that are also sometimes promoted as potential solutions to multibank (in)visibility. However, the reality is that the core competence of a TMS is sophisticated financial analysis rather than system integration. Therefore, a TMS will only usually be connected to just the top few of the corporates' bank relationships.

> **ONE OF THE IRONIES OF THE GROWTH IN REAL-TIME PAYMENT SYSTEMS IS THAT, IN A SENSE IT RE-EMPHASISES THE SHEER SCALE OF THE LIQUIDITY VISIBILITY PROBLEM THAT HAS PLAGUED TREASURIES FOR DECADES.**
> Bill Wrest, Senior Strategist at Gresham

REAL TIME LIQUIDITY MANAGEMENT

Real time balance visibility potentially opens the door to simpler, more cost-effective methods of inter-company funding and the optimal use of internal liquidity. Consolidation of multibank information through a single system gives Treasury a holistic and manageable view of cash. This, coupled with more timely reconciliation, becomes the bedrock for better cash flow forecasting –which is probably the question that most Treasuries face at the moment: "Do we have enough cash, and for how long?"

DOING NOTHING IS NOT AN OPTION

One of the ironies of the growth in real-time payment systems is that, in a sense it re-emphasises the sheer scale of the liquidity visibility problem that has plagued Treasuries for decades. It represents an important new opportunity, but one that is effectively inaccessible without consolidated multibank connectivity. A further irony is that complete connectivity and visibility are achievable and have never been needed as much as through this current crisis.

Recognising the impact of COVID-19 on Treasury, key suppliers and therefore cash flow, the big question is: "Do we batten down the hatches, stay as we are and hopefully ride this out – or do I need to review my connectivity and my use of data to ensure Treasury is both future-proofing and protected throughout the crisis? Clearly, large-scale projects and large budget spend on systems is untenable during the crisis but the cost of fixing key addressable gaps in cash management and supply chain may not be too onerous, and potential gains may well mitigate the small spend involved.

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Bill was Head of Innovation for Non-Bank Financial Institutions at Barclays Corporate. Prior to Barclays, he was with Bank of America Global Payments Solutions in London as a Senior Vice President and Relationship Manager. He also has extensive experience working with multinational corporations and managing treasury system sales. Bill joined Gresham Technologies (Gresham) in 2016 where, as Director of Sales and Strategy, he works to create innovative cash and treasury solutions. Gresham's Clareti Multi-Bank platform handles automated channel banking integration for corporate and wealth management clients and supports various payments-related business processes, such as cash and treasury and trade finance.
If you would like to talk to Bill for a free 30-minute consultation please get in touch here: bwrest@greshamtech.com

Bill Wrest,
Senior Strategist
at Gresham

N°104 – THE CORPORATE TREASURERS' COMMUNITY MAGAZINE

MARTIAL CHAMBOUNAUD AND FREDERIC DALIBARD: DECENTRALIZING CUSTOMER ONBOARDING

Martial Chambounaud and Frederic Dalibard present Clipeum, a European consortium of financial institutions mutualizing data collection to facilitate the on-boarding of new customers.

Know Your Customer (KYC) requirements are often mentioned as being a major issue for corporate treasurers. Could you explain what are the main problems and what are the hurdles faced by international companies?

MCH : The first fundamental problem is that each financial institution makes its information requests by itself, bilaterally with any company. This is despite 93% of companies maintaining business relationships with multiple banks and 60% of them working with more than 6 banks. Corporate treasurers are therefore beset by similar requests, questionnaires to fill out, documents to provide – this duplication of disorganized efforts becomes very time-consuming and labour intensive.

What makes this first problem even more painful is that, over the years, some banks have heavily invested to build their own onboarding platforms and digitize the related KYC processes. In doing so, they have shifted part of the burden to treasurers by asking them to fill in the requested information online, to upload the necessary documents, to extract information, etc. From that point on, a treasurer working with 10 banks is exposed to – and has to deal with – 10 proprietary collection channels and/or processes and/or platforms.

FDA : The second problem relates to the asymmetry of information between the bank which collects and consumes the data, and the treasurer who provides the data but does not know where this information goes, nor how it is stored and used. This asymmetry of information –which is also with data providers' solutions and generates a certain mistrust, which crystallizes on the sharing of sensitive and personal data – which is often missing, or difficult to obtain and granted sparingly by companies.

MCH : The third problem for companies results from banks' difficulties in collaborating and a lack of clarity in the guidelines issued by regulators. This leads to divergences in interpretation, which result in contradictory requirements for treasurers from their banking partners.

Does it explain why it can take even several months for an initial on-boarding of new customers? It can be a blocking point when corporations are considering new bank relationships?

FDA : First and foremost, KYC is a process to gather information to better identify a potential client, protect the economy against identity theft and possible risks of money laundering, fraud and financial crime. It is therefore normal that attention and time is allocated to this process.

That being said, the answer to the question is "yes" – 50 to 60% of the cost and time required to fulfil KYC processes focuses on the first stage of the process, which relates to documentation and data collection. This is generally manual (by email or through proprietary collection channels as mentioned above), iterative and generates multiple interactions between the bank and the company. Sometimes, all in an emergency climate.

MCH : Behind this symptom is the root cause of the extended delay we sometimes see in completing an entire onboarding process: there is a great tension between two conflicting principles – the precautionary principle for banks that pushes them to always ask for more information vs. companies' «only need to know» protocol that encourages them to provide information sparingly. On one hand banks bear very strong pressure on these compliance matters, which could threaten their reputation and result in significant fines in case of non-compliance. On the other side , there are the companies wishing to maintain control over their data and its use – a principle further encouraged by GDPR requirements.

Could you explain the idea behind your Clipeum concept and who are the institutions behind the project?

FDA : Clipeum is a European consortium of banks, insurance companies and asset managers (including Société Générale, Natixis, Commerzbank, Euler Hermes and Tikehau Capital) aiming to make the verification of customer identity more efficient through a mutualization of data collection channels from the corporates' perspective. We all believe that the creation of this financial ecosystem for cooperation in terms of collection and pooling of KYC-related documents can solve many problems – especially in terms of costs, efficiency, risk reduction and corporate treasurers' frustration.

Clipeum is based on the principles of decentralization and subsidiarity: the company keeps complete control of its information – which is stored in a secure digital data room. This "digital vault" can be hosted wherever the company wishes (on premise or in the cloud). Corporate treasurers manage access rights to the data, meaning that when a bank requests access to a specific set of documents, the treasurer can grant the permissions it sees fit to the requested documents.

Then, banks can carry out their independent process of verification and control of the documents provided. If the treasurer updates the information, all authorized stakeholders are immediately alerted and can access the updated information. This network effect greatly improves the "freshness" of information without any additional effort from either the corporate or the banks.

MCH : At any time, a treasurer wishing to terminate a business relationship with a particular financial institution can decide to revoke access to its information and thus close the flow of information from its data room towards that particular bank.

The architecture of Clipeum relies on the fully decentralized storage of data and documents for the company and the creation of direct bilateral communication channels between banks and companies. It has multiple advantages in terms of security, confidentiality and resilience while avoiding the creation of a "honey pot" situation inherent to centralized solutions which are very attractive for hackers.

Do you think that there is a one-size-fits all solution in terms of KYC which could satisfy all players? What about the smaller companies and mid-caps'?

MCH : There are more than 20 million corporates in Europe with very different sizes and needs. We do not think there →

is a one-size-fits-all solution. Some solutions will naturally focus on very large multinationals, others will be very local – some of them are bank-centric, others are corporate-centric. The market is not yet mature, and the forces involved are still fine-tuning their business models. In this context, we have no need to remind specialists not to put all their eggs in the same basket.

If we consider that we will potentially have several solutions, have you considered the interoperability? How do you see the KYC solution landscape evolving in the coming years?

FDA : Interoperability is key for us – it is the foundation of our strategic and technological choices. We are not betting on hegemony but on a market occupied by several complementary players. Therefore, we have made several technological choices to allow interoperability of solutions by design. In turn, we are able to install secure data rooms within other initiatives' networks that would like to build an international network by collaborating with us.

Could your solution be used for other purposes than pure KYC documents exchanges? And if so which types of documents could be exchanged and with whom? Only the financial institutions or other stakeholders?

MCH : We are building a network which puts corporates at the heart of the platform. So, it is natural that companies could use this network for their own data collection needs. For instance, they could collect data from their suppliers (Know Your Supplier), share their data with rating agencies and Legal Entity Identifier (LEI) issuers, among others. The business model is very simple – using the Clipeum network to share data is free, using it to collect data has a cost. From there, everything is possible if the information provider sets the rules of the game. We believe in an open-source network where value can be brought by our partners and members of the network – this is why Clipeum must be as inclusive and open as possible.

FDA : Welcome onboard!

BIO

Martial Chambounaud,
Société Générale

After starting his career as a Business Relationship Manager on the small corporate segment in a large French Bank, Martial Chambounaud was responsible for strategic marketing and then for a Data and Analytics department (Datalab of Société Générale Insurance).
Martial is Product Owner of Clipeum, a consortium of banks, asset managers and insurers built to rationalize and pool the collection of documents from corporate for compliance issues

Frederic Dalibard,
Natixis (BPCE Group)

After starting his career in 1998 as a consultant with Arthur Andersen Management, Fred occupied several positions within Natixis, mostly in Front Office and Quantitative roles, first in New York from 2004 until 2009, and then in Paris, dealing with Structured Credit Assets and also Financing assets. Fred has occupied the position of Head of Digital for Natixis' Corporate and Investment Banking activities since March 2015. Fred has been representing Natixis at the Board of Director of R3 since April 2017 and is currently the Chairman of the Board, position he has been holding since march 2018. Fred is also representing Natixis at the Board of Director of komgo, position he has been holding since August 2018.

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JÖRG WIEMER (TIS):

NOBODY LIKES **TO BE THE FIRST** CUSTOMER

Jörg Wiemer, CEO, presents Treasury Intelligence Solutions (TIS), a fintech leveraging cloud-based solutions to ensure frictionless payments.

Why did you start TIS?
We wanted to solve a customer problem which I had when I was a Treasurer myself: offer a secure and frictionless payment process. We started on a green field and we believed that cloud technology was the way to go. Erol Bozak, the co-founder of TIS was at that time a cloud expert at SAP, so the domain expertise and technology know-how were there from day one. The start was challenging though, as we needed customer references. But no one wanted to be the first customer of a new solution. It took a bit longer than expected. Looking back, we definitely made the right bet 10 years ago on cloud technology. When you look at the current market, security, connectivity and scalability are more important than ever before.

The cloud technology was a new area back in 2010 and many had doubts on it. How did you deal with this?
Yes, there was a competitor who even said "Payments in the cloud will never ever work." But we had a clear vision while putting together the business plan and our research showed that many treasurers could think of working with cloud technology. It was important to me that we have a highly scalable solution without having to kick off a huge IT project on client side. Today, we are happy to see that our vision has become reality and cloud technology is market standard.

Can you give us an outlook on your plans and tell us a bit more about your vision?
We're constantly working on our vision. What differentiates us from competitors is that we have a very clear focus on payments in connection to data analysis. We believe that for most companies, a clear-cut multitenant architecture is a better solution than going with a vendor who is a jack-of-all-trades and when it comes the technology behind the cloud, we are definitely at the front. Our payment format library is extensive, and we are leaders in bank connectivity and SAP integration. We can guarantee a speedy rollout for the customer. We believe in a best-of-breed approach, where treasurers can pick and choose specialized solutions from different areas and connect them via API. This way customers will get the exact features they need to efficiently reach their goals. Therefore, we recently started a cooperation with the Finnish software vendor Analyste.

> **WE KNOW WHERE THE MONEY IS, HOW MUCH WE HAVE, IN WHICH CURRENCY IT IS AVAILABLE… WORLDWIDE PAYMENT ACTIVITIES ARE VISIBLE FROM ONE SINGLE PLATFORM. WE ENJOY WORKING WITH TIS EVERY DAY.**
> Sport Group Treasury, April 2020

Jörg Wiemer,
CEO, presents Treasury Intelligence Solutions (TIS)

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DIGITIZATION

FUTURING TREASURY **FUNCTION POST-CRISIS**

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More than ever and because of the economic consequences of the COVID-19 crisis, CFO's must upgrade their finance organization and "modernize" it to match future coming challenges and become slightly more agile and more resilient to next crises, when they will come again. This crisis as the former one in 2008 can be a fantastic catalyst for true and solid enhancements. Don't miss this opportunity or you'll be at risk. Build on experience and anticipate future needs to create strategic value for the company.

PHENOMENAL CRISIS, BUT PERFECT OPPORTUNITY

After this phenomenal crisis we are experiencing, isn't it time to completely rethink the organization of the finance department and more specifically treasury? The beauty of a crisis, if one can be found in the current health crisis, is that we are offered a wonderful opportunity but also an obligation to rethink the organization. The timing is perfect and gives us a fantastic opportunity. Not grasping it would be madness and error in my opinion. To learn from this crisis in our organizations would be to pretend that everything was perfect and planned, which I cannot conceive of. The heart of this change is organizational, technological and perhaps financial (depending on the case). Treasury can create strategic value and go beyond protecting company's financial well-being. What I think is interesting is the "laboratory" aspect of the treasury department. The complexity of the treasury, its sophistication and the number of IT applications make it "the" reference department for change and modernization of the finance function. Many financials talk about it, many would like to be able to claim it and ultimately few tackles it because they are not helped, do not have the strategic vision and the roadmap of their transformation. It seems to me that this is the first piece of advice: define a roadmap and IT architecture that lives up to your transformational ambition. The most amazing thing is that everyone accepts the transformation of operating businesses, but when it comes to the transformation of finance departments, nothing is done. Finance is a "facilitator" of operational transformation, as well as an effective way to reduce costs (today's priority) and mitigate risks (by strengthening internal controls). A better treasury means it can become a business partner of operations. The CFO should be the conductor who initiates and sponsors this financial transformation. Ideally, the role of finance and the treasury, in a post-recession world, should be re-imagined, as well as the IT tools to power the function, and treasurers have a key role in this transformation.

> **THE CURRENT CRISIS WILL UNDOUBTEDLY PUSH FOR MORE "DIGITIZATION" OF THE FINANCIAL FUNCTION.**
> François Masquelier, CEO, *Simply*TREASURY

TREASURERS (IN THEIR OWN FIELD) SHOULD ADDRESS THE FOLLOWING ISSUES:

- Post-recession economy will place increased focus on cash management and corporate treasury functions
- The makeshift, temporary spread-sheet-based treasury systems may no longer be appropriate for growing tasks at hand

→

- "Des-EXCELLISATION" should be required, or, the way to make more robust processes on XL via a solid ETL (i.e. Extract Transform Load solutions)
- Cloud technology is there and marches and should be maximized, whatever the CIO orthodoxy. The paradox, the smaller companies are always more cloud-based than the larger ones
- Consider powerful analytic and in-memory database technologies enabling treasurers to forecast and modeling any number of business scenario and big data sources (= generation shift and a game changer for ambitious treasury re-organization)
- Preaching the need for upgrading treasury solutions, which is a complex exercise and often underestimated
- It's all about 3 axes: (1) People (2) Systems (3) Knowledge. It is these axes that will delineate the scope of action.

ENTER SMART TREASURY ERA

To be successful, the project team must embrace cloud solutions using classic solutions and functionalities as well as advanced database and analytic tools, acquire powerful solutions, reducing dependency on numerous one-off solutions and acquire integrated solutions (i.e. best of breed). To create a single book of record for treasury events. The ERP and the TMS will be the two necessary back bones of the new organization.

LOW-TECH TREASURY ORGANIZATIONS ARE RISKING FIRMS' FUTURE IF NOT ADAPTED

Treasurers usually underestimate how they can contribute to the bottom-line results and even worse how they can contribute to losses if not well re-organize to face future coming challenges, post-COVID-19. Modernization of finance function and treasury doesn't mean a bit of blockchain, an API or two and a new TMS. It is much more than that. It is a question of how to manage treasury more efficiently. Of course, it passes through new IT tech's and IT architecture. It requires a VISION and to make business cases to justify investments in resources, skills and IT. The legacy of former systems has often been a hurdle to changes. It is far from a linear journey. We need "banking as a service" (BaaS) agnostic solutions, with a layer of data analytics and mining and an appropriate "consolidation" reporting tool. The current crisis will undoubtedly push for more "digitization" of the financial function. The crisis imposed external and internal "triggers" that served as catalysts to initiate transformation. Think of all those, ill-prepared, who had no BCP's/ DRP's in place, no electronic signature process in place had to quickly get in order. Projects of working capital, payment factory, bank account management, etc. will certainly see their status suddenly pushed forward after containment period. The pieces of information required

THE HEART OF THE COMING CHANGE IS ORGANIZATIONAL, TECHNOLOGICAL AND PERHAPS FINANCIAL.
François Masquelier, CEO, *Simply*TREASURY

post-crisis are often the same but more relevant, more detailed, more quickly available and forward-looking. What is often missing is the consolidation layer, the dedicated reporting and system matching reports, as well as the dashboards, accessible in real-time by all financial executives. There are solution like the one offered by FINMETRICS (https://www.finmetrics.com/finboard), giving all necessary and relevant pieces of information needed.

IMPACTS OF HEALTH COVID CRISIS ON BUSINESSES AND EXPECTATIONS:

- Company's cost of capital (WACC) will increase likely / higher hurdle rates and additional scrutiny from investors
- Sharper attention to inventories to optimize their levels (as part of a huge portion of deployed capital) to also improve cash management and work cap
- Hyperinflation countries could be banned or require closer analysis prior to dealing
- Short terms from suppliers and longer terms from customers will likely be applied
- Dealing with negative interest rates will force maximizing net cash position
- More FX exposures to handle and hedge given globalization
- Reporting, dashboarding and KPI's effectiveness… less talks and concrete actions
- Not the end of XL providing better framed and automated (XL aren't real-time when business need 24/7)
- Remote secure accesses are absolute necessity
- Best of breed approach with concrete (i.e. interfacing with ETL solutions)
- In-the-cloud solutions, multi-tenants, with layer of analytics

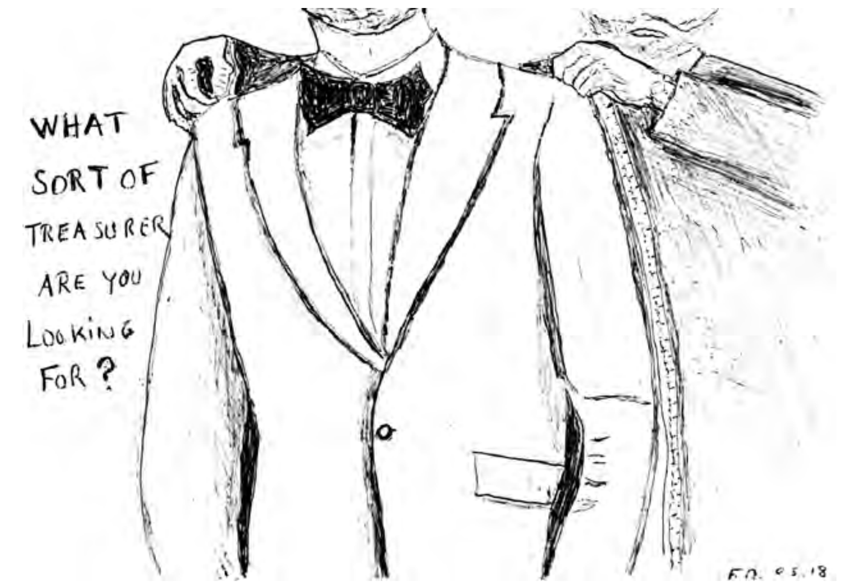
The crisis will have many impacts and will trigger lots of expectations from stakeholders. Unfortunately, there are many factors for not achieving such a required transformation.

RISK FACTORS OF NONBEING SUCCESSFUL ARE THE FOLLOWING:

- Wrong technologies chosen or tech's non scalable
- Resistance to changes from teams (not to be underestimated)
- Impossibility to interface and STP the systems
- Too high dependency on XL spreadsheets
- Panic mode which is not always the best advisor
- Absence of vision and roadmap
- Absence of C-level sponsoring and "kick"

"THE NEW ABNORMAL" (THE STROKES)

"Futuring treasury" is one piece of the whole finance function revamping. It consists of a vision of future IT architecture, what to deliver and how and new upskilled roles of treasurers. Reporting must become forward-looking and anticipatory, more frequent and more relevant. It is too often retrospective (and this is where it hurts), irrelevant, slow to produce, not completely automated, and obsolete from its production and reading stand points. We should move towards the "real-time treasury". By enhancing the ergonomics of existing IT solutions and consolidating reporting and dashboarding, the treasurer can go beyond protecting company's wellbeing and create strategic value. For example, CFO's expect more sensitivity analysis and stress tests scenario in crisis mode. The type and quality of reporting expected are increasing and request a robust solution instead of even more XL sheets, as we saw these last weeks. Tech's and the current economic situation will power these necessary changes to face the "new abnormal". All the cards and toolboxes are there, providing you use them. The gaps discovered during the crisis push to reinvent the structure and to adapt at the risk of sinking. Failure and I would add crisis are nothing more than a chance to revise your strategy.



REPORTING MUST BECOME FORWARD-LOOKING AND ANTICIPATORY, MORE FREQUENT AND MORE RELEVANT.
François Masquelier, CEO, *Simply*TREASURY

François Masquelier,
CEO, *Simply*TREASURY

ASSET MANAGEMENT

FRANÇOIS MILLET (LYXOR): THE TREND TO SHIFT PORTFOLIOS TOWARDS **RESPONSIBLE INVESTING** WILL GATHER PACE

Against all odds, ESG ETFs have continued to attract funds since the beginning of the year, going against the tide of other asset classes. For François Millet, Lyxor Head of ETF Strategy, ESG & Innovation, this phenomenon should even increase in the future, with the health crisis acting as a catalyst.

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INVESTMENTS IN RESPONSIBLE ETFS HAVE SHOWN A CERTAIN RESILIENCE DESPITE THE CRISIS...

Indeed, net inflows into ESG ETFs have remained positive since the start of the year. They were approaching EUR 6.9 billion by late March, when the European ETF market as a whole recorded outflows of EUR 10.8 billion over the same period (which represents a very harsh reversal after the record inflows of 2019 and the beginning of this year). While we felt that in theory it was logical that investments in ESG products should prove resilient, we were still surprised by the size of the disparity between these two figures.

How can this phenomenon be explained?
Investors who urgently sought to cut their overall exposure to the markets did so by divesting from the simplest and most liquid strategies on the large generalist indices (primarily on American equities), rather than by unravelling carefully thought-out investment strategies, as is the case with ESG. Similarly, ESG strategies do not respond to short-term tactical allocation patterns but tend to be lodged in the stable components of portfolios. These investments have consequently been maintained.

The performance of ESG ETFS has also proved resilient. What are the factors that justify this?
Historic performances were already demonstrating that ESG strategies are long-term winners. The present crisis illustrates that they also tend to be resilient in the short-term: our European equity strategies outperformed by between 1.8% and 2.8% in March. There are several reasons for this. Firstly, they display style biases towards large caps, towards so-called 'quality' companies (distinguished by the strength of their balance sheet) and towards lower volatility securities, three factors serving as support when the markets are in upheaval. In recent weeks, they have also benefited from their sector bias, as the price of oil has collapsed. Energy and more specifically oil stocks are underweighted in ESG portfolios.

So the ESG ETF market looks set for a bright future...
Even though the inflows into ESG ETFs have held up well, assets under management in this segment are still low, in the region of 4% of the total ETF market. But we believe that this proportion is bound to grow significantly. Many investors were already giving some thought to putting ESG strategies in place, but had not yet taken the plunge. Since the current crisis has caused them to cut their positions in more traditional products, as demonstrated by the outflows, we consider that they will reallocate their cash into ESG products when they return to the markets.
We are therefore expecting major movements of capital, and all the more so as new investment vehicles are coming onto the market, especially in the field of ecological and energy transition. On the subject, we would like to announce that Lyxor has just launched a range of four 'climate' ETFs, the first of their kind in Europe, to support climate transition.

Could it be said that the current crisis will generally strengthen the movie into responsible investment?
The health crisis exhibits certain similarities with climate issues, including the fact that for too long we have ignored how dependent our economic and social systems are on natural factors.

HISTORIC PERFORMANCES WERE ALREADY DEMONSTRATING THAT ESG STRATEGIES ARE LONG-TERM WINNERS. THE PRESENT CRISIS ILLUSTRATES THAT THEY ALSO TEND TO BE RESILIENT IN THE SHORT-TERM.
François Millet, Lyxor Head of ETF Strategy, ESG & Innovation

In this respect, what is happening at the moment argues for progressing even further in responsible investment practices. In particular, this will include attaching greater importance to long-term views, rather than to short-term considerations, and a stronger commitment to climate transition. We are convinced that asset managers can be true drivers of this transition, by combining innovation in investment vehicles, proactive dialogue with companies, and a tougher voting policy on environmental issues in general shareholders' meetings.

François Millet,
Lyxor Head of ETF Strategy, ESG & Innovation

LOWER FOR LONGER

> **CORPORATES FACE A HUGE CHALLENGE: HOW CAN WE EXPLAIN THAT MANAGING PRUDENTLY EXCESS LIQUIDITIES DESTROYS VALUE?**
> François Masquelier, CEO, *Simply*TREASURY

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Persistent negative interest rates (in EUR) force asset managers to reinvent their business model to focus on a "more dynamic" cash management model to avoid value destruction that a (too) prudent short-term placement would imply. Taking an assured dry loss or preferring an investment with relative positive returns and limited volatility is a real strategic choice to consider. It is not simple or neutral and difficult to sell to an Audit Committee or CFO. Beyond standing idly by...

IT'S JUST A CATCHPHRASE...

This could be the title or chorus of a pop song from the charts. A heady chorus and a rhyme, a refrain repeated to excess ... Yet we must get used to this risk and the idea that rates are not ready to rise immediately and even if they go up again, they would do so smoothly and at a pachyderm pace. So, we need to demonstrate patience, who is the mother of virtues, but not the one cultivated by the treasurers... How to do better or his/her best with sub-zero rates? This is the impossible equation that we are being offered. The Japanese have known this for well over 20 years. The ZIRP or "Zero Interest Rate Policies" have shown their limits. The ECB went even lower than the ground floor in terms of interest rates. What would be the reasons to believe in rising rates as populations age, the economy is still slowing down, the cost of living is already very expensive, and States are over-indebted.

This is indeed a Cornelius dilemma to be solved. How can inflation be avoided while boosting the economy and employment? Central banks are desperately trying to stimulate their economies without really getting there and after using an incredible and unprecedented fighting arsenal. The policies of NIRP and ZIRP have shown their limits, I fear. An instrument that is supposed to be temporary, such as quantitative easing (i.e. QE), becomes permanent. It is the central banking world that is upside down. I don't think we should expect much from that side. So, what do we do?

THE CHALLENGE OF CORPORATE INVESTORS "LONG" IN CASH

Corporates face a huge challenge: how can we explain that managing prudently excess liquidities destroys value? They desperately hunt for value and yield without getting there. Worse, they lose money by doing "well" (at least they believe they do well). So, what could we do to change this? Putting a little more risk in your wallet? Increasing durations? Lowering credit rating limits of our counterparties? Some have already invested in long-term bonds and Govies. However, with a good counterparty risk the return is hardly better, and even often, still negative with, as a bonus on top, an intermediate volatility for those who report in IFRS (because of quarterly mark-to-market valuations). This interim volatility arises even if they keep the bonds until their redemption. The classic dilemma between more returns at the expense of increasing risk is always the same. Does the additional risk justify the higher marginal return? That's the key question!
The solution if you want to avoid destroying value (caused by negative rates) would be to slightly change your strategy. Investment in longer bonds has been tested and became now unproductive. Corporate bonds could help extracting more yield providing rating tolerance is low(er). Its investment policy must therefore be reviewed if it is to free up and extract yield and obtain a minimum return or at least a result above EUR zero.
It's time, it's the moment!

Isn't it time to completely revisit your investment policy? The problem has only lasted too long and it will continue. To do nothing or propose nothing to a CFO and Board would be pure folly. Timing and motivation come together to finally allow new investment strategies to be more aggressive without being messy or reckless. It is high time to try to put in place more dynamic strategies with "positive return" potential, at the risk of perhaps not winning at the end. But →

> **LET'S BE «DISRUPTIVE» TOO IN OUR LIQUIDITY MANAGEMENT TO AVOID THE RISK OF SIMPLY SEEING THE DAMAGE.**
> François Masquelier, CEO, *Simply*TREASURY

→ it's better to try than to lose for sure, isn't it? The treasurers seem to me to be ripe and the right time to try to change its short-term investment strategy gradually and to test new solutions and different strategies.

VOLATILITY, WHEN YOU HOLD US!

Volatility in financial terms, the Greek letter sigma, means the degree of variation in a series of prices processed over a defined period, measured by the standard deviation of income. It measures the price change of an asset over a defined period. The wider the price range, the greater the volatility. When short-term rates are at minus 0.55%, it is no longer volatility but proven and realized losses, accumulated/accrued over time. If you are willing to accept a firm 0.55% loss, why not accept a contained volatility of say 0.55% (over the entire portfolio) by accepting other asset classes with more volatility than deposits or MMF's to in total reach an acceptable portfolio volatility? And let's apply (greater) volatility to longer-term products on more "strategic" tranches. Isn't that common sense? Yet it is so far from the spirit of the treasurers... In total, the average volatility could be less than the insured loss percentage (i.e. ESTR rate)? Let's be "disruptive" too in our liquidity management to avoid the risk of simply seeing the damage. A doctor is not there to keep the patient alive but to cure him/her, right? The treasurer is the doctor who keeps the patient alive without seeking to cure him/her. The comparison is certainly strong but illustrates the spite of some peers in the face of an inescapable and lasting situation, alas.

SEGREGATION OF AVAILABLE ASSETS

I really like the theoretical and academic idea of cash segmentation. If the company and its CFO can determine within the total liquidities and excess cash what is daily needs (very short term), operational needs (short-term), cyclical needs (medium-term) and strategic needs (long-term), its funds can be better managed. If you see your bank as private investor, it will ask you for your savings what is your time horizon? We don't ask the same questions to treasurer. CFO's would certainly answer that "everything is to be kept very short-term" (just in case) and hyper-liquid. A nonsense to be corrected in the first place. If you define an investment pool and segregate in tranches according to the length of availability, you can already invest better. A perfect cash-flow forecasting, and an optimization of flows concentration is a first step. Technology allows us now to better optimize our flow concentration. There are also FinTech's offering innovative products or platforms to broaden the spectrum of cash investment products (e.g. Treasury Spring). Let's use them. Having to explain lost money is already complicated. Explaining to the CFO that your good management cost let's say 5 million, for example, out of an average of 950 million cash placed at ESTR (constant rate hypothesis). The energy spent explaining losses, while management of liquidities is sound, could be more judiciously allocated to selling more "dynamic" products. The stakes are worth it. The context has changed and the risk of a bank deposit or long-term bond (if rates go up) seems to me worse than more diversified and segregated management. Why not investing in corporate debt funds, for example?

THE ALPHA AND THE OMEGA

The alpha in finance measures the performance of an investment portfolio against a reference value, for example the ESTR/EONIA for short term investments. This is the degree to which the investor has successfully outperformed the benchmark, or not. It can therefore be positive or negative. Beta tells us whether the underlying is more volatile (or less volatile) than the market. So, amplifying your alpha is a goal of any asset manager (up to a certain predefined risk tolerance/appetite). It can only be achieved by a (partly) differentiated strategy and a combination of money market funds and longer-term underlying assets or funds, including maybe corporate debt too. Unfortunately, the miracle recipe and the universal panacea do not exist. You will need to be patient and gradually try to infuse a more dynamic management portion to convince your management of the relevance of such a dissociated and new strategy. We cannot stay motionless and simply tolerate losses caused by negative rates. It is the only parade I see without taking reckless risks that no one would want to take. ▬

François Masquelier,
CEO, *Simply*TREASURY

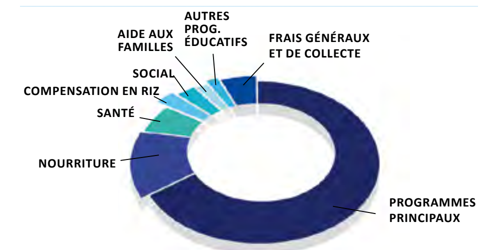
Le parrainage Pour un Sourire d'Enfant
De la misère à un métier !

*Votre parrainage permet **un accompagnement solide et durable** d'enfants défavorisés au Cambodge jusqu'à un vrai métier*

Utilisation de vos dons
Une efficacité exemplaire !

*Grâce aux nombreux bénévoles et à une gestion rigoureuse, **les frais généraux** et de collecte représentent **seulement 8 % du budget**.*

Contenu du parrainage



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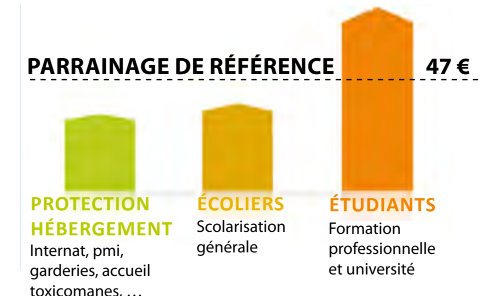
- *À tout moment, je peux arrêter mon parrainage.*

Programmes principaux



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EMIRefit OR THE WAY TO COMPLEXIFY THE SIMPLIFICATION

After a long fight (not the first), EACT (i.e. European Association of Corporate Treasurers) obtained the exemption of inter-company transactions. What good news! But to get that exemption, you must be persistent.

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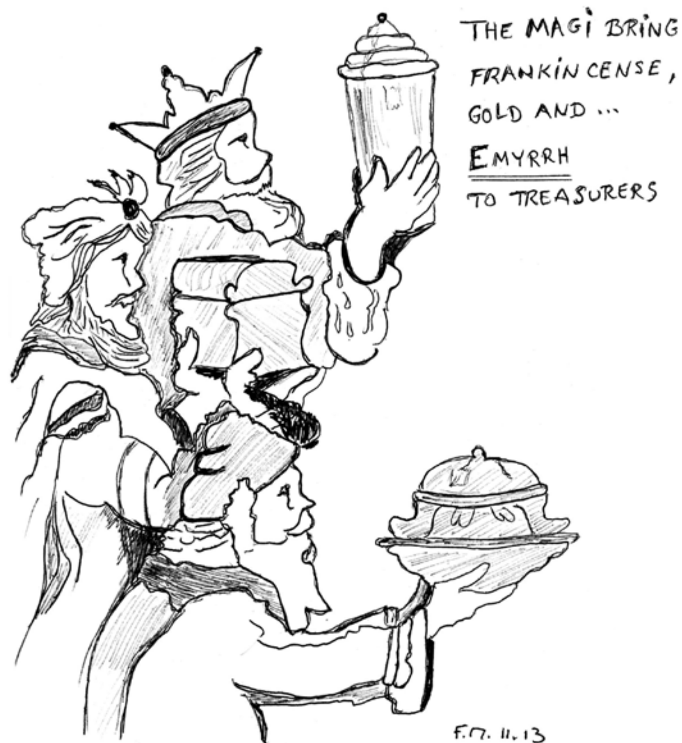


Indeed, obtaining exemption from inter-company transactions is a true way of the cross. Beyond the time limit of three months before obtaining the response from the national supervisor, the procedure is complicated. The application request formats are different for each country. Some are happily better organized than others and some have provided a format while others not at all. The language is also different and sometimes the local language. Good luck if you do not speak Croatian or Hungarian, for example … However, we can expect that English should be enough … in principle.

In Luxembourg, where for once the approach via the website of CSSF is one of the clearest, there are no less than 84 questions with additional annexes. It's not simple at all. If your group treasury center is in Amsterdam and you deal with the other 26 EU countries, you will need to get the exemption in Holland, but also in all the other countries of your subsidiaries. When you know everything, you can stop reporting the intercompany. On the other hand, when a new entity appears, you will have to ask for the exemption again, even if you had already requested it for other entities. Why keep it simple when it can be very complicated? This is fortunately an opportunity to revisit and control the EMIR compliance process. The request for exemption is so complete that it requires review of all documents, including ISDA agreements, scope of consolidated companies (not JV's), group organization chart, "Service Level Agreements", etc.

IN LUXEMBOURG, WHERE THE APPROACH VIA THE WEBSITE OF CSSF IS ONE OF THE CLEAREST, THERE ARE NO LESS THAN 84 QUESTIONS WITH ADDITIONAL ANNEXES.

François Masquelier, CEO, *Simply*TREASURY

If after having obtained all your exemptions you acquire a new entity with which you deal derivatives (i.e. inter-company FX dealing), you will be able to hedge and deal these FX derivatives only if you have obtained (again) the exemption from the supervisor from the country your new subsidiary is domiciled. If not, are you exempt while your new entity is not?!? You may have to wait up to three months (maximum timing to obtain an answer from a supervisor re. exemption of intercompany derivatives) …

Let's hope the markets will not move too much in the meantime because your affiliate won't be hedged. Formalism, when you hold us! Too bad the ESMA refused to standardize the exemption requests. It would have been a bit easier. But it would have been too easy for our European officials. They have already had to give up on the exemption, so you do not think there was any question of facilitating the work of the group treasurers. They left autonomy to the national supervisors, which aren't organized and haven't standardized the exemption process.

One case worried us: the case of Irish interpretation and exception. For example, a European group treasury center based in Dublin cannot/couldn't be exempted if it belongs to a non-EU entity, for example a US parent company. The interpretation is surprising. If it persists or multiplies, ESMA will have to be questioned to decide which interpretation corresponds to its own views. It would be illogical for me to stick to the Irish interpretation which makes them less competitive (for once). I reassure you and cannot think that it will hold on. It seems so illogical, isn't it ?

We can guess it by reading these lines, the EMIR refit interco exemption procedure is very (too much) complicated. We won a battle, but not at any price, I'm afraid. Be courageous! Try to be focused to settle these requests for exemption as quickly as possible.

I will not fail to keep you informed of the interpretation of this rule and the problems to be considered with this exemption process.

François Masquelier,
CEO, *Simply*TREASURY

FERNANDO PACHECO (J.P. MORGAN BANK LUXEMBOURG S.A.):

HOW WILL EVOLVING SALES MODELS RE-SHAPE **YOUR TREASURY PRIORITIES?**

As more consumers shop online, what are the implications for Treasurers looking to build a Direct-2-Consumer model into their resiliency planning?

Change is the only constant in life. As is often the case, ancient philosophy (in this case, Heraclitus) describes our modern world perfectly. But even Heraclitus would surely have raised an eyebrow at how dramatically our world has changed in recent months. And as we gradually emerge from COVID-19 isolation, it's likely some of those behavioural changes will become the norm.

One of the most pronounced impacts could be an accelerated consumer shift away from bricks and mortar retailers to e-commerce and the consequent implications for the emerging Direct-2-Consumer ("D2C") trend.

Research suggests that one in four consumers are making more purchases online than before the pandemic and 24% of respondents in the UK, Europe's largest e-commerce market, suggest they will continue shopping as they do now once life returns to normal.[1] In this context, D2C becomes a matter of business resilience for many firms as they look to serve clients in this 'new normal'.

D2C brands pre-date Covid-19 of course, with more than 400 estimated to be active globally in Q4 2019; collectively they have taken significant market shares across consumer product staples such as footwear (15%), mattresses (20%) and razors (12%)[2]. The automotive industry too is being disrupted, as manufacturers move sales of certain models to online only[3].

A number of incumbents have taken an active interest in establishing their own D2C channels. Some have pursued the M&A route, acquiring D2C brands (i.e., Unilever's acquisition of Dollar Shave Club), whereas others looked to acquire "bolt-on" capabilities to underpin own brand D2C channels (i.e., Nike's acquisition of Zodiac, a data analytics firm).

What factors have influenced the growth of D2C and how should Treasurers respond?

LOWER BARRIERS TO ENTRY FUEL D2C APPROACH

D2C models have been enabled by lowering barriers to entry across the value chain:

- **Advancement in cloud-based capabilities and "outsourcing platforms"** have enabled the emergence of "Supply Chain as a Service" across the production lifecycle.
- **The rise of social media as a credible marketing channel** has enabled cost-effective and targeted advertising of target consumers.
- **Advanced analytics (including those offered by marketplaces)** have enabled D2C brands to adopt dynamic "just-in-time" inventory models, lowering their working capital needs across the cycle.

"LEGACY" B2B MODELS TO D2C MODELS

	Legacy B2B	D2C	Considerations for treasury
Transaction volumes	• High value, low volume • 10-100 counterparties (e.g., vendors, retailers)	• Low value, high volume • 5,000+ consumers	• Robust payment infrastructure • Reconciliation / business segregation • Cybersecurity / resilience
Payment methods	• Invoices paid via wire / ACH	• Debit / credit cards • Alternative methods of payment • Direct debit • Pay-by-bank	• Margin protection / acquiring costs • Ease of consumer experience • Minimise failures / fraud
Foreign exchange	• Invoicing currency (USD, EUR, GBP) • FX exposure falls on retailer	• Consumers prefer to pay in home currency • Treasury faces direct FX exposure	• Ensure attractive FX spreads • Multi-currency management
Working capital	• 30-60 Days Sales Outstanding (DSO)	• T+0 (Real-time payment: Accelerated Settlements) • T+2 (Cards)	• Managing shorter cash management cycle • Management working capital volatility (DSO + Days Inventory Outstanding (DIO))
Consumer payments data	• Limited / no visibility	• Visible through transaction level data and online sales analytics	• How to leverage raw data into insights?

WITH CHANGE COME CHALLENGES

The challenges a company faces as it embarks on its D2C journey will be influenced by the starting point, legacy operating model and its chosen D2C strategy.
The table below lays out in more detail the scale of challenge faced by treasurers navigating a transition from "legacy" B2B models to D2C models.

MAKING THE PIVOT TO D2C: HOW TO BE A PARTNER TO YOUR BUSINESS?

As a treasurer, what should you be thinking about as your company embarks on this journey?

1. Is the company adopting an in-house managed D2C approach or outsourcing to a third party? What are the implications of these models on cash flow exposure to third parties and control over transactional costs? The EU's second payment services directive (PSD2) supports innovation through open banking, making it easier than ever to connect to third parties and provide a seamless experience to your customer. For example Account Validation is an open banking solution which validates customer account details and ownership to mitigate fraud and failed transactions.

2. Do you have a credible end-consumer payment strategy that is aligned to the company's business and country strategy? Offering a wide range of payment options to your clients including credit and debit cards and alternatives such as eWallets is an important consideration. In addition, could a subscription model be appropriate for your D2C channel? Can your acquirer provide you with deep insight and benchmark reporting vs industry peers and advice as you scale internationally?

3. Is your platform / legacy system ready to handle the scale of flows? You may want to consider integrating application programming interfaces (APIs), to streamline the collection and transmission of data between your bank and your Enterprise Resource Planning / Treasury Management Systems, giving you real-time visibility of payment flows, on demand and at low cost.

> **D2C BECOMES A MATTER OF BUSINESS RESILIENCE FOR MANY FIRMS AS THEY LOOK TO SERVE CLIENTS IN THIS "NEW NORMAL".**
> Fernando Pacheco, Head of Treasury Services and Commercial Bank, J.P. Morgan Bank Luxembourg S.A.

4. Which treasury and payment capabilities should you look to build in-house vs. those that you would outsource to partners? For example, we see increasing numbers of our e-commerce clients building out their own fraud tools. This gives them full visibility of their end-to-end payment flows and they can see at a glance the impact changes to functionality have on user experience and client satisfaction.

J.P. Morgan understands that each company faces a unique set of challenges as it considers entering the D2C space. As a partner ambitious for our clients' success, we bring a full suite of innovative treasury and payments solutions, as well as local expertise, to support them in their journey.

1. Source: yStats.com: Covid-19 impact on global B2C e-commerce and online payments 2020 p13 citing RetailX and InternetRetailing
2. M&C Saatchi. Inside Trends 2019: Digital Disruption is being driven by DTC brands.
3. Tesla: $35,000 Tesla Model 3 Available Now

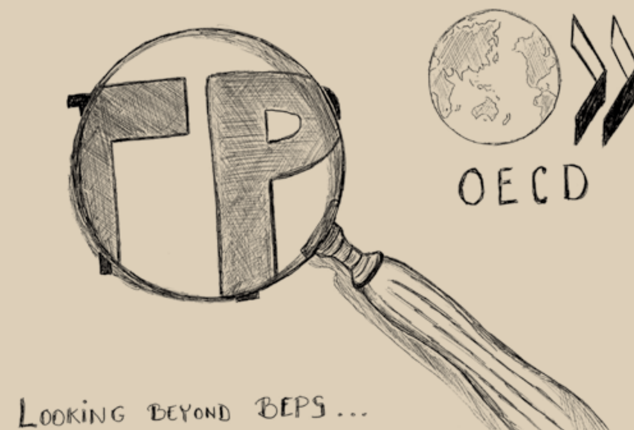
Fernando Pacheco,
Head of Treasury Services and Commercial Bank,
J.P. Morgan Bank Luxembourg S.A.

OECD HAS RELEASED IN FEBRUARY FINAL TP GUIDANCE ON FINANCIAL TRANSACTIONS

Treasurers were waiting for the OECD guidance to better understand how to practically apply the measures listed by BEPS Actions 4, 8 to 10 issued couple of years ago. Beside the provisions and principles, having examples and clarifications is useful to delineate how to achieve it and how to document properly financial transactions.

HOW TO APPLY THE FAIR PRICE TO FINANCIAL TRANSACTIONS?

This 44-page guidance from OECD on transfer pricing (TP) on financial operations was highly awaited by all corporate treasurers all over the world. On February 2020, the Organization for Economic Co-operation and Development (i.e. OECD) released its final report with transfer pricing details on the financial and treasury intercompany transactions. It was a logical follow-up after the publications of the 15 actions of BEPS (the guidance is focusing on action 4 and 8 to 10). It aims at clarifying the way to apply the new or reviewed principles on a consistent basis. The idea is to reduce and prevent disputes and double taxation situations. This report is important as it covers the appropriate delineation of all financial transactions, with respect of MNC's capital structures. It addresses the specific issue related to pricing of transactions such as treasury, intra-group loans, cash-pooling, hedging, guarantees and captives of reinsurance. The guidance also defines the way to determine the risk-free rates of return and risk-adjusted rates of return where an associated company or affiliate is entitled to such a return under the guidance. Eventually the report also includes examples to illustrate the principles.



KEY ITEMS ADDRESSED BY OECD IN ITS REPORT

- Intra-group lenders without functional substance is important. A group treasury center should evaluate the profit from intra-group lending in countries where they don't have the people functions to manage risks. The lender is entitled to the risk-free rate and the remainder if it exercises control over the investment risk. The control and management of risks is the key factor.
- Delineation of guaranteed loans is also essential to determine whether the loan would be only granted because of the guarantee by another group company and would have not raised the funds on its own. It could be viewed as a capital contribution from the guarantor.
- The delineation of the transaction should be documented by the terms and conditions. All terms and conditions must be at arm's length and not only the interest rate and margins.
- Cash-pooling are managed by a cash pool leader which performs coordination and agency function. As a service provider, the leader's remuneration should be limited. The remuneration of cash pool leader should substantiate the allocation of income based on performance of control functions over credit, liquidity and risks. The documentation is also recommender.
- The credit rating or "implicit support" is crucial (known as the "halo effect") the benefit of group membership should be considered. A treasury center must analyze the rating of each subsidiary and ability or willingness of the group GT to support troubled affiliate companies.

NECESSITY OF GUIDELINES FOR PRACTITIONERS

This guidance has been initiated in 2013 as part of the BEPS actions to focus on frequent transfer pricing issues related to financial transactions. All treasurers were expecting such guidance to better understand what they should do or not and how to properly document it. This report includes four main parts: (1) treasury function, including related transactions such as intra-group loans, cash-pooling and hedging, (2) guarantees (3) Captive insurance (4) risk-free and risk-adjusted rates of return. The report tends to delineate if the transaction is an equity or a funding transaction and the appropriate capital structure and balance between equity and debt funding. It is always required to prove that the transactions differ from those which would have been adopted by independent enterprises behaving in a commercially rational manner in comparable circumstances. It is intended to determine whether the debt should be considered as such. The new guidelines recognize that a borrowing entity's balance of debt-to-equity funding impacts the amount of interest paid by the borrower and may affect profits. It is a basic financial principle; nevertheless, not always applied for intercompany transactions. Associated enterprises should be funded at arm's length not only to determine whether the rate of interest provided for a loan is an arm's length, but also whether prima facie loan can be regarded as a loan or should be analyzed as some other kind of payment, like a contribution to equity capital. Debts could be requalified into equity. They emphasize the comparability factor based on five economic relevant characteristics (i.e. contractual terms, functional analysis, characteristics of the instruments used, business strategies and economic circumstances). Both perspectives must be considered: lender and borrower. OECD recommends relying on credit ratings, which are based on qualitative and quantitative data. It is a case-by-case analysis and passive association and support must be weighted too. For guarantees, there are two methods to be applied: the cost (quantifies additional risk borne by the guarantor by estimating loss for providing the guarantee) and the yield approaches (calculation of spreads between interest rate that would be payable by the borrower without the guarantee and interest payable with the guarantee). Treasury functions must be distinguished based on role: (1) simple coordination (day-to-day operations, centralization of external borrowing, etc…) and (2) more complex functions (corporate finance management, identification of risks, responses and analysis on risks, etc…). The remuneration of treasury fees must be in line with treasury services effectively performed. The risk-free rate of return must be applied to a funder who lacks the ability to control the associated risks with investment in financial assets. If you do not perform the decision-making function, you should only apply the risk-free rate. But a higher return is possible and proportional to the assessment of the risk of a transaction. We should note that the report denies the comparability to external bank opinions to intra-group loans as these informal letters do not constitute an actual offer to lend and cannot be considered "comparable" to actual transactions. The same principle for cash-pooling where the allocation of synergy benefits must be clear. The reward to the cash-pool leader is possible according to functions performed, assets used, and risks assumed in facilitating the cash-pooling arrangement. An agency or coordination role should be less remunerated as well as notional poolings run by the banks. What is often missing is the remuneration of participants and benefits of being in the pooling. Treasurers assess their benefits and not those of participants. They should be shared between participants. The transaction must be considered as short-term, however, sometimes, facts can support an alternative view such as long-term deposit/loan if it stays forever.

> **THIS DOCUMENT WAS AWAITED BY TREASURERS AS IT GIVES EXAMPLES TO DETERMINE THE NATURE OF FUNDING**
> François Masquelier, CEO, *Simply*TREASURY

SIGNIFICANT STEP FORWARD

This document was awaited by treasurers as it gives examples to determine the nature of funding. Although this guidance is not binding for tax authorities (considered as soft law), some tax inland revenues follow this guidance. The report has been approved by 137 members of OECD Inclusive Framework. It acknowledges there are potentially different views on various topics (e.g. capital structure or interest deductibility limitation). Treasurers must now ensure that TP policies are aligned with new guidance and that they have supporting documentation in place to support these policies. It is far from being a simple exercise as many peers believe. When the control will come (and it will come), better to have documentation in place if not it will be too late to get everything back.

François Masquelier,
CEO, *Simply*TREASURY

THE MARKET RISK CHALLENGE –

WHAT TREASURERS **NEED TO CONSIDER** DURING THE COVID-19 CRISIS

There is no bigger focus for corporate treasurers these days than managing the impact of Covid-19 on their organisation. And while cash is likely to be king for most companies currently, both their current hedge book and future strategy to manage market risks have risen in importance as well, explains Holger Zeuner, Head of Thought Leadership EMEA within HSBC's Global Markets Corporate Sales team.

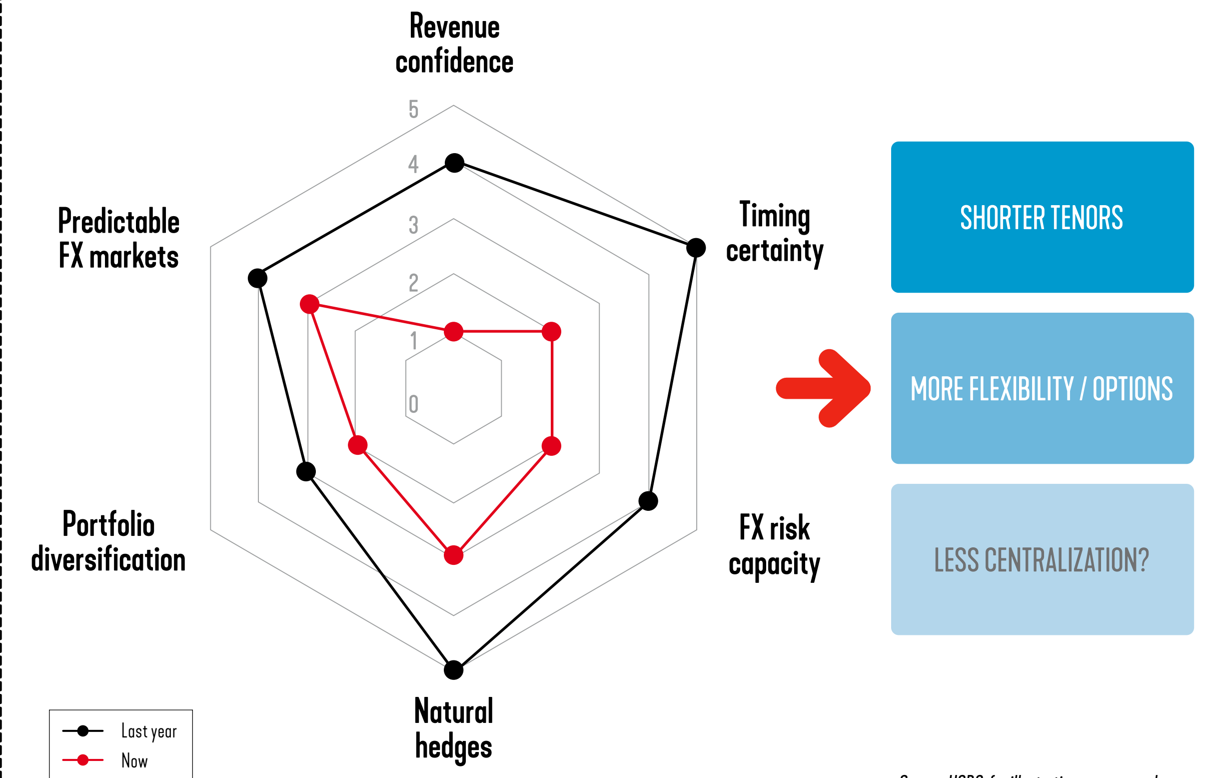
What makes hedging so difficult in the current environment?

There are four factors coming together on this: first, the economic outlook for businesses has become highly uncertain, making the volumes and maturities of hedges that we saw before the pandemic less applicable in today's climate. Second, market volatility has come back with a vengeance to many currency pairs, commodity prices and interest rates. Third, with remote working as the status quo for most corporate treasurers, there is a potential increase in operational risk in executing the chosen strategy while being away from the usual office set-up. And finally, this has been met by reduced market liquidity. "All of these factors taken together significantly complicate corporate decision-making," according to Zeuner. Higher volatility indicates an increased risk environment (particularly when measured against traditional risk measures such as value-at-risk or historic scenarios) – usually indicating a requirement to hedge more. When this meets a reduced certainty on underlying cash flows, treasurers are faced with a challenging hedge decision.
A solution to that is more frequent communication with all internal stakeholders and bank partners to understand the current extraordinary dynamics of sales orders, supply chains and market liquidity.

> **OPTIONS HAVE PROVED TO BECOME AN ASSET IN A LIQUIDITY STRESS SITUATION.**
> Holger Zeuner, Head of Thought Leadership EMEA, HSBC's Global Markets Corporate Sales

Some perfect storms have already arrived

But new hedge decisions are not the only source causing headaches for risk managers these days. In some situations, so-called wrong-way risk has occurred on existing hedges, spilling over into liquidity planning and impacting financial statements. "This has happened when underlying cash flows, which have been hedged, are no longer likely to materialise, and the FX move has led to a negative 'mark-to-market' of the derivative," explains the HSBC expert. As examples, he cites European corporates that had hedged dollar revenues or emerging market cost bases in Mexican peso or Polish zloty. If such underlying cash flows are falling away, designated hedge accounting relationships could break and require the derivative value to be realised as a loss. This could cause further stress not only on financial results but also corporate cash when the hedge is due for settlement. In the more dire cases it could also impact the ability for additional credit being available from bank counterparties.



Source: HSBC; for illustrative purposes only

Setting sights ahead – a crisis as catalyst for change

For those who have successfully avoided or already tackled these issues, it's worth thinking ahead: how will any 'new normal' future of your business impact your risk management needs? It won't be decided tomorrow, but once financial stability and funding is secured, a critical review of your treasury policy should be undertaken. The HSBC banker sees three potential trends to prevail from this. First, the focus of technology investments will be even more on those with immediate benefit – eg, ability to collect and process payments online being on top of many lists. Second will be to add flexibility to the instruments and hedge ratios defined in the policy. For those impacted by wrong-way risk, they may look more intensively into FX options: "We had seen an uptick in option-based solutions already when Brexit was the main concern for many companies. But the current business uncertainty is far more widespread, and options have proven to become an asset in a liquidity stress situation," says Zeuner. Finally, he expects more companies to increase the weight of regional treasury centres in managing risks. As long as the virus risk overhangs global trade and supply chains, more local solutions can ensure operational readiness and the ability to react quickly. Having a strong global bank partner at your side who understands and follows such organisational decisions, will help companies on this journey.
To end on the bright side: the latter trend of more regional treasury activities would likely boost the Luxembourg treasury community further.

Holger Zeuner,
Head of Thought Leadership EMEA, HSBC's Global Markets Corporate Sales

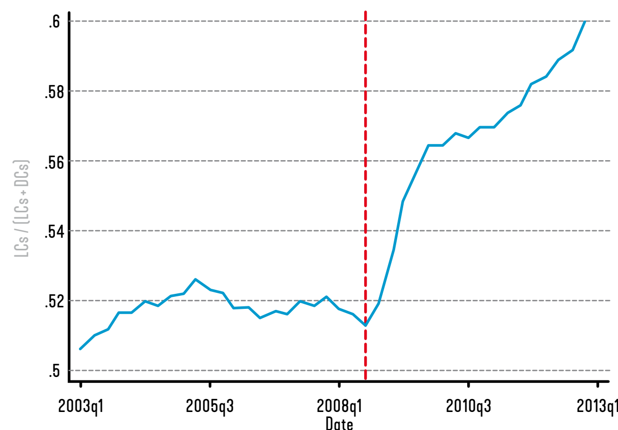
TRADE FINANCE

GENERAL CONTEXT OF **SKEPTICISM AND UNCERTAINTY**

Third-party risk is inherent of a company's risk portfolio. On one side, customers are worried that their suppliers will fail to fulfill their obligations and/or repay the advance payment made to them, and on the other side suppliers are worried that their customers will fail to pay them on time (or not at all).

The last financial and debt crisis, together with political instability and difficult economic situations in numerous countries, have increased this sentiment of constant credit and commercial risks, which as a consequence have altered commercial relationships. Unfortunately, the prospects don't foresee any general improvement to that regard given the spread of COVID-19 and its severe economical consequences around the globe.

THIS GRAPH SHOWS A STEEP RISE IN THE USE OF SECURITY INSTRUMENTS (LETTERS OF CREDIT) IN 2008 Q3



> **ONE COULD QUESTION THE REASON WHY WE EVEN THINK ABOUT USING SECURITY INSTRUMENTS.**
> Benjamin Defays, Treasury Manager, Koch Engineered Solutions

This unstable environment has created the need for many companies to externalize these risks with the help of external providers such as insurance companies, banks and the financial markets who are all providing a wide range of instruments and services helping them secure their operations and mitigate those risks. The use of security instrument quickly became integrated into companies buying & selling processes, sometimes without applying good judgment.

One should remember that outsourcing risk, including that of trade finance activities, always has an explicit and implicit cost which is translated into a spread paid by the contracting parties. This cost will dependent on the instrument type, the provider, the issuance set up, the locations, the complexity, etc. It is very difficult to get an accurate and relevant average cost per instrument. In addition, organizations will have to bear intensive labor cost on top of that due to the time spent by its work force and the increasing need for skilled labor.

Based on the cost accounting methodology used in each company, these costs could not be considered as direct production cost and rather be part of variable overheads instead, therefore not having a meaningful impact on the marginal cost of production which as a result are not monitored accurately. Including security instrument costs into direct production cost would be an incentive for managers to control those costs, renegotiate payment terms with their trade partners and transact more efficiently.
It is worth noticing that while it creates an extensive business for trade finance partners, it also creates huge indirect costs for companies and has significant impacts on their working capital due to the timing difficulties that can arise from those, sometimes even jeopardizing an entire purchase order, altering commercial relationships and impacting a company's bottom line.

Generally speaking, the use of different security instruments types (letters of credit, bank guarantees, burgschafts, borgtochts, surety bonds, corporate guarantees, etc.) is linked to cultural aspects and is anchored into countries' DNA. North African and Middle East countries are more inclined to request the use of letters of credit and bank guarantees (e.g. bid bonds), while Asia has been using bank guarantees less often to the credit of surety bonds & accepting additional internal commitments (e.g. corporate guarantees), and the U.S. on their side are using Standby Letters of Credit and Surety Bonds. Europe is traditionally a bank guarantee continent, and difficult to migrate to other types.

Changing culture & habits is a difficult but necessary tasks to alleviate the burden that those instruments can create on the world's trade activities, and this is now a responsibility more and more assigned to Treasury Departments (linked to the nature of risk management involved) thanks to the centralization strategies and pool of knowledge making it even more an expert function, but very difficult to staff properly. This is why constant training is required to sustain the function over time, including trade finance which is an ever-evolving activity placed at the crossroad of a company's core business.

All these security instruments are often complex, tedious, expensive, manual intensive, highly reliant on humans, and can create significant financial risks to all stakeholders. One could question the reason why we even think about using any of those; since they also delay many projects and shipments, while increasing tensions in international trade relationships. Undoubtedly, general lack of trust and overall uncertainty surrounding international trade is the reason why and the fundamental basis upon which the banking industry can make a great business out of. In the end, it is all about risk transfer and externalization/mitigation.

But also, if a company has no relevant information about the financial health of one of its business partners, or is a first time partner, or maybe one that has a relatively bad reputation, is that company sufficiently equipped not to externalize this risk and absorb the potential losses? These instruments are just like buying insurance: you pay a premium based on a risk assessment and on its probability to incur losses and damages to your company and others, for which your company would be liable for. All of this will also depend on the risk appetite of the company which you're transferring the risks to. If on the long term, these instruments are not profitable, not all companies have the capabilities to absorb the losses that will occur on the short term, hence the need to externalize risks. However, when taking all aspects described earlier such as cost, complexity, and various hurdles faced while using those products, it is worth considering some alternatives and apply judgment (always).

> **ONE SHOULD REMEMBER THAT OUTSOURCING RISK, INCLUDING THAT OF TRADE FINANCE ACTIVITIES, ALWAYS HAS AN EXPLICIT AND IMPLICIT COST WHICH IS TRANSLATED INTO A SPREAD PAID BY THE CONTRACTING PARTIES.**
> Benjamin Defays, Treasury Manager, Koch Engineered Solutions

On the technology side, there are growing solutions helping companies reduce the human intervention in the manual intensive activity. They usually offer: track and trace solution, connectivity with all financial intermediaries, visibility overall trade finance activities portfolio into one location, more efficient workflow (from submission to cancellation, going through issuance, amendments, extend or pay,... with communication mainly by Swift and less reliant on Emails and paper-based solutions), better reporting (homogeneous format and automated) which translates in time saving for your staff and real-time visibility over credit facilities, automated filling of documents being presented under letters of credit, allowing a drastic reduction in discrepancies and time spent in filling in documents, connectivity with Treasury Management Systems (TMS), etc. Some of these technologies can even help issue surety bonds, corporate guarantees, etc. Robotics solutions also help automate low added value tasks such as filling in application on bank's portals...

It is a huge market for providers of such technology, as currently very fragmented and the demand is increasing due to the increase in volumes and complexities (and pressure on cost...)

Benjamin Defays,
Treasury Manager,
Koch Engineered Solutions

MARIE-CHRISTINE RADIO (ING):

STRENGTHENING RELATIONSHIPS

Marie-Christine Radio, Head of Client Services Wholesale Banking and Business Clients Delivery, says even though these times are unprecedented, ING managed to activate the necessary tools and processes to support clients and manage "business as usual", while treating the wellbeing of the ING staff and customers as a priority. Interview.

How did you adapt your organization to face this exceptional situation?
Our top priority is the health, safety and wellbeing of our colleagues and customers. We are lucky at ING to still be working at full capacity, thanks to the agility and speed of our tech teams. The agile model we adopted for delivery allows us to be nimble when facing new situations. Employees have now access to all their work tools from home in a highly secure mode. We are very proud of that. After deploying remote access, globally about 90% of our employees are working from home to keep our business running and serve our clients. Some people still work at ING Lux House to ensure critical tasks that cannot be performed remotely. We took drastic measures to ensure their safety. It is our Orange Culture that allows us to reorganise ourselves and to work quickly and efficiently. Not all companies were able to keep all their staff on board. The feedback from our staff is positive. In the current climate, social ties are harder to maintain. We have therefore put in place surveys to keep track of our staff's wellbeing and we have shared tools to keep in touch easily such as weekly snapshot newsletter, sharing news of teams and individuals. It is a nice way to remain in touch. Global and local news are now focusing on the exit strategies of countries under lockdown. We closely follow the guidance of the government, the CSSF, the ABBL and the ASTF, as well as the ING Group, and we will set up appropriate plans.

I guess, in a crisis period, the level of service, digitization and flexibility of a banking partner is key. Could you give us examples of ING's agility to propose solutions?
Digitization is key, particularly in these times. We offer our clients a large range of solutions depending on their profiles and needs. Our corporate clients may hold many accounts in different countries. To manage this, the treasurer wants tools to oversee all financial transactions. We offer our International Digital Banking Platform, ING Inside Business, a single point of access to get real time insights and to manage financial transactions anytime, anywhere. This solution grants access to all wholesale banking services and products in all the jurisdictions where ING is present. We also offer local digital solutions, like My ING Pro, allowing our clients to manage their accounts and payments easily. Thanks to our digital approach that was launched several years ago, our digitization rate is around 98%, a very high score. The continuous promotion of our e-banking solutions is part of our strategy. Our approach is to facilitate the life of our clients by offering efficient digital solutions. This is especially crucial in the current environment. Furthermore, it was very important to us to ensure business continuity and find pragmatic solutions in response to the current context of remote working during Covid-19, – for instance, we have adapted some of our procedures temporarily to accepte-signed documentation from our clients, in accordance with our risk policies. Clients are always at the heart of our initiatives and our objective is to support them and remain a strong business partner during this period.

IN TERMS OF PROCESSING TIME AND SUPPORT, OUR CLIENTS DO NOT SEE ANY DIFFERENCE BETWEEN THE "NORMAL" SITUATION AND THE CURRENT ONE.
Marie-Christine Radio, Head of Client Services Wholesale Banking and Business Clients Delivery, ING

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I can imagine that such a crisis crystallizes the idea of quality service to customers, despite digitalization.
The relationship remains an important factor of an excellent relationship.
Digitization allows us to manage the transactional part of our activities. It is key to have smooth digitized processes to give customers a differentiating experience, but the human aspect remains a very important component of the relationship. During this time of crisis, we still have close contact with our clients. The only difference is that we had to switch from physical to digital contact – by phone or video conference. We received very positive feedback from our clients, and it is the best reward we could hope for. In terms of processing time and support, our clients do not see any difference between the "normal" situation and the current one.

Marie-Christine Radio,
Head of Client Services Wholesale Banking and Business Clients Delivery, ING

COVID-19 AND THE BANKING WORLD: A POSITIVE PARADIGM SHIFT?

The current crisis is exceptional: global, unprecedented, and impacting all citizens and economic players. Our personal and professional habits are being disrupted, pushing us to go beyond our limits in terms of creativity and solidarity. Beyond the disruptive health aspects, it can nevertheless be a formidable vector for new practices, accelerating profound changes that will transform the bank of tomorrow. How can we turn this paradigm shift into an opportunity for banks?

THE HEALTH CRISIS HAS NECESSITATED A DRASTIC CHANGE IN WORKING METHODS TO GUARANTEE THE CONTINUITY OF OPERATIONS IN A HOME OFFICE MODEL.

Pandemics can extend from a few weeks to a few years, can die and rise again. A Business Continuity Plan is generally based on episodic events with short recovery time. In this sense, this crisis doesn't incorporate the usual risk models.

Organizations had to account for and adapt to a variety of scenarios which have been triggered at different stages. Typical pandemic scenarios are strictly limited to employee absenteeism, whereas Covid-19 has enforced social lockdown and "strongly recommended" working from home practices which have moved the goal posts and led to increased cyber risks, that must be tackled.

Another key specificity is that this crisis has stressed the interdependence of various risk natures. When a classic BCP plan usually impacts a single organization, now all partners, suppliers and customers are affected, increasing market, credit and liquidity risks.

Among the continuity measures deployed, the implementation of firm-wide home working has required firms to re-evaluate the connectivity model and capacity in a very short timeframe. Two extremes were noticeable in this regard. On the one hand, FinTech industries for example, whose nomadic and digitalized organizational structure doesn't link them to a production site, have quickly adapted to working from home. On the other hand, traditional financial industries, which are more dependent on a specific location, had to readjust the way they work remotely. Therefore, the crisis questions the real importance of the production sites model in the financial sector, where managed stocks like cash and securities have mainly been dematerialized.

Nevertheless, some areas of the financial industry, especially market facing activities, still have specific organisational processes which require permanent interaction between people to manage risks and priorities efficiently. This is especially true in period of crisis when trading volumes and amounts are significantly higher.

THE STOCK MARKET CRISIS, WITH FALLING PRICES, A MASSIVE INCREASE IN TRANSACTION VOLUMES AND INCREASED VOLATILITY, PUT A SEVERE STRAIN ON MARKET FACING ACTIVITIES.

Collateral management desks are a good example of business areas where the current crisis creates an operational resource shortage when the activity level increases. Higher market volatility combined with a decrease of the asset value, means a rise in margin calls and in the need of collateral.

In the context of growth of collateral need, the available liquidity of investors may be impacted: collateral delivered in cash or liquidity is used to buy additional HQLA, necessary to secure existing engagements.

Investors are impacted twice, as the need for collateral also creates additional cost when our governments provide a refinancing boost. Additional cost for the collateral receiver of cash balance is induced as a result of a negative interest rate. The collateral provider of HQLA has to bear low or negative rates. And such a need in increased HQLA, helps our governments to continue to finance themselves at a good price.

The current crisis is an opportunity for the financial industry to update the collateral framework.

We know that the economic recovery will potentially delay the efforts regarding the sustainability of our world, especially with cheaper carbon energy. Therefore, it may be the right time for the authorities to enlarge the collateral eligibility and to promote high quality green bonds as HQLA equivalent and thus continue to support ESG initiatives.

For cash collateral cost, it is time to stop considering this as a fatality. Collateral reuse or reinvestment opportunities exist. We are in an ideal timeframe to implement a cash sweeping solution to ease cash collateral reinvestments programs in eligible cash equivalent assets at reduced cost.

FURTHERMORE, THE MANAGEMENT OF THE ECONOMIC CRISIS, BECAUSE OF ITS MAGNITUDE, MUST TODAY BE THE ABSOLUTE PRIORITY OF BANKS, IN ORDER TO ENABLE THEM TO PLAY THEIR MAJOR ROLE IN SUPPORTING ECONOMIC ACTIVITY, AND BE PART OF THE SOLUTION TO THIS CRISIS, ALONGSIDE THE MEMBER STATES.

To support the sustainability of businesses, banks need to provide the necessary liquidity to overcome financial difficulties. While the levers are classic, their implementation is complex in view of the volume to be managed.

The quickest and most appropriate is the standstill period, usually for up to 6 months. But the granting of new credits is more problematic because it requires a reinforced analysis in order to target the right debtors: not over-indebting the economy and generating too many post-crisis bankruptcies, only covering needs related to the crisis and not previous difficulties or endorsing risky speculative activities.

To cope with the volume of files to be processed, in addition to taskforces, banks are also taking the measure of the interest of robotic solutions allowing automated mass data capture and reporting (RPA). If many banks are not yet equipped with these tools, several banks are working today on these solutions to serve them in the future.

But RPA is only a first step, this crisis being a real accelerator for innovations.

So many amazing new habits have emerged during the crisis: contactless lifts commanded by phones, usage of big data and geolocation to track infected people and identify their presence in the neighborhood, deliveries by drones, etc. Due to social distancing, these new practices spread among all segments of the population, even older people. One of the most shared is the enlarged usage of contactless mobile payment. Does it mean the end of credit card? What will be the next level of contactless banking process?

THE CURRENT CRISIS IS AN OPPORTUNITY FOR THE FINANCIAL INDUSTRY TO UPDATE THE COLLATERAL FRAMEWORK.

If we are not yet able to anticipate the impact of these changes in our future day to day life, what we can already predict is that banks will have to take the measure of these new habits and redesign their client processes without contact. Furthermore, they should also take advantage of this accelerator factor, to leverage new technologies (big data, machine learning, etc.) and integrate them into the design of their future processes and increase both efficiency and client satisfaction.

The current unprecedented crisis can therefore be seen as a vector for rapid transformation and innovation, and it is a unique opportunity for financial institutions to reinvent themselves.

Jean-Pierre Legrand,
Senior Manager, BearingPoint Consulting Luxembourg

Karine Doudoux,
Business Development Lead, Bearingoint RegTech Solutions, Luxembourg & France

Chris Anthony Lafages,
Manager, BearingPoint Consulting Luxembourg

DANIELA HOCKELMANN (EY):

WHY EVERY TREASURER **SHOULD BE THINKING ABOUT TAX** WHEN DEALING WITH THE COVID-19 DISRUPTION

Covid-19 has hit the world as a black swan event – it deviates beyond what is normally expected and is extremely difficult to predict. It is impacting businesses and governments with unexpected disruption, global uncertainty and unprecedented risks. CFOs and treasurers are having to address a number of challenges to manage short-term risks, sustain business and prepare for what is to come. The examples below illustrate how critical it is not to forget the potential tax consequences of various treasury activities such as mobilizing cash or adjusting the terms of existing debt.

IMPORTANT TAX ASPECTS TO CONSIDER…

…WHEN MANAGING FLUCTUATING SHORT-TERM LIQUIDITY NEEDS

Given that, in these uncertain times, cash is more important than ever, any tax leakage incurred when circulating or repatriating cash is undesirable. Mobilizing cash may be executed as a plain vanilla loan, distribution or contribution of cash etc. Repatriation of cash may be achieved via dividends, capital redemptions, debt-related payments, intercompany asset transfers or intercompany upstream lending. Liquidity needs may also be managed by consolidating funds centrally and redistributing them through cash pooling or other alternative financing arrangements. Each of these various cash-mobilization possibilities entails different tax consequences. The easiest way to circulate cash may not be the best one and may trigger unfavorable tax consequences, for example, from a withholding tax or debt-to-equity ratio perspective. Similarly, due to supply chain reorganizations, financing may be required in entities within the group that have previously not required funding. When setting up such new funding, tax aspects such as tax treaty analysis and potential withholding tax clearances need to be considered.

…WHEN MAKING CHANGES TO EXISTING DEBT

Internal or external loans may need to be refinanced or, considering lower interest rates for certain borrowers, be reduced. Also, intercompany settlements may need to be postponed. Any such changes to existing debt instruments (change of interest rates, extension of maturity, delayed repayment schedules etc.) may entail undesired tax implications, such as the loss of grandfathering benefits in connection with interest limitation rules.
The tax implications of transactions such as intercompany debt waivers, capitalizations or transfers need to be considered carefully. For instance, where the value of a loan has increased because its interest rate is above the current market rate, its transfer could result in a taxable gain. Similarly, the tax implications associated with potential loan forgiveness need to be assessed carefully.
The increased level of volatility of different currencies may reinforce the need to hedge the resulting foreign exchange exposure, and this should be carried out in a tax-efficient way.

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THE EASIEST WAY TO CIRCULATE CASH MAY NOT BE THE BEST ONE AND MAY TRIGGER UNFAVORABLE TAX CONSEQUENCES.

Daniela Hockelmann, Associate Partner, International Tax and Transaction Services, EY Luxembourg

TRANSFER PRICING NEEDS TO BE HIGH ON THE RADAR

What was considered as arm's length in a normal business environment may be different in the current climate that is heavily impacted by Covid-19. Below are a few examples of important transfer-pricing aspects that need to be considered:

- Existing benchmarking studies and transfer pricing policies may have to be reviewed given increased interest rates for certain borrowings in the current climate of cash shortage.
- In view of Government-backed facilities, the extent to which such facilities need to be considered as comparables for new intra-group financing should be assessed.
- Reduced performance leading to changes in credit rating may impact the volume and pricing for financing. In this connection, specifically relevant for intra-group financing is that changes in the borrower's credit rating may also affect the required equity at the level of the lender.
- For companies affected by the Covid-19 situation, parental guarantees may be requested to secure external funding; such guarantees need to be accurately priced and documented.

OTHER IMPORTANT TAX CONSIDERATIONS THAT MIGHT HELP TO REMOVE FINANCING INEFFICIENCIES

When considering how intra-group financing can be provided to entities in need of funding, and in order to mitigate cash tax implications as much as possible, an analysis is recommended of the extent to which existing tax losses can be accessed throughout the group. Factoring may also be a consideration in that context.
In view of the widely introduced interest limitation rules which restrict tax-deductible interest expenses to a certain percentage of tax EBITDA, existing debt financing should be revisited, in light of a possible reduction in EBITDA, to maintain the tax efficiency of debt funding.

SUMMARY

Tax and transfer-pricing considerations can significantly impact the actions to be taken by treasurers in this new Covid-19 environment and should be carefully considered before being taken.

Daniela Hockelmann,
Associate Partner,
International Tax and
Transaction Services,
EY Luxembourg

TRENDS - COVID-19

DISARRAY OF PENSIONS AND INCREASING INDEBTEDNESS LEVELS **AFTER A FINANCIAL CRISIS**

In a major financial crisis, a question always arises: what about pensions (for Defined Contribution Scheme beneficiaries)? They can only cry all the tears of their bodies. That's where the problem lies.

Years of trying to avoid pensions in the form of a "Defined Benefit" to limit risks of corporations (unlimited risk, in case of State incapacity to pay for pensions). But it appeared that the beneficiaries (i.e. employees) on whose back the risk rests, if he had the misfortune to get out of the plan during a financial crisis (i.e. if he/she retires), was well diminished. Going to pension now, after the beginning of the financial crisis is horrible. With a DC-type plan, the timing of exit is crucial for the beneficiary. So, we can only wish courage to those who must go out now and in the coming months, they will lose a lot of money. Isn't that why we invented what is dear to the Dutch, Canadians, English, etc. the famous "CDC" or "Collective Defined Contribution" schemes which by their nature, their diversity and the spread of payments in addition to their "adaptive" side, make them solid weapons in the face crises. The CDC are more resilient and resistant tools. However, not all countries have adopted it and not every company can claim having the minimum size required for this type of plan.

It is therefore clear that in terms of supplementary pension, action was needed and is still needed to be taken to protect the company (to fully get rid of the "DB schemes") and to protect the employee ("CDC"). It is this kind of crisis that is moving things, unfortunately (too) slowly.

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THE DEBT IS INCREASING WITHOUT DOING ANYTHING, SIMPLY BY THE EFFECT OF STOCK-EXCHANGE VALUATIONS. THERE IS RATING DOWNGRADING IN THE AIR.
François Masquelier, CEO, *Simply*TREASURY

On the other hand, we must be concerned about all companies that have opted for "DB" plans by legal obligation or contractual choice. These are at (high) risk. These companies are going to have latent deficits from their abyssal plans. When we know that this economic debt (related to pension deficits), debt used by rating agencies, will be burdened with latent deficits on pension obligations, there are questions.

The current stock market crash would have widened the deficit in pension plans. Morgan Stanley was talking about the $619 billion deficit on the New York publicly listed companies as of March 16th. Even more (I guess) at the time of reading this article. They would be covered at 74%, the lowest level in 11 years. Imagine the British, German and European companies whose debt has just made a dramatic leap mechanically. The debt is increasing without doing anything, simply by the effect of stock-exchange valuations. There is rating downgrading in the air. In Europe, Alpha Value was talking about EUR 700 billion of deficit after the crisis.... There's something to be afraid of. There are giants with feet of clay that will wobble. All this even before the discount rates (used for exit in capital) are logically reduced, which will mechanically lead to higher liabilities. The lower the discount rate used, the higher the principal to be paid by the company for DB (or assimilated) schemes. Did you say "difficult situation"? Specifically, I will say "extremely delicate". This is what I call "virtual additional" debt because it does not appear in debt under the IFRS standards definition, but it exists and must be added to the other external debt. The spiral is hellish because society faces difficulties, borrows more, loses "notches" and is also penalized by the pension effect in return, like a boomerang that digs the debt even more and negatively impacts the credit rating. The lower rating leads to the risk of switching to "sub-investment grade" and increases the cost of debt. It's going to hurt a lot I'm afraid...

AS THE WELL-KNOWN LATIN SAYING RIGHTLY PUTS IT: "BIS REPETITA NON PLACENT".
François Masquelier, CEO, *Simply*TREASURY

François Masquelier,
CEO, *Simply*TREASURY

HOW TO COPE WITH TREASURY TRANSFORMATION

Whenever we mention change or transformation is coming, it naturally creates some unease and it is tempting to wonder "is my job at risk?" Headlines are not helping to offset this sentiment as they usually suggest that a certain amount of jobs will be taken over by machines within a hand full of years. So, what? The world changes, people change, and so do roles & organization: they (must) change, they (must) adapt.

It is time to transform! We cannot solve our problems with the same workflows we used when we created them: every company should right now undergo a treasury transformation assessment to optimize their treasury organization. I've read many articles about the multiple ways to manage it, while in reality I think there are only two: either you resist or embrace it. That being said, the only way to prepare for the future is not to resist it, but to work with it. Even better: owning treasury transformation puts you in the driver's seat. Don't allow yourself to slowly but surely let this opportunity slip by.

Often when we talk about transformation, it usually resonates as we're only talking about technology. Remember that technology is the enabler, but it will not do the entire transformation journey. Yes, automation is designed to improve processes and KPIs, allowing finance professionals to focus on exceptions and higher value functions, making every aspect of our job more efficient and less painful. It also allows us to take the next step forward in adding value to our business and in our career. Technology will enable us to be strategic & data-driven powerhouse organizations. But you also need different organizations, different workflows. In fact, this piece is much more difficult and takes a while to put in place vs implementing a new technology software. Therefore, treasury transformation is not only about automation & digitization: it's also about centralization & operations excellence.

It is urgent for treasurers to elevate their thinking from tactical to strategic right now. The reasons driving this sense of urgency are multiple: constantly changing market conditions & evolving regulations, increasing pressure on performance & working capital optimization, needs for closer coordination & interaction with the businesses, needs for streamlining tools & processes across organizations, reassessing banking relationships (our suppliers) more often, increasing synergies, improving cash planning, centralizing FX & liquidity management, ... amongst others.

Don't give me wrong: although this journey sounds exciting, every transformation brings its set of underlying risks. Failure is almost inevitable, and organizations must make sure their teams are well equipped in terms of values & mentality to learn from those failures and move forward. The message must be clear from the very beginning that not all problems will be solved and that there will be gaps & adjustments to be made along the way, with absolute certainty. People management is also a big deal in transformation programs, given that roles will change and not necessarily remain a best fit to everyone anymore. It also creates uncertainty. People can feel that this is not what their career plan was initially. Even if it is usual not to be where we were expecting to be 10 years from now, you still need to be opened to that & prepare yourself and also prepare others. The best way will be to initiate your transformation journey with all stakeholders, including all employees who will be affected by it. Don't throw it to their face once finished. Early engagement is key & source of success. Everyone will want to know what it means for them, specifically regarding their career opportunities & progression. The risk here is significant: loosing talents & knowledge, specially at a time you need them most. In order to mitigate this risk, managers have a duty to clarify, support, & listen to their teams (in transition periods more than usual).

Benjamin Defays,
Treasury Manager
Koch Engineered Solutions

THE "LIVE" STRESS TEST OF **THE ENTIRE FINANCIAL SYSTEM**

LIVE IS ALWAYS BETTER THAN ANY TEST

Are we not experiencing a "live "stress test, never imagined or conceived by a human brain, of a major crisis? At inception, it was certainly a health or biological crisis, which also quickly generated financial consequences. Will it pass this full-scale test? That is the question. I think it can be presupposed. After the 2008 Global Finance Crisis, everyone thought they saw the worst. But as it is unfortunately never certain, the "worse" has found stronger than it… the "worst". Isn't the current global crisis and stock market crash which likely bring to light the remaining weaknesses of our capitalist system? Perhaps… panic and anxiety being bad counselors, one can fear the domino effects, never highly recommended. To be on the market right now you need a well-hung heart like when you enter the Space Mountains at Disneyland (when it's open). We've entered areas of acute and violent turbulences. It will hurt no doubt. We will recover, of course, but not without collateral damages in passing.

MEDICINE TERMINOLOGY USED BY FINANCE TOO

Contamination and contagion are also terms borrowed by finance from medicine. Like a virus, a crisis does not respond to antibiotics. We must find the vaccine and I'm afraid it's a little late. We are in the middle of the ford and will have to reach the opposite bank early on. There are worrying factors: uncertainty, especially over the duration, the indebtedness of the States and of the companies, already enormous, is increasing. Eventually, the indebtedness of households also increased over last years, especially in the USA, where individuals are heavily impacted. Did the American not live one of the most successful economic development periods in history? On a clear day, we always forget what a storm is.

STORM WARNING ON THE "HIGH YIELD"

The "high yield" will give investors cold sweats. Low rates were a sham. Businesses borrowed at full throttle because rates were low, and spreads were favorable. From now on, spreads will increase, and economic difficulties will disrupt debt service. Companies, as in 2008-09, which will have to refinance themselves shortly, will pay dearly for the bill. They will be vulnerable and fragile. Investors will flee bonds with negative or low yields, and the credit crunch will not be impossible for the weaker ones. The risk of default will resurface and despite the courageous and proactive statements of a President Macron, it will continue … Shale oil is going to leave dead people on the way to the US. Oil producers (we're not going to complain) will be going to taste. The oil producing countries will row to cope with the inevitable fall in the price of a barrel.

THE "PERFECT STORM"

Isn't this the storm of the century? What Americans call the "perfect storm"? The race for bridge lines of credit, welding credit, crisis credit, etc. is launched. The risk of a liquidity crisis is very real. We know the Central Banks and the States will be there. But we also know that central bankers have exhausted their ammunition. Strategies to support economies are a little out of breath. To say that the "game is over" is perhaps going too fast in the work. Central banks are kind of "paper tigers". It is to be hoped, however, that they will help restore confidence, because that is the main problem to be faced, in order to put an end to the possible chaos. The States will take on even more debt, the central banks will buy back the new debts of these States. But isn't it just "monetary financing," which when rates at zero stop, will be a problem? All currencies are moving towards zero rates (e.g. USD, GBP,…). Fortunately, commercial banks are stronger than in 2008 and the risk of bankruptcy/default is lower. The key issue remains liquidity because any paper will have to find a buyer, at the risk of tipping everything. Scalded individuals place their savings and the proceeds from the sale of their securities in "cash", further increasing the problem of banks paying the individual better than that they receive from the central bank. We should not exaggerate because the problem is already enormous for many of them. Will investors buy the paper that corporates and the "real economy" will have to issue to get back on track? Again, a crucial issue to be resolved.

> **CENTRAL BANKS ARE KIND OF " PAPER TIGERS". IT IS TO BE HOPED, HOWEVER, THAT THEY WILL HELP RESTORE CONFIDENCE.**
> François Masquelier, CEO, *Simply*TREASURY

POTENTIAL LIQUIDITY CRISIS?

Some multinationals have been pulled "to the full" on their credit lines as a precaution. Think of AB-INBEV, which has drawn its 9 billion lines. Before them, Boeing, Hilton Worldwide, BA and IAG had done so. Cash will help these companies under pressure or heavily indebted to maintain some financial flexibility. Restaurants, bars and closed hotels do not encourage the sale of beer? Since the beginning of the year, AB-INBEV shares have lost 50% of their value. There it is the shareholder who must be flexible … or at least patient! They have 3 billion bonds maturing in 2020. It's time to protect yourself… Everyone is scrambling a little bit, becoming defensive and trying to shore up their balance sheets any which way they can.
This additional debt capacity is the key to whether maintain its credit rating. You will have to agree to pay "utilization fees" (while saving on "non-utilization fees"). A secure and confirmed line of credit always has a price (i.e. 35% of the spread applied). In the case of AB-INBEV, the world's largest brewer, total debt amounts to USD 95.5 billion (before the Corona virus crisis). The debt was oversized to allow the purchase of SAB-Miller, despite a reduction of almost 8.5 billion initiated before the crisis. This example is interesting because it illustrates the risk of the most exposed multinational companies (because of their operating activities e.g. travel, movie theaters, airlines, …) and the highly indebted groups (because of their capital structure and maturing borrowings) that could frighten the whole financial world.

THE FULL EQUITY APPROACH COULD BE PAINFUL FOR SMALL INVESTORS IN THE US

The investor, particularly in the United States, has never held as many listed shares (i.e. equities) as it does today. It may be tempted to sell even at a loss, keep proceed in cash, or to pay off its debts, otherwise when the crisis will have hit it. What about high-frequency trading and short selling, which we are trying to limit, which could also play a role in reinforcing panic. Very high-frequency trading (HTF), algorithm specialists, flash traders, quantitative funds and other specific players could also strengthen the bearish movement. Our markets and their players should be reasonable, consistent and disciplined. We will have to be patient and not panic because if machines started selling to machines, mechanically, the world economic order would be disrupted.
Lockdown is not for markets and everything must be done to stabilize them.

WORLD ECONOMY, ONCE TREATED, WILL BE RECOVERING FROM COVID-19

The global economy is also on extended sick leave. The central banks' actions have failed in their attempt to contain the contagion on financial markets, despite aggressive measures to provide enough liquidities. The central bankers around the world haven't succeeded in stopping the hemorrhage. No one has envisaged the supply shortage and now the demand radical decrease. The shutdowns and quarantines have heavy effects we have not considered.

> **MONETARY POLICIES CANNOT DO EVERYTHING. WE NEED A STRONG FISCAL STIMULUS TO RECOVER FROM THE PANDEMIC AND HEALTHCARE SUPPORT TO POOREST, CASH HANDOUTS, GUARANTEES FROM STATES TO BANKS ETC.**
> François Masquelier, CEO, *Simply*TREASURY

The manufactured goods can be stored. Nevertheless, services cannot. SME's are suffering the most. The ability to play on interest rates to help has shown its limits. We are now negative. What more could C. Lagarde do? The supply of liquidities is only beneficial to those who have access to them. Banks will not lend to SME's and riskiest sectors. Did central bankers burn all the wood reserve for winter, is a key question to address. Monetary policies cannot do everything. We need a strong fiscal stimulus to recover from the pandemic and healthcare support to poorest, cash handouts, guarantees from States to banks, etc… Let's be inventive and creative to avoid being too dependent on central banks as we often do.

NOT TO SUCCUMB TO PANIC

It is all our role not to give in to panic. We must avoid becoming "liquid" again and sell everything, we must avoid the massive withdrawals of cash as some individuals are doing, and search for our lost wits. It won't be easy. This new life-size stress test will allow us to further repel our resilience and ability to withstand (which I have no doubt). Nothing will ever replace in terms of sensitivity testing, the actual tests "live" as imposed on us this perfect example (if not beautiful) of the "green swan" (which if you remember I had told you more than, a month ago). Oscar Wilde said humorously: "It is better to know the worst, whatever it is, than to remain in a terrible uncertainty." Did he really mean what he said?

François Masquelier,
Chairman of ATEL

TESLA
A ZOMBIE COMPANY OR A PEARL?

- **Is TESLA a "zombie company"?** They have a huge indebtedness and are not (yet) profitable... Everything in the valuation is based on potential future developments or growth and also on the expected boom of electric vehicles.
- These types of companies, according to financial analysts have less than 10 years age.
- They are unable to serve the cost of debt with their profits on a long period of time and with a low stock exchange level (which is not the case with TESLA at least before last tweets of his former CEO and founder)
- As Warren Buffet used to say: **Only when the tide goes out do you discover who's been swimming naked.**

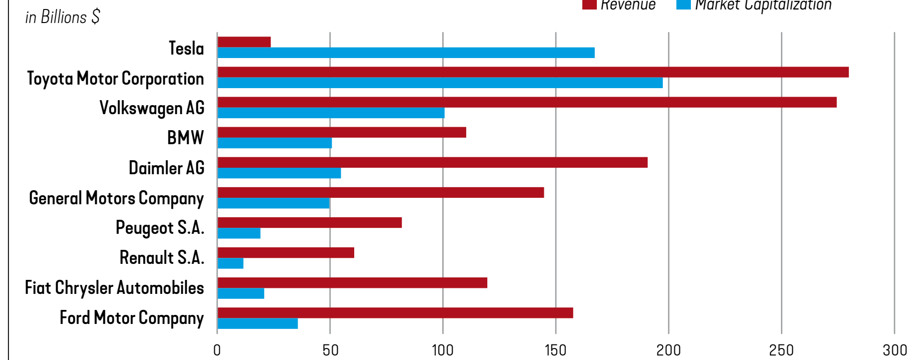
© DR

TSLA SHAREPRICE EVOLUTION – ROLLER-COASTER

SIMILAR TO APPLE AND STEVE JOB

- Steve Job was fired from APPLE in 1985 when he was only 30 years old
- Is something similar happening to Elon Musk?
- He was already fired from PayPal years ago...two years before being acquired by eBAY
- Tweet: « Am considering taking Tesla private at $420, funding secured »
- TESLA cars sold per year = 1-2% of number sold by GM or Ford... but TESLA market cap at 168 bln $ is much higher than the two others....
- Stock Exchanges are maybe the temples of regrets ... but also temples of hopes that one day some listed companies could become stars and heavy weight players

REVENUE VS MARKET CAPITALIZATION



Company	EV/Ebitda	EV/Revenue
Ford Motor Company	14,6x	1,1x
Fiat Chrysler Automobiles	1,9x	0,2x
Renault S.A.	8,2x	0,9x
Peugeot S.A.	1,7x	0,2x
Daimler AG	16,2x	1,1x
BMW	12,7x	1,5x
General Motors Company	9,2x	0,9x
Volkswagen AG	8,3x	1,0x
Toyota Motor Corporation	7,8x	1,2x
Tesla, Inc.	50,2x	7x
Median	**8,8x**	**1,1x**

In the middle of a turmoil market, with limited sales (only 400 000 cars sold last year) and almost nor profit, Tesla has reached a record market capitalization of $ 168 billion on February 19th 2020.

In the wave of new tech, Tesla is still considered and valued by the market as a disruptive start-up and not an automobile manufacturers.

TESLA VERSUS COMPETITION

Company	Sales in '000
Ford Motor Company	5 329
Fiat Chrysler Automobiles	4 700
Renault S.A.	2 288
Peugeot S.A.	1 534
Daimler AG	2 552
BMW	2 077
General Motors Company	3 882
Volkswagen AG	6 746
Toyota Motor Corporation	8 091
Tesla, Inc.	**368**

TESLA SALES VS MAIN PLAYERS

Tesla vs Toyota	4,5%
Tesla vs Ford	6,9%
Tesla vs Volkswagen	5,4%

Tesla a step ahead compared to other alternative car markers. Undisputed technological leader in electric vehicles, Tesla symbolizes the industry of tomorrow in a century-old sector.

READ THE FULL ANALYSIS AT
www.atel.lu

RATING
B-B3

"Per aspera ad astra."

"Through hardships to the Stars."

A NEW CHAIRWOMAN – ELON MUSK' BABY SITTER?

- Robyn Denholm has been appointed as Chairwoman of the Board of TESLA
- From Sydney to the Silicon Valley...

Mikael Pereira,
Portfolio Manager
La Maison

François Masquelier,
Chairman of ATEL

TRAINING

TREASURY
TRAINING COURSE
BY ATEL AND THE HOUSE OF TRAINING

In this article, Benjamin Defays and François Masquelier explain the new treasury training course launched by ATEL, in association with the House of Training.

Can you give a brief description of the course?
The treasurer is the custodian of the company's everyday liquidity. He or she manages, anticipates and secures cash flow, ensuring that the company's financial needs are met. This 127-hour course will provide direct and practical assistance for treasurers of large companies or for people taking over the treasury responsibilities in a SME. The different modules will help to develop an in-depth knowledge of the various areas of the treasury profession.

There will be an optional course, An Introduction to Treasury Management, for those who want to get up to speed as they embark on this extensive & intensive course. It covers the corporate treasurer's main responsibilities: cash management (bank account opening, closing, KYC, cash pooling, payments and bank connectivity), liquidity management (the importance of working capital management), risk management (foreign exchange, fraud, credit risk) as well as trade finance (general context, introduction to bank guarantees and letters of credit).

This will be followed by focusing on financial maths (the value of money in terms of time, vocabulary, compounding intervals, discount and annuity factors), advanced Excel and corporate finance (valuations, M&As, portfolios, corporate financing and investments).

We'll then go deeper into the core treasury function: cash management. This represents a major part of the course and focuses on payments, liquidity management, cash flow forecasting, in-house banking and banking relationships.

Risk management will also be covered in a dedicated module, focusing on FX, interest, counterparties and reputation risks.

As we all know, the treasurer's traditional scope has expanded significantly; we are well aware of this and we have adapted the course to the key activities of the modern treasury department. Consequently, the course will also include specific modules covering trade finance (bank guarantees, surety, letters of credit, cash against documents); credit control (concepts and practices/types of credit risks, understanding financial statements and ratios, credit scoring/ratings – S&P, Bloomberg models – collecting overdue receivables, setting priorities,
strategies dealing with overdue invoices and debt collection services development); pensions/insurance (general introduction to pensions and insurance, types of insurance, risk management via insurance and savings via insurance), compliance (KYC, GDPR, EMIR, Basel III, international sanctions and their impact on transactions and overall business activities, anti-corruption (FCPA, UK Bribery Act), EU competition law compliance, Incoterms, main considerations when drafting a contract), treasury accounting (hedge accounting, required documentation and formalisation of hedge accounting relationships, different hedge types (fair value, cash flow, net investment), booking adjustments of different hedge types, typical examples of different hedge types), technologies (blockchain, crypto-currencies, smart contracts, treasury console (Bloomberg, Thomson Reuters), TMS, FinTechs) and, last but not least, cybercrime (identifying the consequences of a cyberattack, main fraud schemes and how to protect against fraud).

There will be continuous monitoring with intermediary exams and a final exam in the form of a case study; successful candidates will receive certification from ATEL.

As you can see, the course has plenty to offer!

What encouraged you to create this course?
We wanted to fill a real gap in the market when it comes to the existing treasury education courses available in Luxembourg: there are relatively few and they are often expensive. A lot of young treasury professionals looking for a training course and even companies looking to invest in their treasury teams find it difficult to access quality courses. Often, they either choose expensive online training courses or travel to different locations in Europe.

How does this course address training needs in Luxembourg and how does it help the job market? What needs are not currently being met? What needs does it meet?
This course responds to a long-standing need in Luxembourg and addresses a key concern in terms of the sustainability of the treasurer's role.

How will participants benefit from taking this course, rather than another one?
There will be an invaluable benefit for all participants: being part of an extensive treasury training course given by a mixture of academics and experienced treasury professionals. The course will provide participants with significant added value which will ensure that they are seen as strategic individuals and team members within their companies. Participants will rapidly have the opportunity to put the majority of the course materials into practice when at work.

The programme aims to provide participants with the knowledge and understanding to help the treasurer of large companies or to take over treasury responsibilities in a SME.
The different modules will provide an in-depth knowledge of the various areas of the treasury profession. Participants will receive a certificate of attendance, provided by the House of Training, and a certificate on passing the exam, provided by ATEL. An 80% attendance rate and an average examination score of 60% are required to receive this documentation. Participants will also receive free one-year membership to ATEL (www.atel.lu), with all the benefits it entails.

Who is the target audience?
Anyone who wants to acquire an in-depth knowledge of corporate treasury and who wants to put this knowledge into practice.
In terms of requirements, a basic background in finance

THERE WILL BE AN INVALUABLE BENEFIT FOR ALL PARTICIPANTS: BEING PART OF AN EXTENSIVE TREASURY TRAINING COURSE GIVEN BY A MIXTURE OF ACADEMICS AND EXPERIENCED TREASURY PROFESSIONALS.

or accounting is enough.
The Introduction to Treasury Management course will help anyone who wants to get up to speed before the start of the course.

Where and how often will the course be held?
Each module will last for a day and is held in English. Training days will be held over a period of 6 months from September 2020 to March 2021, with 2-3 days per month. The course will be held at the House of Training in Luxembourg.

What will happen if physical classes can't be held or if participants are reluctant to attend? Is there another option?
Yes, of course. The House of Training has offered remote courses previously and this course will be no exception, although we do prefer physical classes.

How much will the course cost and how can participants register?
The total cost is €2,600 (+3% VAT). It's easy to register online, either on ATEL's website or on the House of Training's website. Please contact me on LinkedIn if you have any issues or questions.

François Masquelier,
Chairman of ATEL

Benjamin Defays,
Treasury Manager,
Koch Engineered Solutions

ARTICLE 360

By François Masquelier,
CEO, *Simply*TREASURY

THE ECB IS CROSSING THE RUBICON – "ALEA JACTA EST"

Will the ECB be able to maintain its financial orthodoxy for a long time to come? That is a legitimate question. Central banks seem to want to go ever further in creativity to support wobbly economies. The technique is simple: it is called "asset buyback (asset purchase)." But what assets will you tell me? That's where creativity comes in. There is no longer boundaries. Jerome Powell, the boss of the Fed, as well as Christine Lagarde, the president of the ECB, through their institutions are launching billions plans every day. For example, the Fed will buy back corporate bonds deemed risky and securities that have recently been rated "BBB-" but have fallen into the "rotten bond" category (i.e. "junk bond"). To argue that good companies were nonsense because those in need of help are in principle the weakest, right? Jerome Powell is Mr. "We are doing all we can" and Christine Lagarde Madame "whatever it takes" (which she took over from "Super Mario" Draghi). The ECB, for example, buys commercial paper issued by companies, to also sustain MMF's. Monetary taboos and sacrosanct economic principles are flying apart. The danger comes from the States which will be over-indebted for the next ten years. Financial orthodoxy is not just exploding at the ECB, but at every national level too. The next step will probably be the repurchase of shares (i.e. listed equities), as does the Bank of Japan or the Swiss bank to diversify their reserves. The FED and BCE never crossed the Rubicon. She won't be able to turn back the clock. Studies would tend to show that share purchases via ETF's have a positive effect on the economy and of course the price of shares. Oli Rehn, former European Commissioner during former GFC and president of the Bank of Finland, supports this idea. They would contribute to the wealth of individuals and families holding shares and thus support the economy through consumption. That would be the so-called "wealth effect." Be careful, however, not to exaggerate because the excess harms everything. To return to Japan, the Japanese central bank is the largest holder of shares in its country. It is not very healthy and sustainable in the long run. Speculative bubbles should not be created, as with bond purchase. So, let us accept that the next step is written, and that Christine Lagarde will sooner or later cross the Rubicon. So soon the dice will be thrown away. Survival is priceless.

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"THE SONG REMAINS THE SAME" (LED ZEPPLIN)

The current situation of US mortgage groups which are at risk of bailout (once again) reminds me this song from Led Zep. Fannie Mae & Freddie Mac face struggle if lockdown is extended… and it will be.
"Fannie & Freddie", could be the title of a Summer love song… However, it is not a nice song. It looks like a drama. These two companies guarantee nearly half of US total mortgages. It looks like a new huge bailout could be required. If they start to go more than two months, then there will be real stress on this market. People talked about a situation like during the great recession. In the US with increasing unemployment, lots of people won't be soon able to repay their mortgage. It looks like 300k borrowers already asked for forbearance on loans backed by Freddie or Fannie. We read that Freddie & Fannie are still placed in a" conservatorship" since the last GFC and levered at 240 to 1. I am afraid the Congress will have to rescue these two agencies soon in case the containment lasts more than initially expected. It is always the same chorus… coming back again and again. It illustrates the fragility of financial systems, including those of what is supposed to be the first financial power of this world.

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WHAT WILL BE THE SHAPE OF THE RECOVERY IN THE MARKETS WHEN IT COMES?

An interesting question is what shape the market recovery curve will take when it recovers (because there will be recovery sooner or later). We talk in form economics in "V", "U", "W", "L" or even now in "I". Knowing what form the recovery will take is a complex question for any economist. The Chinese economy will give us the "LA" and we will see what happens at home, as a sign of what we might see in Europe. It's all about time. Between the ideal, the "V" shape, the most likely, the "U" shape, the most classic the "L" or "hockey stick" form, the most pessimistic, the "I" shape or the double bounce the "W" shape, it is difficult to make your choice. Hopefully we won't have a phase of stagnation (L-shape) but rather the shape of the "NIKE" logo in a slow-moving hockey stick. The "W" shape will depend on whether the virus is controlled. If it came back in the fall, the "W" would prevail. Stock markets may not be going to follow the economy at the same time. The worst would be the hypothesis to the Roubini, famous omen, who likes to see life in black, his favorite color apparently. I see it rather clear and colorful … I think that a recovery will take place, but that life will have changed in the meantime and that the speed of recovery will be affected. Nothing will ever be the way it was. We're going to put some things in perspective at the expense of consumption. We will go back to certain basic values, to the detriment of the total capitalist economy. We're going to challenge some of the business models and rethink the way we behave. It is a financial crisis that follows a health crisis, but it could have a beneficial impact on the whole world. Comparing the COVID-19 crisis to 1929 seems silly, the context is different. Comparing to 2008 makes sense but again the impact will be much more violent and profound. With stimulus and coordinated actions, the States will try to boost the economy to the EPO. A violent sting, a horse serum, an armada of targeted actions, numerous plans and share buybacks to support finance. Ask for the program! Here it is, a lot of concrete measures that we hope will work. The bounce that will come in its form, speed and amplitude cannot really be drawn. Let's hope it powerful, as fast as possible and return to basics forgetting the effects of panic, fear, over-prudence and lack of ambition. Before the COVID-19 the situation without being shimmering was finally not so bad. We come to regret it and hope to return to "before". Wasn't it better "before" people used to say? It's a must-see. I think the best is still ahead.

HOW TO INCREASE YOUR CREDIT LINE IN A FEW WEEKS…

Nothing magical, all you need is a bit of logic!

The tool has been on the market for a long time, but is not always convincing. Indeed, factoring sometimes seems too expensive, or even too restrictive administratively, or unattractive in terms of image, as it is still often perceived as a kind of spare wheel for financing. On closer inspection, however, it is more interesting than it seems:

- First of all, in terms of financing costs, by adding factoring and interest charges, it is not necessarily more expensive than a normal line of credit and moreover it should not be since it does not require setting aside as much reserve capital for the factor.
- Therefore, there is no need to worry about using the lines of credit to avoid being subject to penalties for not using them ("commitment fees").
- Finally, with a little organization and good IT tools, setting up the process of assigning receivables and monitoring financing is not that complicated.
- Moreover, nothing prevents you from negotiating better prices by paying your suppliers earlier or even entrusting credit risk management to the factor.

Basically, the most laborious was to reassure the legal aspects of the few customers who had inserted a clause of non-transfer of payment rights in their purchase contract and to communicate to everyone the change of bank account.

For SMEs that find it difficult to pay their suppliers on time due to a lack of liquidity, this is in any case a solution that should not be overlooked.

K. Zago

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www.atel.lu

EVENT COVERAGE

ATEL WINTER CONFERENCE

TREASURY DYNAMICS

Atel's Winter Conference took place on the 12th of december at Arendt House. This was a great occasion to take stock of trends and solutions in the treasury world.

TREASURY TRENDS ARE NOT JUST TECHNOLOGICAL

Cyrille Oudard and Jérôme Brun with kyriba described the journey from treasury functions being primarily reactive, to where it is creating value through enterprise, insight and intelligence. While they say technology optimizes treasury functions, the strategies and processes overlaying the technology heighten the fuller integration of treasury functions including payments, working capital, and risk management workflows. Stew Cofer, Head of EMEA Local Payments Products and Priyanka Rath, EMEA Liquidity Solutions Lead at J.P. Morgan said treasurers need to manage uncertainty in the macro environment, capture value from the hype surrounding technology. By embracing the changing payments landscape they will facilitate cost reduction, yield enhancement, automation and better risk management.

> **FAIL FAST, LEARN FAST' IS AT THE HEART OF THE AGILE METHOD.**
> Philippe Förster, director, PwC

LIBOR & KYC

Philippe Förster of PwC told the conference, "IBOR is the most important number in the world." That will change by the end of 2021 when it is replaced by ARR. He says the change will require the identification and renegotiation of legacy LIBOR debt contracts; evaluation of existing hedged exposures for their transition to potential ARR exposures and monitoring the timing of transitions to ARR to mitigate risks. François Masquelier Chairman of ATEL spoke about the increasing and negative effects of KYC regulation. He concluded that KYC costs are increasing for corporates because of a lack of standardization as the level of regulation increases. Paul Gerhard Haase from Cinfoni concurred adding that Cinfoni's network – a P2P solution based on distributed ledger technology - as a single point of contact with banks and corporate clients could achieve standardization and automation. Jan Becker then showcased Cinfoni's intuitive onboarding interface, which manages to reduce onboarding of corporate clients from 6 weeks to an impressive 2 days.

TECHNOLOGY AND CYBERSECURITY

Cyrille Oudard and Jerome Brun from Kyriba's questioned what treasurers can expect from new technologies. Over 60% of respondents to a survey see the potential in data analytics, RPA and AI in the next 2-3 years. However, only 1% or 2% are optimizing the treasury functions based on connected real-time data, advance predictive liquidity/ working capital management and cloud-first strategies. He highlighted the benefits of technologies in reducing risk; increasing forecast accuracy to optimize working capital and drastically reducing the effort in reconciliations. Ravi Rao, Vice President, Information Security at J.P. Morgan stressed how, in the event of cyberattacks, treasurers need to protect critical payables including payroll, supplier payments, intercompany loans and margin payments using such tools such as a "Response Playbook."

MORE INFORMATION
www.atel.lu/atelsummereventgallery

Philippe Förster, PwC

Stew Cofer & Priyanka Rath J.P. Morgan

Jerome Brun, Kyriba

Cyrille Oudard, Kyriba

Ravi Rao, J.P Morgan

Paul Gerhard Haase, Arvato

Francois Masquelier, ATEL

Jan Becker, Arvato

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