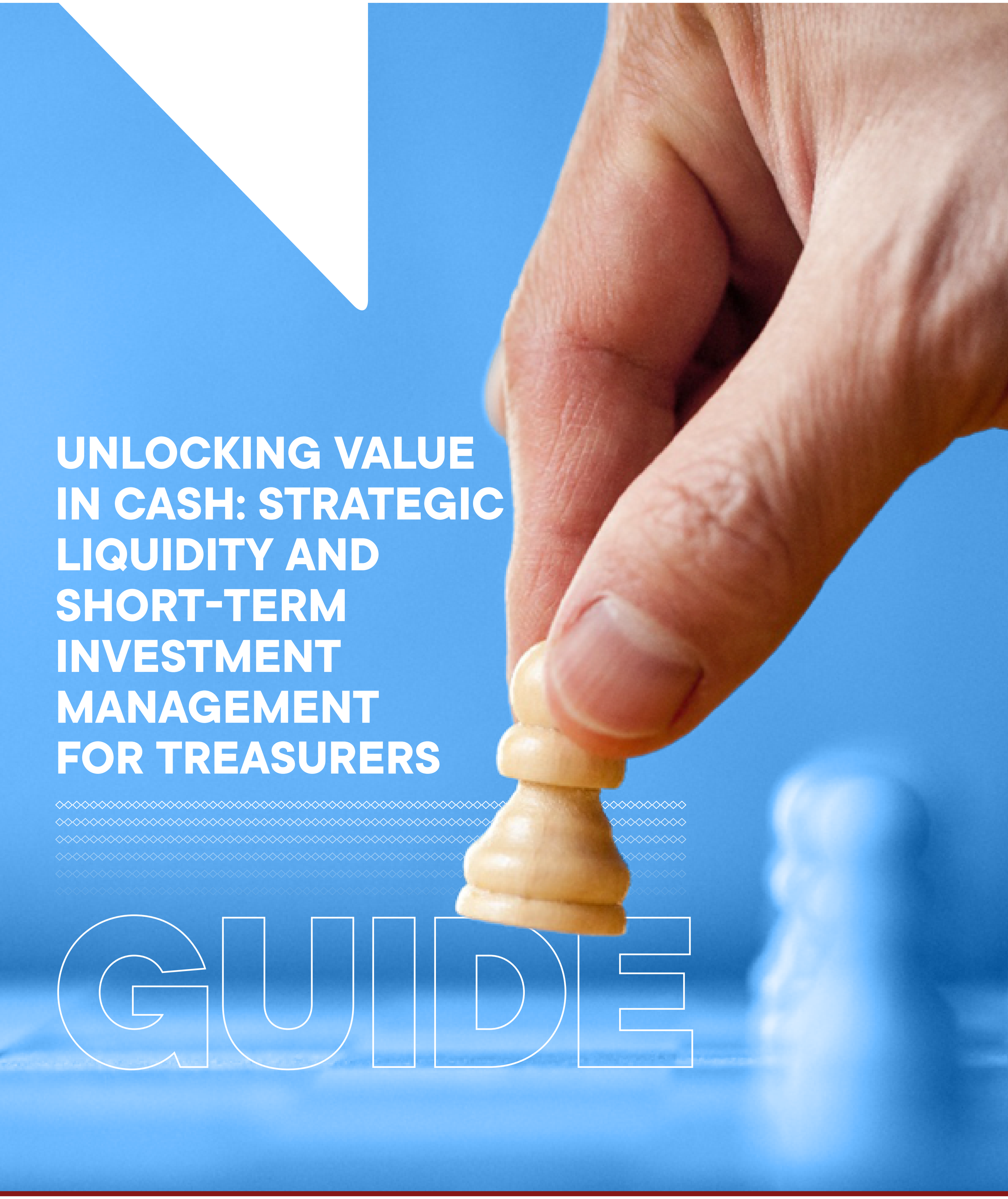
UNLOCKING VALUE IN CASH: STRATEGIC LIQUIDITY AND SHORT-TERM INVESTMENT MANAGEMENT FOR TREASURERS



GUIDE

ATEL
Luxembourg Association
of Corporate Treasurers

SPOTLIGHT

VOICE OF THE INDUSTRY

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"Interest rates have risen sharply and rapidly, the economy is more uncertain, and it's more difficult to buy assets at the right price, due to stiff competition from private equity funds. Having massively bought back their shares and paid jumbo dividends, companies prefer now to keep cash reserves for a rainy day or the next crisis (health crisis or any other one)".

Bruno Lawarée
FERRERO

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"Two major factors are behind this increased focus on counterparty risk. Firstly, the creditworthiness of banks has fallen as they are no longer seen as incapable of failure. Secondly, there is a rise in cash holdings by many of the multinational companies across the world. These groups hold back on capital expenditure in an uncertain economic environment and protect against future liquidity risk. Therefore, investing cash became a riskier activity to properly manage to maximize return, while not increasing risks".

Will Spinney
ACT

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"It seems to us that finance courses have almost forgotten about counterparty risk. Yet it is more present and real than ever. The quest for a maximum return and a certain blindness could obscure the risk of a bank default. The counterparty risk is the risk that a counterparty to a contract will not perform part of the contract, such as repaying a deposit of cash, settle an invoice or supplying goods when due. This is called 'default risk' and it unfortunately exists".

Francois Masquelier
Chair of EACT

INFO-GRAPHICS

turmoil (source: ICD survey Feb. 2023).

TREASURERS WERE CONCERNED ABOUT COUNTERPARTY RISK AHEAD OF TURMOIL

According to a new survey, some 80% of treasury teams in US and Europe were moderately or highly concerned with bank and other counterparty risk even before the recent turmoil in the banking sector.

However, more organizations are increasing or maintaining cash balances in the first six months of 2023 (74%), compared with 2022 (70%).

Some 61% of respondents say they either updated their investment policies last year or will do so in 2023.

Current or planned investments in bank time deposits from the Americas were down 31% from last year, indicating a move away from single counterparty risk, with 93% of respondents planning to increase or maintain their MMF investments in 2023, up from 81% last year.

Majority of corporate treasury teams are risk averse and invest in money market funds or tri-party repos to diversify their cash portfolios, maintain daily liquidity, and earn a competitive yield.

74% of treasurers expect to maintain or increase cash balances in the first half of 2023.

86% of UK/Europe respondents indicated they are investing in short-term low volatility net asset value (LVNAV) MMFs.

55% of treasury teams are currently engaged in or are planning a technology project.

Corporate treasurers are "crying out for help" in the short-term investment space (according to CALASTONE survey – global liquidity barometer 2022). Many treasurers need help from their fund providers to make the trading process more robust and better integrated with their treasury management systems (TMSs). According to the survey results, 77% of CFOs & treasurers would like to access and manage their MMFs and other short-term investments via their TMS, while only 13% want to use a portal.

TOP TREASURY PRIORITIES FOR CFOS

1	Funding/capital structure
2	Cash & liquidity management
3	Market conditions
4	Financial risk
5	Working capital
6	Relationship with the business
7	M&A
8	Fraud risk and cyber security
9	Technology and digital innovation
10	Banking management

Q: What treasury topics are a priority for the CFO in you organization ?

Source: PwC Global Treasury Survey June, 2023; Base of 362

TOP PRIORITIES FOR TREASURERS

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7	Technology and digital innovation
8	Bank connectivity
9	Realationship with the business
10	Fraud risk and cyber security

Q: What treasury topics are a priority for the treasurer in you organization ?

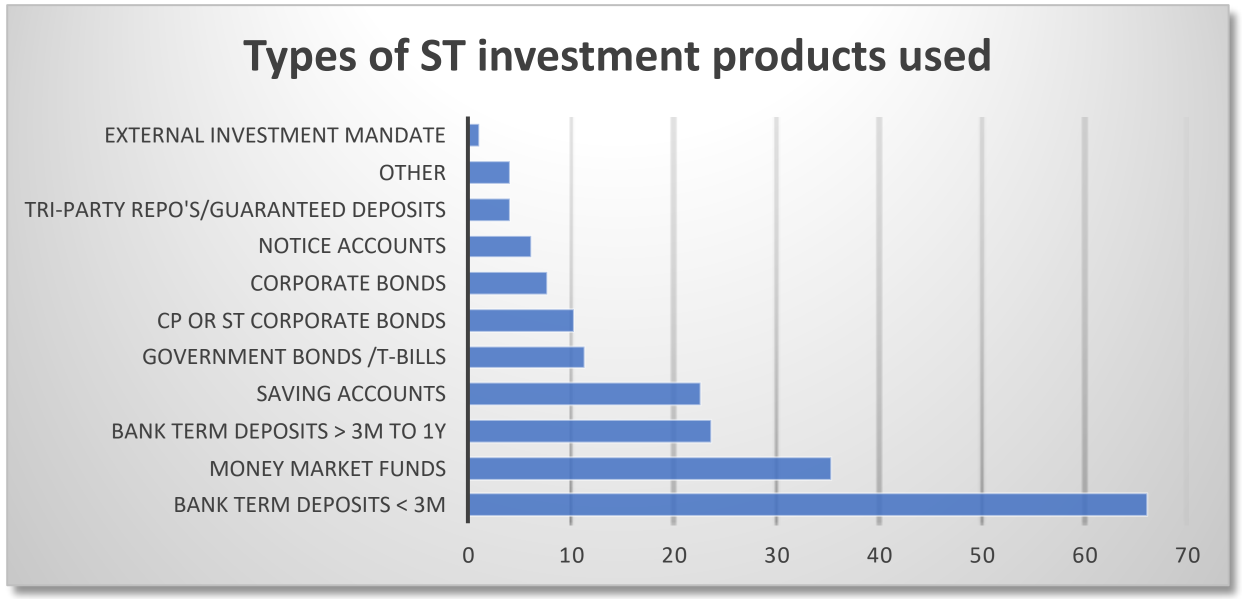
Source: PwC Global Treasury Survey June, 2023; Base of 351

(Source PwC Treasury practice)

HOW ARE TREASURERS INVESTING EXCESS CASH (IF ANY)?

TREASURERS SURVEYED HAVE AROUND 54,31% EXCESS CASH TO BE PLACED ON A SHORT-TERM HORIZON. THE VERY "CLASSIC" BANK DEPOSITS REMAIN THE MAIN PRODUCTS FOR INVESTMENT, FOLLOWED BY MONEY MARKET FUNDS AND THEN OVER THREE MONTHS' DEPOSITS AND SAVINGS ACCOUNTS. WHAT IS SURPRISING IS THE LOW USE OF SECURED DEPOSITS AND TRI-PARTY REPO'S, WHICH OFFER REAL OPPORTUNITIES TO REDUCE COUNTERPARTY RISK, WHICH HAS BEEN CALLED INTO QUESTION SINCE THE BANK CRISIS OF LAST SPRING 2023.

Types of products or financial instruments used for excess cash in the short to medium term (i.e. < 1 year)



Assessing counterparty risks is a crucial task for corporate treasurers to ensure the safety of their financial transactions and short-term investments. Here we have tried to list some steps to best assess counterparty risks. However, it remains a complex task, and it is complexifying over time. Think about the recent bank crisis in Spring 2023. Are we treasurers set up at assessing the risks beyond a certain reasonable monitoring? Maybe not. What are the ways to mitigate the risk of counterparty and what are the best practices?

INTRODUCTION

Difficulties in assessing counterparty risk for treasurers

If there's one task that has become complex for any treasurer, it's assessing counterparty risk (on the banking side), particularly for short-term investments. Many treasurers are at a loss when it comes to analyzing counterparty risk. Indeed, even if the sad end of Credit Suisse was foreseeable, given the information we had been receiving for years, the suddenness of it came as a surprise to both CFOs and Treasurers. We now know that a weekend or an evening is enough to bring down any bank. How can a treasurer in this context have the tools and the speed required? He/she can't. So, the question is, how do we get out of it? Money-market funds are and remain, whatever one thinks, the best solution for a safe and reliable short-term investment. Why not leave it to a better-placed third-party professional to decide where the risks lie? No matter how sophisticated the monitoring tool is, it must be recognized that it can never prevent all counterparty risk. So, let's look for another solution, and that's what we're going to explain.

It is also the difficulty of managing this counterparty risk that can or should influence the treasurer's investment decisions, to optimize the objectives common to all: optimizing returns, while limiting risks and remaining relatively liquid. This is the complex equation we aim to address.

BEST PRACTICES IN COUNTERPARTY RISK MANAGEMENT

There are several "best practices" to recommend to corporate treasurers. Some of these are listed below:

Know Your Counterparty (KYC):

It starts by gathering comprehensive information about the (bank) counterparties. This includes their financial statements, credit ratings, information published in the news and business history. We should verify their legal status, ownership, and reputation in the industry.

Credit Analysis:

Treasurers can conduct thorough credit analysis of the counterparty. This involves evaluating their financial health, debt levels, and ability to meet their financial obligations. It may also consider factors such as liquidity, profitability, and cash flow, even if we have limited access to financial information. News and rating agency reviews may help.

Credit Ratings:

It is advised to review the counterparty's credit ratings from reputable credit rating agencies. These ratings can provide an independent assessment of their creditworthiness. But treasurers must be cautious if the counterparty's credit ratings are low or have been downgraded recently.

Financial Statements:

It may be useful to analyze the counterparty's financial statements, including balance sheets, income statements, and cash flow statements. It is also recommended to look for signs of financial stability and growth. But you must pay attention to any red flags, such as declining revenues or P&L.

Contractual Agreements:

Treasurers should regularly review the terms of any contractual agreements or financial instruments you have with the counterparty. But they also must pay attention to the financial covenants, termination clauses and all other tricky clauses, and dispute resolution mechanisms (e.g., credit facilities, ISDA schedules, etc.).

Diversification:

Although it is a basic principle, treasurers should consider diversifying their exposures to counterparty risk. Therefore, they can avoid overconcentration of risk with a single counterparty or a single financial asset. They must spread their transactions and investments across multiple counterparties when possible.

Collateral and Security:

Another way can be to evaluate whether the treasurer can obtain collateral or security for his/her transactions. These collaterals can provide protection in the event of default by the counterparty. A good example consists in investing in tri-parti repos.

Monitor Continuously:

We must insist on the fact that counterparty risk assessment is an ongoing process. Regularly reviewing the financial health and performance of one's counterparties is "good practice" for a treasury department. It must stay informed about industry trends and economic developments that may impact its counterparty's risk profile. The last and recent crises have proven that the occurrence frequency is, unfortunately, increasing.

Risk Management Tools:

Of course, treasurers can consider using performing risk management tools such as credit derivatives, credit insurance (premiums are increasing), or credit default swaps to hedge against counterparty risk. But we are not convinced it is the cheapest and most efficient way to protect the company. Treasurers can also consult experts if they are unsure about the assessment process. They may need specialized expertise, consult with financial advisors, credit analysts, or legal experts. But again, there is no magic recipe.

Therefore, we can say that assessing counterparty risks is a fundamental part of corporate treasury and risk management. By following these steps and staying vigilant, corporate treasurers can make informed decisions to mitigate counterparty risks effectively.

HOW TO BEST ALLOCATE ITS EXCESS CASH TO OPTIMIZE RISK-RETURN?

A company with recurring excess always addresses the question of how to allocate it, and in which products (short- to medium-term).

Optimum excess cash balancing

Balancing your asset management portfolio for a corporate is a complex and challenging task that depends on many factors, such as your risk appetite, time horizon, liquidity needs, and investment objectives. The challenge is to properly allocate assets (i.e. investments) to optimize returns, without exaggerating risk, and in line with internal policy and predefined. This is the complexity of the asset management function. The art lies in knowing where to place the excess cash to optimize overall return. There is no one-size-fits-all solution, but here are some general guidelines that may help corporate treasurers and CFOs. With interest rates back in positive territory, there's no question of letting excess liquidity "sleep" on bank accounts. There's also the equation that more yield means (in principle) more risk, and vice versa. The magic formula is to diversify risk. The worst advice would be to suggest bank deposits, concentrated in a limited number of institutions. There are products other than current accounts, term deposits and savings accounts. They are easy to access, and technology and platforms have simplified access considerably. We therefore need to consider the products available, bearing in mind that, ideally, any strategy depends on the time horizon allocated to liquidity and the sums involved. The sometimes-colossal amounts involved complicate the task and require even greater diversification.

Portfolio allocation and asset management strategies

Diversification can help reduce your exposure to market fluctuations (if exposed) and enhance your returns over time. One easy way to create a diversified portfolio is to invest in different types of products. Align your portfolio with your short-term and long-term goals. For example, if you need to access your funds within couple of months, you may want to allocate more of your portfolio to cash or cash equivalents, such as money market funds, certificates of deposit, tri-party repos, or treasury bills. These are low-risk investments that offer stability and liquidity. On the other hand, if you have a longer time horizon and are willing to take more risk, you may want to invest more in other more volatile products or other growth-oriented assets that can offer higher returns over time. Rebalance your portfolio periodically and closely monitor it to maintain your desired asset allocation is key. Portfolios naturally get out of balance as the prices of individual investments fluctuate over time.

Rebalancing short-term investments regularly

Rebalancing means selling one or more assets and using the proceeds to buy others to achieve your desired asset allocations. You can rebalance your portfolio at predetermined time intervals or when your allocations have deviated a certain amount from your ideal portfolio mix. Rebalancing can help you avoid being overexposed to one asset class or underexposed to another, which can affect your risk and return profile. Review your portfolio performance regularly and adjust your strategy as needed. You should monitor how your portfolio is performing against your benchmarks and goals and evaluate whether your asset allocation is still appropriate for your risk tolerance and investment objectives. You may need to make changes to your portfolio if there are significant changes in the market conditions, the economy, or group specific situation. Balancing a portfolio of short-term investments for a corporate involves several considerations, including liquidity needs, risk tolerance, and the organization's financial goals. The primary objective is to preserve capital while generating reasonable returns on surplus cash. Here are some strategies and investment products to help mitigate risks while managing a corporate short-term investment portfolio.

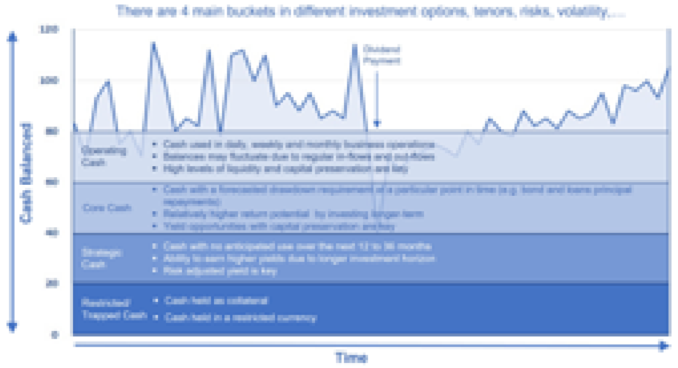
As mentioned above, diversification of products, maturities, counterparties and product profiles is the basis of any strategy. Over-concentration of risk must be avoided, and maximum limits must be set for concentration on a single counterparty. The aim should always be to preserve the principal, bearing in mind that nothing is ever completely guaranteed. It is advisable to consider different products, sometimes unfamiliar to treasurers, and dare to deal with these "less traditional" products, which are nonetheless effective and sometimes more interesting. Solutions and platforms exist for dealing with money market funds, for example (of which there are a plethora), and solutions such as Treasury Spring, providing simplified access to other guaranteed products, tri-party repos or simple deposits with other quality counterparties, in order to diversify your risk. It doesn't seem that we can blame the lack of technology or solutions for optimizing liquidity management.

Layering approach of asset management

We say it all the time. Starting from a breakdown of the type of liquidity, by tranche, according to its intended use, enables any strategy to be optimized. We need to distinguish between operating cash, core cash, strategic cash and trapped and restricted cash. The aim is to access the maximum amount of cash available within the Group and to classify it according to the type of need. Unfortunately, this is often more theoretical than applied in practice by finance departments.

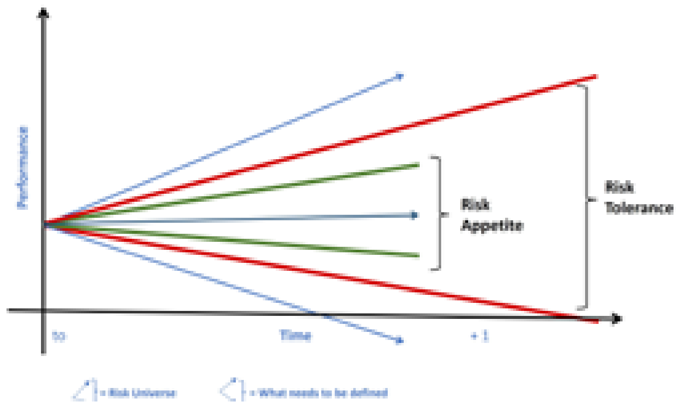
Understanding segmentation of the cash portfolio

There are 4 main buckets in different investment options, tenors, risks, volatility,...



Risk appetite

At the end of the day, treasury must determine the appetite to risk to define the best and optimal strategy.



Cash & Cash Equivalent, a principle-based concept under IFRS

The fundamental nature of cash equivalents is described in the opening sentence of paragraph 7 of IAS 7. "Cash equivalents are held for the purpose of meeting short-term cash commitments other than for investment or other purposes". This means that at the date those investments were acquired, they were available for meeting those short-term needs – if the investments have a maturity of more than a few months (say 3 months), they were at the time of purchase never available for meeting short-term needs. Paragraph 7 then goes on to say that if an investment is going to be available to meet those short-term needs, then it should be readily convertible into a known amount of cash, and subject to only an insignificant risk of value change. Again, the point is that the investments are held for meeting short-term cash commitments, which surely have been estimated and planned for, and so any suitable short-term investment of cash pending the planned outflow would need to have the twin characteristics of being highly liquid, and largely certain value, otherwise the short-term commitment may not be completely funded. So, cash equivalent must be: highly liquid, readily convertible into known amounts of cash at the date of acquisition and throughout the period of holding (and so subject to only an insignificant risk of value change), and of a short amount of maturity at the date of acquisition (say, 3 months). All these points have been examined by the Interpretations Committee over the years. The IFRIC published their thinking about the maturity question in May 2013.

CASH & CASH EQUIVALENT - IAS 7 - DEFINITION

Cash & Cash Equivalents comprise cash on hand and demand deposits, as well as short-term investments presenting the following characteristics:

1/ **HIGHLY LIQUID INVESTMENTS**

2/ **READILY CONVERTIBLE TO KNOWN AMOUNTS OF CASH**

3/ **SUBJECT TO AN INSIGNIFICANT RISK OF CHANGES IN VALUE (IAS7.PARA6)**

Cash & Cash Equivalents are held for the **purpose of meeting short-term cash commitments rather than for investment or other purposes. [IAS 7 para 7].**

NB: Funds subject to restrictions on use, such as deposits received from lessees, or cash held in blocked accounts, will be presented as C&CE in the statement of financial position and in the cash flow statement when they meet the definition of either C&CE, which will depend on the nature and severity of the restrictions. An entity may disaggregate C&CE subject to contractual restrictions in the statement of financial position when this information is relevant to an understanding of the financial position. Disclosure of restrictions on C&CE may also be required.

SHORT-TERM ASSET MANAGEMENT INSTRUMENTS

Alternative to classic bank deposits to ensure yield, mitigate risks and simplify treasurer's life

Many treasurers and CFOs consider that the simplest and least risky investment is the short-term bank deposit. This may be a mistake. Recent events have reminded us that a bank default is possible and hyper-fast… less than a weekend (e.g. Crédit Suisse, First Republic, Silicon Valley Bank, …). In these circumstances, we must ask ourselves what could replace such a deposit, while avoiding the risks inherent in deposits. It seems to us that two products stand out from the range of short-term money market products that can limit this risk: i.e., MMFs and tri-party repo.
Clearly, an MMF, even an IMMFA registered fund, does not guarantee the principal and repayment of the invested capital at maturity. However, we know that the risk is limited. Tri-party repo, on the other hand, benefits from collateral support to the value of the deposit plus a haircut more than the nominal value of the deposit. What more could you want? In the second part of this document, we'll see how the treasurer should consider alternatives to limit the time spent managing counterparty risk without compromising yield or security. The panacea of short-term investing? No doubt, with interest rates so high.

Diversification, striking the balance

In the first part of this article, we discussed counterparty risk, which remains a tricky area for treasurers to manage. Even when equipped with sophisticated tools and a plethora of staff (which, alas, is never the case), they cannot guarantee perfect management of this risk, which is very frustrating. Whatever the intentions, the resources deployed or the expertise, it is extremely complicated to avoid the type of risk encountered in 2008 or, more recently, in the Spring of 2023. As we all know, the risk of a bank default is no longer a pipe dream; it has become a real risk that needs to be carefully managed. As we have already mentioned, there are several alternatives to the bank deposit. One is well known and useful up to a certain limit (i.e. MMF) and the other one still under-utilized (i.e. tri-party repo).

Money Market Funds, a reminder

Money Market Funds (MMFs) are considered safe and secure short-term investments for corporate treasurers for several reasons. They present a lot of advantages, including an excellent net return; competitive compared to bank deposits.

Liquidity: MMFs invest in highly liquid, short-term instruments such as government securities, certificates of deposit, and commercial paper. This ensures that corporate treasurers can easily access their funds when needed, making MMFs a convenient choice for managing short-term cash needs.

Diversification: MMFs typically hold a diversified portfolio of a couple of dozen assets. This diversification helps spread risk and reduces the impact of potential default or fluctuations in the value of individual securities. Corporate treasurers benefit from this risk of mitigation. Furthermore, a MMF can access longer tenors (providing they respect WAL, WAM and maximum tenors imposed). However, having several investments in MMF may present a risk of duplication of risks as different funds can be invested in the same risks. Therefore, the concentration risk treasurers wanted to reduce comes back eventually. For a limited amount, or using fewer funds, it works. It is why we recommend a much safer product, a triparty repo.

Low Volatility Net Asset Value (LVNAV): Many MMFs aim to maintain a relatively stable or low volatile NAV. This means that the value of an investment in an MMF remains relatively constant, minimizing the risk of principal loss.

LIQUIDITY / DIVERSIFICATION / LOW VOLATILITY NET ASSET VALUE / REGULATION / TRANSPARENCY / LOW CREDIT RISK / COMPETITIVE YIELDS / ACCESSIBILITY

SHORT-TERM ASSET MANAGEMENT INSTRUMENTS

Regulation: MMFs are subject to regulatory oversight, which includes requirements related to the quality and maturity of their investments. These regulations (including EU regulations) are designed to enhance the safety and stability of MMFs, making them a reliable choice for corporate treasurers.

Transparency: MMFs provide regular reports and disclosures about their holdings, allowing corporate treasurers to monitor the assets within the fund and make informed decisions. But we must confess that it is difficult to track global portfolios given high number of investment lines and non-standardized naming conventions used.

Low Credit Risk: MMFs typically invest in high-quality, low-risk securities, including government debt and top-rated corporate bonds. This reduces the credit risk associated with these investments, except for the addition of risks coming from the potential duplicates in the different portfolios. Furthermore, corporates should never forget that the investment should remain reasonable and proportionate to the whole size of the fund. Investing more than 10% in a MMF seems excessive.

Competitive Yields: While MMFs prioritize safety, they also aim to provide competitive yields compared to other short-term investment options. Corporate treasurers can earn a reasonable return on their cash holdings (the return is net of fees taken by the fund managers).

Accessibility: : MMFs are widely available through various financial institutions (and platforms) and can be easily accessed by corporate treasurers, providing flexibility in managing cash balances. It's important to note that while MMFs remain generally considered as one of the safest short-term investments, even if they are not entirely risk-free; there is always a small degree of risk associated with any investment. Corporate treasurers should carefully assess their investment goals, risk tolerance, and regulatory requirements before choosing to invest in Money Market Funds. Additionally, they should stay informed about changes in regulations and market conditions that may impact on the safety and performance of MMFs. Change in regulation remains a major risk after a couple of financial crises.

Would triparti repo be the forgotten option?

The "tri-party repurchase agreements" are financial transactions commonly used in the world of corporate treasury and risk management. These agreements involve three key parties: (1) Cash Investor (e.g. corporation): This is typically an entity or individual with excess cash looking for a short-term, safe investment; (2) Securities Borrower: This party usually needs to borrow securities for various purposes, such as covering short positions or settling other trades; and (3) Tri-Party Agent: The tri-party agent is a neutral intermediary, often a financial institution like a bank, that facilitates the transaction. They manage the collateral and ensure the proper execution of the repo. Unfortunately, there are still many treasurers who do not use or do not understand this interesting concept. It seems useful to remind how tri-party repos work. The cash investor provides cash to the securities borrower in exchange for a specific quantity of securities as collateral. The tri-party agent acts as a custodian (e.g. Clearstream, Euroclear) and holds the collateral securities on behalf of the cash investor. The securities borrower pays interest on the cash borrowed, and at the end of the agreed-upon term (usually overnight or a few days), they repurchase the securities at a slightly higher price (the repurchase price). Tri-party repos offer limited risk for investors due to several factors.

Collateralization, the required guarantee

The primary risk in repo transactions is the potential default of the securities borrower. However, in tri-party repos, the collateral is held by a neutral third party (the tri-party agent). If the securities borrower defaults, the cash investor can sell the collateral to recover their funds, reducing the risk of loss.

Advantages presented by tri-party repos

A. Daily Valuation and Margining: Triparty agents typically revalue the collateral daily and may require additional collateral (margin) if the value of the securities falls. This helps mitigate risk as it ensures that the collateral value remains sufficient to cover the cash investor's exposure.
B. Diversification: Cash investors can diversify their exposure by entering into multiple triparty repo agreements with different counterparties and securities. This spreads risk across various borrowers and assets.
C. Short Duration: Triparty repo's are short-term transactions, often overnight. This short duration limits the exposure to market fluctuations and potential credit risk.
D. Legal Agreements (i.e. GMRA): Triparty repo agreements are legally binding contracts that specify the terms, conditions, and remedies in case of default, providing investors with legal protection.

As well as for MMF's, corporates can now deal with them via platforms, such as Treasury Spring, with only one set of documentation signed and with broader access to the market. The collateral baskets must be pre-defined to know what can satisfy the lender. Overall, triparty repos are considered extremely safe investments for corporate treasurers and investors, primarily due to the collateralization, risk mitigation mechanisms, and short-term nature of these transactions. However, like any financial instrument, they are not entirely risk-free, and investors should carefully assess their counterparty risk and collateral quality when engaging in such agreements.

So, what should you choose to mitigate your counterparty risk?

In conclusion, we can accept that counterparty risk management remains complex for a treasurer, no matter how sophisticated. Consequently, the best and safest strategy is to use the two safest flagship products to diversify risk, mitigating it while ensuring an excellent return, possibly better than a simple and risky bank deposit. There is no panacea, I'm afraid. But there are simple, effective products that can reduce risk, increase process security, and potentially optimize returns. So, what are you waiting for to review your investment strategy?

INTERVIEWS

Marc Fleury et Sophie Dimopoulou
BNPP

Please find below our text around the questions “What are the trends with corporate clients? What types of investment strategies do they favour? And eventually what do you do when markets get frightening?”:

Corporate treasurers across Europe are becoming increasingly strategic in how they manage liquidity. In today’s environment of shifting interest rates and geopolitical uncertainty, we see a clear preference for capital-preserving, short-duration strategies that still offer enhanced yield.

Money market funds, short-term fixed income, and custom liquidity solutions remain central to treasury investment policies, especially when they need to be aligned with evolving governance standards and guidelines.

There is also a growing recognition that even short-term investments can, and should support broader corporate responsibility goals. ESG integration is now an essential criterion, not a differentiator, as treasurers seek counterparties and investment vehicles that reflect their organisations’ long-term values without sacrificing liquidity or safety.

When markets become volatile, treasurers value managers with experience, who offer stability, transparency, and robust risk management processes.

In unpredictable markets, thoughtful liquidity management becomes a strategic advantage and the priorities include not only return optimisation but also risk control, scenario planning, and open dialogue.

At BNP Paribas Asset Management we aim to offer solutions to clients, who are looking for their short-term investments to be aligned with policy, protected against risk, and positioned to adapt and to remain resilient.

Maud Debreuil
Gérante monetaire (AXA Investment Managers)

Why should corporate clients and MNC’s use Money Market Funds in volatile times and times of uncertainty?

Money market funds are an effective liquidity investment tool, offering a high degree of security with low risk, daily liquidity access, and substantial diversification within a strict regulatory framework. By investingin this fund, investors gain access to the expertise of an asset management firm which includes a skilled team of economists, portfolio managers, credit analysts, risk management experts and a dedicated dealing desk. This expertise enhances proactive management, allowing for a quick adaptation to changing market conditions. In times of uncertainty and volatility, our primary objective is to lower the risk profile of our funds by prioritizing liquidity and safety, often leading to a focus on issuers and instruments that provide the highest liquidity, with yield becoming a secondary concern. In the current unstable market environment, active interest rate management and cautious credit strategies are essential for achieving outperformance. Daily fluctuations extremely volatile have necessitated a fully hedging approached, indexing funds to the €STR reference rate for added safety. Furthermore, the recent rise in credit spreads on commercial papers since April offers attractive carry levels without increasing risk. Our credit strategy involves selecting issuers that offer the best risk/return profile by choosing the optimal segment of the curve. Additionally, our extra-financial selectivity related to the SRI label of our money market fund range enables us to exclude certain issuers and mitigate potential future credit risks. Our flexibility will allow us to potentially add risk if the market stabilizes.

Patrick Simeon
Amundi Asset Management

How would you describe the different types of MMF’s and main differences?

The Regulation EU2017/1131 (MMFR) applies to investment funds established, managed or marketed in the EU fulfilling the following requirements:

— authorised or having requested authorisation as a UCITS or qualifying as AIFs;
— investing in short-term assets.
— having distinct or cumulative objectives offering returns in line with money market rates or preserving the value of the investment.

Asset management companies will then continue to be regulated by either the UCITS or AIFM Directive, as applicable, and managers (and funds) falling within the scope of the MMFR will have to comply with its additional level of MMFs specific rules.

The MMFR establishes three regulatory types of MMFs, which may be further distinguished into two categories, short-term and standard:

— CNAV Public debt Constant Net Asset Value MMFs are short-term vehicles that must invest at least 99.5 % of their assets in government debt, repo collateralised by government debt or cash. CNAVs offer redemption and subscription of their shares at par value, as they are allowed to use the amortised cost method, but they are still required to calculate their mark-to-market NAV;
— LVNAV Low Volatility Net Asset Value MMFs can invest in a broader range of assets than CNAVs, including CPs and CDs, deposits and other short-term assets. LVNAVs are short-term MMFs offering a constant NAV, also using the amortised cost method to value assets with a residual maturity of up to 75 days when the difference between the market value of an asset and its amortised cost does not deviate by more than 0.10%. Their shares are purchased or redeemed at a constant price, rounded to the nearest percentage point, as long as the value of the underlying assets does not deviate by more than 0.2% (20bps) from par. If the mark-to-market NAV of LVNAVs deviates more than 20 bps from the constant NAV, the following redemption or subscription shall be undertaken at mark-to-market NAV.
— VNAV Variable Net Asset Value MMFs can invest in a range of money market instruments (MMIs), including government debt, CP or CDs and they mark-to-market their NAV, calculated to 4 decimal places. Hence, VNAV shares can be redeemed at their market value by investors. VNAVs can be either short-term or standard, with the latter type having the possibility to invest in assets of much longer maturity.

LVNAV and VNAV MMFs are often referred to as private debt MMFs as opposed to CNAVs, that are instead labelled public as mainly invested in sovereign instruments.

Stefan Kirsch
Head of Business Development
Finologee

Could we agree that excellent and efficient bank connectivity remains the key element to properly managing liquidity? And why is the quality of bank statements and way to repatriate them essential for good cash management?

Efficient and reliable bank connectivity remains a cornerstone of effective liquidity management. In a landscape characterised by fragmented banking relationships and increasing regulatory scrutiny, the ability to access close to real-time, standardized account information is essential for achieving full cash visibility, reducing idle balances, and enabling informed decision-making.

Equally critical is the quality and structure of bank statements, as well as the mechanisms by which they are retrieved. Timely, consistent, and machine-readable statements support accurate reconciliation, cash forecasting, and compliance with internal controls. Conversely, reliance on manual processes or unstructured data introduces operational inefficiencies, increases risk, and impairs treasury performance.

Finologee’s LYNKS platform addresses these challenges through secure, scalable SWIFT connectivity, offering direct integration with a broad range of financial institutions. LYNKS facilitates the automated repatriation and standardization of bank statements, feeding treasury, ERP, and cash management systems with high-quality data.

Furthermore, LYNKS includes dedicated modules for automating cash pooling and reinvestment processes, enabling organisations to optimize liquidity across entities, reduce excess cash buffers, and enhance returns. This comprehensive approach positions LYNKS not merely as a connectivity solution, but as a strategic enabler of data-driven, treasury and liquidity management.”

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Corporate Treasurers?

Repo, short for repurchase agreement, is a financial transaction that provides participants secured, short-term funding against various forms of government, financial and corporate securities as collateral. In a repo transaction, the borrower sells a basket of securities to a lender with an agreement to repurchase at a different (usually higher) price at a specified future date. Typically, the initial purchase price is lower than the market value of the securities, offering "over-collateralisation" to the lender. In the event of a default by the borrower during the life of the repo, the lender retains ownership of the assets and can sell them to offset the loss.

Historically, the complex financial and operational burdens involved

in establishing tri-party relationships, executing the necessary legal documentation, negotiating collateral schedules, and managing the operational and technological aspects of trading repo meant that it was either unfeasible or impractical for most institutions to participate in repo transactions. By investing in TreasurySpring's Secured Fixed- Term Funds, corporate treasurers can now lend on a secured basis, without the need for any financial infrastructure, connectivity or resources typically required to do so.

Why it should be used?

By participating in repo, treasurers can significantly lower their credit risk when compared to unsecured lending, with secured financing typically providing higher recovery rates and swifter capital recovery than unsecured debt. This does not necessarily mean sacrificing returns; banks can generate substantial internal cost savings and meet regulatory capital requirements efficiently by financing their assets

in the repo market, which may translate into more attractive rates for clients.

Why is it important to treasurers?

Since the Global Financial Crisis, large banks no longer lend to one another on an unsecured basis. Recent events, like at SVB and Credit Suisse have further demonstrated the need for treasurers to arm themselves with the same capital preservation tools. Secured Fixed Term Funds are a cost-effective solution to achieve this. The repo market plays a pivotal role in maintaining stability across the broader financial landscape. It not only acts as a stable buffer for financial institutions to access the necessary funds to meet their short-term obligations, but also helps mitigate systematic risk and reduce the dependency on central bank liquidity in stress scenarios.

WHY IS IT IMPORTANT TO TREASURERS? WHY IT SHOULD BE USED? CORPORATE TREASURERS? COULD WE AGREE THAT EXCELLENT AND EFFICIENT BANK CONNECTIVITY REMAINS THE KEY ELEMENT TO PROPERLY MANAGING LIQUIDITY? AND WHY IS THE QUALITY OF BANK STATEMENTS AND WAY TO REPATRIATE THEM ESSENTIAL FOR GOOD CASH MANAGEMENT? HOW WOULD YOU DESCRIBE THE DIFFERENT TYPES OF MMF'S AND MAIN DIFFERENCES?

TAKE-AWAYS

>> Managing properly counterparty risk remains difficult for treasurers. Therefore, **instead of spending time assessing risk of default of counterparties, why not focusing on products?**

>> **Diversification** is the best response to risk management.

>> Without a **precise and defined strategy**, no possibility to optimize asset management.

>> Treasury must **assess key objectives** to design an optimal strategy of investment.

>> It remains a recommended "Best Practice" to set out in a complete exhaustive and clear investment policy what you can and cannot do, and in which products you are authorized to invest.

>> Usually, liquidity should **remain rapidly and easily accessible** and short-term investments should respect principles of "Cash & Cash" Equivalent under IAS7, also to potentially offset gross debt (if any).

>> Despite bank relationship constraints, there are **alternative and saver solutions**, potentially with higher return, why not considering them?

CONCLUSION

CONTEXT IN 2025 AND ONWARDS – OPPORTUNITIES AND CHALLENGES – STRATEGIC APPROACH

The current environment for short-term and liquidity investments for corporate treasurers in Europe—against the backdrop of elevated interest rates and tighter monetary policy—presents a mixed landscape of opportunities and challenges. We should describe the market and context, identify potential opportunities, and challenges, to define strategic recommendations.

Market Context (2025):

- **Interest Rate Plateau:** The ECB has held rates at historically high levels following a rapid tightening cycle in 2022–2023. Policy rates are expected to remain elevated or only gradually decline in 2025, depending on inflation trends.
- **Yield Curve Flattening:** Short-term yields (on 3– to 12-month instruments) remain attractive, but the curve is relatively flat, making the opportunity cost of going longer-dated less compelling.
- **Abundant Liquidity,** But Higher Cost: Companies still hold large cash buffers post-COVID and post-energy crisis, but cash preservation is becoming more expensive due to opportunity costs.
- **Money Market Fund (MMF) Reforms:** New or upcoming regulations (e.g. in the UK, and under consideration in EU) are adding complexity to MMF structures and investor strategies.

Opportunities:

1. Attractive Yields on Safe Instruments:
   - Corporate treasurers can earn **positive real returns** on cash for the first time in years using MMFs, time deposits, T-Bills, and commercial paper.
   - **Reverse repo's** are gaining popularity as a secure, collateralized investment.

2. Product Diversification and Innovation :
   - Growth of **short-duration ESG products,** such as green CPs and ESG-screened MMFs.
   - Increased availability of **platform-based investment access** (e.g. via TMS-integrated marketplaces).

3. Enhanced Counterparty Risk Tools:
   - More powerful data and credit scoring tools allow treasurers to assess and monitor counterparties with greater confidence.

4. New Investment Tech Tools:
   - Technology helps automate **cash segmentation**, optimize **laddering strategies,** and enable better **multi-bank visibility** for placements.

Challenges:

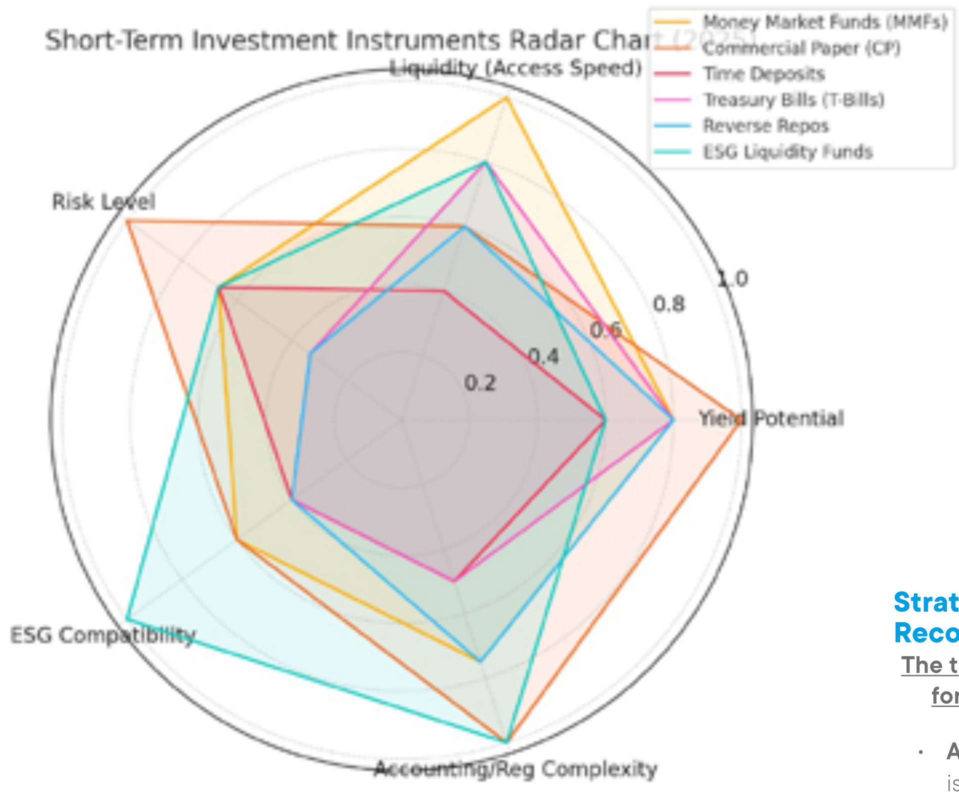
1. Short-Term Volatility in Rates & Policy:
   - Sudden shifts in ECB guidance or inflation surprises can affect valuation and timing of investments.

2. Concentration & Counterparty Risk :
   - With large volumes still placed in MMFs and a few key banks, **diversification risk remains high.**
   - Ongoing concerns around **bank credit risk** and **sovereign debt exposure** in some countries.

3. Regulatory & Accounting Complexity:
   - **IFRS 9** requirements, **MMF reform uncertainty,** and internal policy limitations can restrict flexibility.
   - ESG integration into short-term portfolios is still not fully standardized.

4. Liquidity Traps & Inertia:
   - Many treasurers remain **overly conservative or over-invested in low-yield current accounts** due to inertia, operational complexity, or internal constraints.

CONTEXT IN 2025 AND ONWARDS – OPPORTUNITIES AND CHALLENGES – STRATEGIC APPROACH



Investment Comparative Landscape Summary :

Instrument	Yield Potential	Liquidity	Risk	ESG Compatibility	Regulatory Complexity
Money Market Funds (MMFs)	High	Very High	Low	Moderate	Medium
Commercial Paper (CP)	Very High	Medium	Medium	Moderate	High
Time Deposits	Medium	Low	Low	Low	Low
Treasury Bills (T-Bills)	High	High	Very Low	Low	Low
Reverse Repos	High	Medium	Very Low	Low	Medium
ESG Liquidity Funds	Medium	High	Low	Very High	High

Strategic Recommendations:

The treasurers should be ready for:

- **Active cash segmentation** is crucial: differentiate operational, reserve, and strategic cash to tailor yield-enhancing strategies.
- **Revise investment policies:** Adapt them to current realities, including expanded counterparty lists and new instruments.
- **Balance ESG and yield goals**: Don't exclude ESG criteria but align them realistically with liquidity and return objectives.
- **Prepare for change:** Whether it's MMF reform, digital euro developments, or monetary easing, flexibility and readiness are key.

"In a high-yield but complex environment, treasurers must balance safety, return, and compliance—technology and strategy are the levers of success."

Francois Masquelier
Chair of EACT