ATEL
Luxembourg Association
of Corporate Treasurers

MAGAZINE #111

TREASURER

THE CORPORATE TREASURERS' COMMUNITY MAGAZINE

INTEREST RATES HIGHER FOR LONGER?


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TREASURER
The Corporate Treasurers' Community Magazine

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#111

WHAT WILL BE **THE CORPORATE TREASURER'S PRIORITIES FOR 2024?**

As the year 2023 draws to a close, it's time to consider the priorities that treasurers and CFOs will have in the year ahead. It's always a tricky business to predict the future when the context is changing and delicate. However, we can venture to mention a few of the future challenges facing treasurers. We must also keep in mind that the specific priorities of corporate treasurers can vary based on economic conditions and industry trends. Among the priorities that will affect us in the coming months, I think we can safely mention the following:

Liquidity & Cash Flow Management: More than ever, ensuring liquidity and managing cash flows efficiently to meet financial obligations, invest in growth opportunities, and optimize working capital will remains "the priority" of the priorities. There is also a risk that many companies will find it difficult to refinance, given the high interest rates and reluctance of the banking sector.

Market Risk Management: No one could contest that identifying and mitigating financial risks (including currency exchange rate fluctuations, interest rate risk, and commodity price volatility) will also be high on the priority list.

Cybersecurity & risk of fraud: Since COVID, we've seen an upsurge in fraud of all kinds. Automation and ad hoc tools will help limit this risk. It is important to protect financial data and systems from cyber threats, which can have a significant impact on a company's finances and reputation.

Regulatory Compliance: Staying updated with financial regulations and ensuring compliance with accounting standards and reporting requirements is essential for treasurers. Just think of the number of reviews or analyses of (new) Directives under consideration. It is to be feared that the new European Commission has many new binding regulations in store for us, such as EMIR 3, MiFIR/D, PSD3 or tax and transfer pricing.

Short-term Investment Strategy: Managing excess liquidity will be easier with higher rates, but more complex because of counterparty risk. Making informed decisions about where to invest surplus cash, considering factors such as risk tolerance, yield, and liquidity will remain a key objective for treasurers.

Treasury Technology: Even if everyone is not at the same level of maturity, some need to implement TMS-type tools when they have nothing, replace them when they are too old, or integrate and «hyper-automate» cash management. Therefore, it will be crucial to evaluate and implement treasury management systems and financial technology solutions to streamline processes and enhance visibility.

Working Capital Optimization : Treasurers should contribute to manage accounts payable and accounts receivable effectively to minimize costs and maximize cash flow. It is always a top priority because people remember it is the first source of funding of the company.

Debt Management: Strategically managing corporate debt, including refinancing and debt issuance decisions, to optimize the capital structure. But for well managing the debt, we need excellent and reliable Cash-Flow Forecasts. The current interest rates environment is complicate for cash poor companies having renewal of long-term loans.

Sustainability and ESG Initiatives: After the recent COP 28, companies know that integrating environmental, social, and governance (ESG) considerations into treasury and risk management strategies, are increasingly important for stakeholders. We have the coming CSRD, and new disclosures related to ESG which will impose new reporting and new focuses in terms of funding and asset management.

Mergers and Acquisitions: If applicable, supporting M&A activities by assessing the financial impact, funding options, and integration strategies will also be a key objective.

Please keep in mind that the priorities of corporate treasurers can evolve over time, so it's essential to stay informed about the latest industry trends and economic developments to understand their specific focus. The coming 2024 EACT will help determining the new trends and focuses. However, I do not expect major changes. The ranking may evolve, but the priorities will remain rather unchanged.

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François Masquelier,
Chairman of ATEL

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Gerald Rüdiger,
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IRIS

CMU, THE COME-BACK!

It appears that the CMU, i.e. Capital Market Union, which was one of the main objectives of the Vander Leyen Commission, is back in the limelight, or is likely to become a priority for the next Commission next summer. It was an important, vital, and courageous objective. However, we can't say that we've made any real progress during this five-year term. This is regrettable, even if we are aware of some of the «good reasons» that those in charge might cite to justify the delay. The crucial question, of course, is whether we can use regulation to develop this capital market and reduce dependence on bank loans.

"BABY COME BACK!" (THE EQUALS).

We would all admit that corporates need more diversification of financing options available to them, especially when interest rates are so high. As rates raised fast and high, corporates and the "real economy" have in top of their mind more expensive costs of funding and are looking for diversification of sources of financing, to complement bank borrowings. Therefore, the corporates, key end-users, are pleased to notice that CMU is coming back on the agenda of the Euro Group, and later to the new coming Commission. We can accept that no real progress has been achieved so far and that we need to see significant changes on the market.
In 2024 and 2025, companies will face a new wave of loan renewals, and therefore much higher interest rates (i.e., from a zero percent floor rate plus margin to a 4% EUR rate plus margin, i.e., a 3 to 5-fold increase on average). These renewals will be complicated to obtain, especially as banks become more cautious, excluding certain economic sectors, and running the risk of widening spreads. This is where diversification comes into its own. When the storm arrives, it's a good idea to have diversified your sources of financing, optimized your working capital, and renewed or secured your loans. Yet some people, like the cicadas in Jean de Lafontaine's fable, have not foreseen this scenario. Why not? Certainly, for the sake of simplicity, because costs were lower, because capital markets remain more difficult to access, more complicated and, of course, potentially more expensive.

A BETTER BALANCE BETWEEN BANK BORROWINGS AND CAPITAL MARKETS

Is it wishful thinking to wish a better balance between bank lending and capital market operations? The aim would be to achieve a better balance between the two, as is the case in the USA. But the question is how to achieve this through European regulation alone. Is a CMU-type regulation enough to change everything? Probably not. More is needed, because the problem is cultural, depending on local customs and practices, the costs of one versus the other, and legal constraints. It's a whole range of elements that need to be considered and implemented. Nevertheless, the regulatory aspect is obviously the most important element if the EU is to tackle simplification and cost reduction. CMU needs to make a genuine change to get the point where the capital markets have the "right size" for an economy of our size.

A KANTIAN SHIFT FOR THE CAPITAL MARKETS UNION

We can admit that a capital markets union (CMU) is an indispensable project in the current economic context that we have so far failed to advance, for two reasons, according to Christine Lagarde: (1) if we look at historical examples, the conditions for capital markets to develop in Europe have not yet been satisfied. Most importantly, we have lacked a unifying project around which CMU can be anchored. But this is now changing. (2) Perhaps because we have lacked such a project, we have relied too much on a "bottom-up" approach to integration. The solution, in my view, is to make a "Kantian shift" in our approach to CMU, she added. To attract more capital to Europe, we also need to be more innovative and more open to innovation than in the past. Regulations are not enough to change the game. As explained, it's a combination of factors. As treasurers and associations, we need to help educate potential users of the capital market. And let's not forget, in parallel, the "banking union" projects, useful for achieving the objectives set by the EU. And let's not forget to include the "financial market union" and ensure a large OTC derivatives market, necessary for an efficient capital market. The use of OTC derivatives is an essential complement to a unified capital market. It is up to all stakeholders to increase borrowers' "awareness" to better balance the two types of financing. In this context, we must not forget the ESG dimension, which is fortunately growing in importance (but complicating the debate still further).

PRIVATE CREDIT, THE "GOLDEN MOMENT"

If this is a "golden moment" for private credit, how might it play out and what are the risks? Higher rates and the regional banking turmoil earlier this year have spurred a growing conviction that private credit will bloom. "Debanking" is in its infancy. Private credit, according to Jamie Dimon, could be dancing in the street. This current shift underscores just how much the market structure of finance is changing. We know that several major banks have already out deals, and more are likely to follow. The regime shift in rates means loan losses are likely to rise as financing costs normalize and weaker balance sheets are exposed. This could be challenging for private credit providers. Therefore, whatever the alternative solutions to the classic bank funding, they are also driven and impacted by the economic context. For many corporates the priority is not to diversify to guarantee access to funding, but rather to minimize costs of financing. Therefore, I believe that until the pricing is aligned and more equal, it will be tough to change habits and usage, and to shift to capital markets or other financing sources.

CHALLENGE FOR THE NEW COMMISSION AND THE EURO-GROUP?

This is undoubtedly a major challenge for the next Commission. Without claiming that it's a cliff to climb, we can reasonably admit that it's a major challenge, but one that's complicated to achieve quickly. It seems to us that we need to act on several elements at once to change the situation and rebalance funding sources. Private financing has certainly grown rapidly in recent years. However, high interest rates threaten to disrupt all financiers. As we can see, the situation is critical, and the moment important. We can't avoid acting. However, the method to be applied remains complicated to identify, otherwise it would be a done deal. Let's think about Christine Lagarde's recent comments and work together to develop this CMU, without seeing it as an unattainable Chimera. "Faced with such an immense financing challenge, the moment for action is now. So, I encourage all of us to be bold and not to let this moment pass" (source: Christine Lagarde – November 2023).


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François Masquelier,

Chairman of ATEL

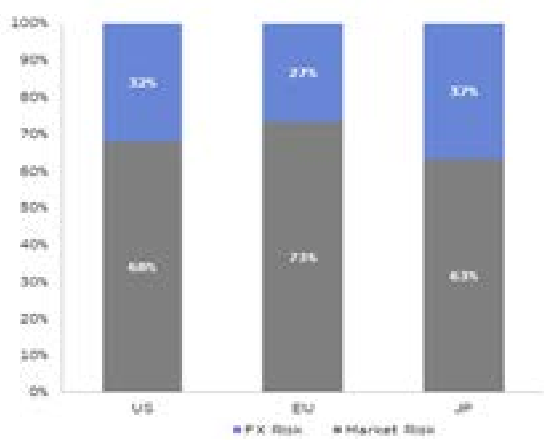
TRENDS

MANAGING THE UNEXPECTED RISK **IN THE FOREX MARKET**

One thing is sure about financial markets, no day is the same!
Macroeconomic surprises, monetary policy announcements, investors' hesitation between soft-landing and recession or unexpected events such as the collapse of Silicon Valley Bank (SVB) and the takeover of Credit Suisse by UBS rattled investors in 2023. Oddly enough, FX markets proved resilient. But for how long?
In a world where interest rates are expected to stay "higher for longer", we believe it is the right time to consider the impact the currency risk has on corporate operations.
Investors often assess risks relative to a specific asset class. But investment risks are not mutually exclusive. For Treasurers today, interest rate risk is high on the agenda. In contrast, the low volatility seen on major currency markets this year may have caused Treasurers to put currency risk on the back burner.

SHOULD TREASURERS IMPLEMENT AN FX HEDGING STRATEGY TODAY?

In short, we believe it is best to be prepared rather than to play catchup because markets are difficult –if not impossible - to predict
This year, FX volatility was subdued despite the many events that occurred, so investors would be forgiven if they neglected currency risks. It is also important to note that the past years account for an unprecedented accommodative monetary policies, which compressed the FX volatilities. Now, with different monetary policies in place, what will happen when volatility soars? Surely it is more prudent to prepare for the inevitable and implement a hedging strategy rather than wait until it's too late.
Crucially, hedging costs also increase when FX volatility rises. Hedging costs are directly influenced by central bankers' pace of monetary policy deployment. While the trajectories of interest rate hikes on either side of the Atlantic were unanimous, the pace of these hikes diverged. In 2022, the annual cost to hedge the USD for a EUR-based investor almost reached 3% (based on the interest rate differential) as the Fed hiked rates faster than the ECB did.
Today, the differential has closed to some extent, but one would expect a similar phenomenon to reoccur as the respective central banks loosen monetary policies according to economic conditions. So far, the US economy seems more resilient while in Europe, the situation is more fragile. This suggests the differential may re-emerge.
From an investment portfolio perspective, the impact of currency risk is worryingly high. In a portfolio invested 50/50 in bonds and equities since 1987, currency risk accounts for roughly a third or portfolio risk. And this remains true for an US, European, or Japanese portfolio (fig.1.).



Source Bloomberg – data: from 01.01.1987 to 31.12.2022. Equities: S&P500; FTSE100; Nikkei225 / Bonds: Index Citi Bond US, UK & JP. Risk is expressed as the total variance of a 50% stock & 50% bond portfolio, using the S&P500, FTSE 100, & Nikkei 225.

EDMOND DE ROTHSCHILD ASSET MANAGEMENT HAS 25 YEARS' EXPERIENCE IN OVERLAY MANAGEMENT. ITS TEAM OF 8 EXPERIENCED MANAGERS OFFERS A VARIETY OF INVESTMENT SOLUTIONS TO MANAGE SPECIFIC MARKET RISKS, WHETHER IN CURRENCIES, INDICES OR PRECIOUS METALS.

WHAT CAN TREASURERS DO TO PROTECT THEMSELVES AGAINST CURRENCY RISKS?

Treasurers have two options: Passive hedging or Active Hedging.
Passive Hedging cancels FX movements by locking in FX rates. However, the cost of hedging may be significant and could impact a corporates' liquidity and P&L statement. Furthermore, Treasurers choosing a passive hedging strategy will not benefit from any increase in the investment currency and may incur high cash flows from keeping a permanent hedge, which can disturb the daily operations of the company.
An active hedging partly tackles these issues because the degree of protection (the hedge ratio) against currency moves dynamically adjusts to prevailing currency market.

HOW DO WE REDUCE THE COST OF HEDGING?

With passive hedging, the cost can be improved in two ways. The first is to ensure we have the best possible execution. This includes a thorough selection and monitoring of brokers used for execution as well as access to liquidity. The second is to monitor continuously the cost of hedging over different maturities in order to optimise the maturity of the contracts implemented. Generally, this reduces the cost by a little over 10 basis points per year.
With active hedging, we adjust the hedge ratio to currency movements using quantitative models that incorporate a variety of metrics (trends, external factors, volatility, carry trade, valuations). Using this dynamic hedging strategy, the underlying position may benefit from upward movements in the investment currency which helps reduces hedging costs when protection is needed less. In parallel, as the position is not fully hedged at all times, the cash flows related to hedging are also lower.

WHY CHOOSE AN EXTERNAL MANAGER TO MANAGE CURRENCY RISK?

Currency hedging is a resource-intensive activity, best delegated to a team of currency specialists. An external manager would allow Treasurers to allocate internal resources to the company's core business. However, we believe there are several key aspects to consider when choosing an external FX hedging provider.
Treasurers should select an experienced provider who is able to offer a complete tailor-made service going well beyond execution. This includes offering a currency risk exposure assessment to design the most suitable hedging policy, monitored for adjustments over time. In addition, the provider should be able to apply cost effective decisions to optimise hedging costs, and ultimately provide fully transparent reporting on performance, transactions, cash flows and trade operations within a given regulatory framework.
The provider should also have the infrastructure to minimize operational risks, such as dedicated currency hedging tools, access to liquidity providers, best execution monitoring standards – including the ability to obtain competitive pricing, and so on.
Finally, Treasurers should ensure the provider has no conflicts of interest (ie: no proprietary trading or trading in favour of its own bank).

To conclude, hedging currency risk is a must for any business exposed to foreign currencies. Solutions exist, but need to be tailored to business' specific needs – be it to reduce cash flows or hedging costs, tolerance to risk, and so on. So delegating the complexities of this activity to a specialist is the most rational approach.

Roxanna Mitroi,
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Edmond de Rothschild

CURRENCY **RISK** ON FINANCIAL COVENANTS

THIS ARTICLE WAS PREPARED BY FRANÇOIS MASQUELIER IN HIS PERSONAL CAPACITY. THE OPINION EXPRESSED IN THIS ARTICLE ARE THE AUTHOR'S OWN AND DO NOT NECESSARILY REFLECT THE VIEW OF THE EUROPEAN ASSOCIATION OF CORPORATE TREASURERS (I.E., EACT).

One of the main constraints on CFOs are financial covenants, the most important of which is undoubtedly the ratio of (net) debt to EBITDA, known as leverage. If it falters or weakens, it can impact a company's rating and increase its total cost of financing. It is therefore important to measure this risk, monitor it and consider mitigating it, when necessary or when the situation of this ratio is tense and very close to the limit imposed by creditors. Let's look at how to deal with it, and whether effective solutions exist.

LEVERAGE, OFTEN A KEY FINANCIAL RATIO TO MONITOR

One of the most important corporate constraints is the famous "financial leverage", commonly defined as total debt on EBITDA or even net debt on EBITDA. It is essential as it may impact a company's credit rating, cost of funding and sometimes is also explicitly restricted by loan documentation and financial covenants to not exceed a certain level. There are three main ways, this leverage ratio can be endangered. The denominator, EBITDA, drops because of weaker business than originally envisaged. Then, if the debt rises due to higher funding needs. Eventually, the third way, which is interesting for us here, has not to do with the business performances but with the context of currency risk. If a significant part of the EBITDA is reported in foreign currency, it may fall, even though the underlying business is doing well, purely because of depreciation of the foreign currencies against the reporting currency. And, similarly, if part of the debt is in foreign currency, the overall debt will be impacted by currency fluctuations. This type of risk can be hedged against by matching the debt and assets by currency. Usually, debt in currencies doesn't perfectly match the EBITDA contribution in currencies. From this possible mismatch, weaker currencies can impact EBITDA down and/ or stronger currencies of debt, can make it all-on bigger and impact the net ratio. With companies having a small margin of maneuver it can be tricky. A small currency move can alter the ratio and put them into trouble with credit rating agencies or/and lenders. In general, what a treasurer will try to do is to match his/her free cash-flows in currencies to the debt reimbursements in currencies.

WAYS TO CALCULATE EXCHANGE RATES USED UNDER CONSOLIDATION UNDER IFRS RULES

One element that can cause problem is the way the rates used are calculated for these leverage ratio components. Debt is normally computed at the spot exchange rate at the end of the period, while EBITDA is computed at the average rate during the period. This discrepancy can cause problems with the leverage covenants as the move of denominator and numerator may be different, even when debt and EBITDA are aligned to mitigate risks. It is more complicate than it appears to be properly hedged. Many factors can jeopardize the covenants (not only the debt to EBITDA).

OBJECTIVES AND SOLUTIONS, IF ANY

The company objectives are to find solution to protect leverage against rapid moves of some currencies of the EBITDA, to ensure that the timing of payments and reference rates are as close as possible at the end of the period, and to guarantee that accounting treatment is advantageous to the group. The solution resides in way to structure derivatives to pay the difference between the two rates used (if positive) and for the company to pay the delta to the bank, if negative.

There are three types of OTC derivative products, the company could contemplate. The first one is an average strike call (for which a premium must be paid). It means a sum of money to be received at the end of the period in case the average rate is higher than the closing rate. It would give a full protection and enable to even improve the ratio with no limit on the downside. It requires a premium payment as a downside. The second one, would be an average strike collar, therefore with no or limited cost. You sell a third currency put and functional currency call to mitigate part of the premium attached to the call, in foreign currency. As a zero-cost solution, it protects without giving opportunities to benefit from upsides (if any). Eventually, the third one can be an average strike forward, where you sell the third-party currency and buy the functional currency at the monthly average rate. This last solution gives a full protection at zero cost but involves potentially negative cashflows. With 2 currencies it is rather simple. With many, it can become complex. Hedging may be contemplated if you are sensitive to covenants and unable to renegotiate them. The sudden movements at year end can be disastrous. Rin reality, rating agencies have a longer-term view of leverage efforts and do not consider short-term sub-normal movements. We saw how compliance with a leverage covenant can be endangered by the rapid devaluation of one currency. Finally, we should never forget that a non-hedge accounting solution should never be preferred to a hedge accounting one (at equivalent results). The complexity here can be such that again a dedicated tool may be necessary to assess the situation and calculate risks. We encourage Currency Management Automation (CMA) Solution, likely not for this specific strategy, but for other repetitive ones to release treasurers from heavy and repetitive tasks. The good news is that these solutions, such as KANTOX, exist and work perfectly well. There are no excuses for not fully automating the FX processes from pre-trade to execution until post-trade processes; By freeing time, treasurers can become more strategic (like fort managing such covenants) and business be better protected.

UNLOCKING **HIDDEN CASH:** A STRATEGIC APPROACH TO TREASURY RESTRUCTURING

As Europe battles with inflation, treasurers contend with stricter macroeconomic policies and tighter financing conditions. Facing higher interest rates, firms must find alternatives to secure needed liquidity. Many companies are refocusing the treasury role on value creation, which involves scrutinizing operations and exploring asset evaluation, technology integration, and automation opportunities.

In what instance should firms consider a strategic overhaul of their finance structure?

Treasurers aim to optimize internal cash processes, streamline core operations, and avoid costly external funding, but may face challenges in mobilizing the group's own resources due to cash traps.
Limited visibility across group entities, dispersal of funds across many bank accounts, and complex financial structures with various local and group participants can make accessing internal cash reserves difficult. Sometimes, a strategic overhaul is required.

A critical consideration in this overhaul process is defining the required treasury team functions. Firms must evaluate the personnel, competencies, and assets required to optimize treasury operations. This introspection lays the foundation for a comprehensive restructuring plan that enhances the efficiency and effectiveness of the treasury function. Moreover, any restructuring initiative must adhere to substance requirements, encompassing personnel expertise, technological capabilities, and more. The aim is to create a treasury team that can handle current and future financial challenges with resilience.

What critical aspects must be considered when overhauling financial structures?

A key aspect which cannot be overlooked in the restructuring process is the tax impact, namely transfer pricing. Aligning business objectives and value chains typically calls for a shift of functions and roles. This is particularly important for private equity (PE) owned companies operating in Luxembourg, where collaboration between the tax department and the treasurer becomes essential to ensure that restructuring efforts do not compromise the company's substance.

When should firms consider a local or global structuring approach?

Assessing, designing, and implementing a restructuring plan smoothly necessitates a comprehensive strategy. A choice will have to be made regarding the targeted treasury structure, whether to adopt a centralized and global approach or a regional one. A centralized and global treasury model offers the advantage of consolidated control, standardized processes, and enhanced efficiency across borders. Conversely, a regional treasury model may present benefits in terms of agility, responsiveness to local market nuances, and tailored strategies that cater to specific regional demands. Both options have pros and cons.

The current market conditions present both challenges and opportunities for groups grappling with high interest rates and difficulties in debt raising. Unlocking hidden cash through strategic treasury team restructuring is a viable solution. For organizations seeking expert guidance in this transformative journey, our team stands ready to assist.

Jean-Bernard Dussert,
EY Luxembourg,
Partner, Transfer Pricing

Pierre Mynard,
EY Luxembourg,
Manager,
Treasury Services

DOES INFLATION **TAPEWORM** MAKE MNC'S MORE VULNERABLE TO SHOCKS?

FAST-GROWING INFLATION

According to the famous Warren Buffet, inflation acts as a gigantic corporate tapeworm (said in the 80'). Is this statement still accurate? And he even added that tapeworm pre-emptively consumes its requisite daily diet of investments in Dollars, regardless of the health of hosting organism. If you read the recent annual reports of large MNC's, we can read a litany of events explaining how they have blown the best-laid strategy off course and often into unchartered waters. Although the market impacts have dissipated, the legacy over the longer term remains in the form of increased energy and food scarcity, disrupted international supply chains and, in some countries, high level of inflation. C-suites, having dealt with sharp operational shocks, have now to adapt, once more, to rising input costs. It remains complex to adapt pricing to new realities and to change components to mitigate pressures. Even if specialists predict that positive productivity shock may arise from Artificial Intelligence, it remains tough to assess. The fragility of the post-pandemic economy, combined with the fractured nature of global politics makes business models more susceptible to further unexpected shocks. These conditions when mixed into an unstable pricing environment increase risks of a corporate misstep and deepen its potential impact. When capital is constrained, as today, it is difficult to maintain optionality, a high-value commodity in a changing world. Inflation represents a cost of capital crisis, but also a cost of investment crisis, challenging companies C-level to find new ways to survive.

SOFT LANDING WITHOUT RECESSION?

Tough to say whether we will face or not a soft landing of lower inflation without recession. Economists talk about "immaculate disinflation", nice, isn't it? We may say that all the main errors have been in underestimating inflation's strength and persistence rather than overestimating it. The facts do not suggest there need to be many more interest increases to eventually defeat inflation. But with underlying inflation still too high on both sides of Atlantic, there is almost no coherent case to be made that most of the monetary policy tightening was ill-conceived. No one can know how the economies would have fared had central banks done nothing. There is a little doubt that excess demand would be stronger, inflation higher and the problem of persistent price rises would be worse. The steps taken to contain inflation were therefore almost certainly necessary and there is little case yet shout mission accomplished. One aspect of fight against inflation that is amazing is the lack of pain. Unemployment is a t a record level, at least in US.

IS INFLATION BEHIND US?

Central bankers are under no illusion about inflation. Its threats persists and its outlook is complicated by structural shift in the global economy. However, the officials always claim that the current period is marked by unusual uncertainty. It is maybe true today given major shift operated. Central banks must reduce inflation and keep it under control. Demand in the US seems to remain persistently high and unemployment at its lowest levels, which do not help keeping inflation low(er). These elements and other could require higher interest rates for longer until inflationary pressures are definitely behind us. On top of that, supply conditions re far from being stable (again). Instead, economic analysis must encompass extreme supply shifts ranging from COVID lockdowns to fractures in supply chains to energy supply conflicts following war in Ukraine. Even the labor market trends are very difficult to assess with new home-working practices. We also face demographics and climate shifts spreading. Eventually Chines economy seems to slow down fast and Indian economy to boom. The world may deglobalize a bit and face a smaller growth in coming year. That's the current complex context we are facing. In this context, with high interest rates (for a while as we can predict), refinancing or funding can become critical (when crucial). This increased cost of funding and spreads could make life of treasurers complicate over next months and prevent from servicing the debt. Men should not subscribe to storm insurance when the tornado already started. Nevertheless, on the upside, companies are offloading their pension schemes to insurers at a record pace on both side of the Atlantic as higher interest rates have provided a further impetus to the sector. High rate means that MNC's can improve sharply solvency levels for workplace pension schemes, making a so-called bulk annuity deal affordable for many more businesses, and testing capacity in the market. In such deals, companies pay a premium to transfer a chunk or all their pension obligations off their balance-sheet to an insurer (e.g., in the US half of 23' = 22bln USD of pension liabilities shunted over insurance companies). Unfortunately, insurers will have to prioritize cases having best chance of securing a transaction. Economic changing conditions do fortunately not impact all companies the same ways.

TRANSFORMING **GLOBAL B2B PAYMENTS**

Frédéric Simon

An interview with Frédéric Simon, CEO of Convera Europe, a global B2B payments company, simplifies foreign currency payment management and risk coverage.

CAN YOU INTRODUCE CONVERA IN A FEW WORDS?

Convera is a global B2B payments company that brings people, technology, and commerce together to help companies of all sizes to manage foreign currency payments and hedge foreign currency risk. Our expertise in moving funds around the globe includes access to over 140 currencies and a financial network that spans more than 200 countries and territories. We provide technology-led payment solutions to 30K+ customers – from small business owners to enterprise treasurers, financial institutions to educational institutions, and law firms to NGOs. Our purpose is to make moving money so easy that any company in the world can grow with confidence. https://convera.com/en-lu/

WHY DID CONVERA CHOOSE TO ESTABLISH ITSELF IN LUXEMBOURG?

Convera chose Luxembourg as its European headquarters for several strategic reasons. First, its central location makes it a perfect hub for easy access to major European markets and our seven branches within the region. Secondly, we can tap into a large, highly skilled, and multilingual workforce to build a solid foundation for our European operations.

As a home to major players in the fintech and banking industry, Luxembourg has a large potential customer pool for us and provides an opportunity to liaise directly with financial industry decision makers. Furthermore, Luxembourg is an excellent environment for cross-border financial services products due to its growing economy, political stability, innovative data infrastructure and unparalleled financial services ecosystem that is both multilingual and specialized in international and pan-European business. The city also offers a highly developed, innovation-friendly, and responsive regulatory and legal environment.

Our CEO, Patrick Gauthier, who has previously worked at PayPal and Amazon Pay, was already familiar with the country's business environment and regulatory framework, and that played a pivotal role in the decision as well. Having recently obtained regulatory approval from the CSSF (Commission de Surveillance du Secteur Financier) for both payment and financial instruments, we were encouraged by working with a proactive and responsive regulator who showed interest in our operations.

Finally, the attractive weather and the warm welcome we received further solidified our choice. Convera aims to bring payment and risk management solutions to businesses in Luxembourg, thereby contributing to the local economy and fostering innovation.

WHAT WILL CONVERA'S FOCUS BE ON THE NEAR FUTURE; IS IT GOING TO BE PURELY FOCUSED ON PAYMENTS?

Not at all. It is an assumption that we plan to move away from FX hedging and focus only on payments. As always, our focus is to serve our customers, but we are investing heavily in technology to meet our customers' needs today and in the future. Our current product portfolio will stand as it is, but we are working towards building a platform that serves the diverse needs of our customer base.

Not only do we provide customers with a way to transfer payments across borders, but we also help them manage the impact of currency fluctuations on their business. We support them with solutions that help them gain confidence in how they run their business and predict their cash flows*. Through our annual reports, such as the Are You Ready for 2024, we empower customers with key insights focused on different industries, countries, and currencies.

CONVERA WAS IN THE NEWS RECENTLY ABOUT A COMPLETE MIGRATION TO AWS. CAN YOU TALK A BIT ABOUT THAT AND WHAT ARE SOME OF THE IMMEDIATE EFFICIENCY GAINS THROUGH IT?

Sure, the two key goals of this initiative were to deliver a faster payment network and enhance customer experience. Convera successfully completed the migration of its payments network and customer services to Amazon Web Services, Inc. (AWS). In a nutshell, it migrated petabyte-scale data across more than 200 applications, with hundreds of databases spread across four legacy data centers to AWS in a record time of under ten months.

Our AWS migration will help us enhance customer experience through a 64% decrease in patching time and reduction in human intervention due to automation. This allows for strong payment network resiliency, robust layers of security, and unparalleled scale. We have already noticed that the integration enables fully automated transaction processing with rates increasing up to 80% post migration. And the elimination of manual efforts for application server cycles through scripted automation has led to 75 percent reduction in timing (from 8 hours to 2 hours).

The migration also allows for new features and services to be developed and deployed faster using agile methods and enables us to quickly scale up or down its infrastructure on demand.

*Our hedging products are derivative financial instruments which may expose you to risk should the underlying exposure you are hedging cease to exist. They may be suitable if you have a high level of understanding and accept the risks associated with derivative financial instruments that involve foreign exchange and related markets. If you are not confident about your understanding of derivative financial instruments, or foreign exchange and related markets, we strongly suggest you seek independent advice before making the decision to use these instruments."

MORE INFORMATION ABOUT

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WHAT'S IN STORE FOR PSD3?

REVIEW OF THE PSD2/R, WHAT SHOULD BE IN IT?

What is the perspective of corporate treasurers vis-à-vis the PSD3/R? The current review of the Directive aims to address changing payment users' needs, leverage technological innovation, foster market integration and competition, and enhance consumer protection. Treasurers welcome all the objectives of the review of the Payment Services Directive (PSD2). However, treasurers want to highlight priorities of EU business end-users of payments. It is essential to identify potential issues directly impacting corporate treasury centers, when they conduct their operations.

TOP PRIORITIES AND KEY FOCUSES

None of the points for attention or clarification listed seem to us to be exaggerated or unjustified. That's why we believe they are all reasonable and, above all, "achievable". We will describe them further before listing them below. We could list the following points: (1) harmonizing treatment of corporate payment and collection factories by EU corporate treasury centers (PSR, Art 2.2m); (2) enabling access of non-banks to central payment transfer systems thereby fostering an innovative payments ecosystem (PSD3, Art. 46); (3) extension of mandatory IBAN-name checks to all credit transfers (PSR, Art. 50); (4) improving legal clarity on authentication of corporate-initiated refund payments (PSR, Art. 89); and eventually enhancement of Strong Customer Authentication via a 'Corporate Seal' (PSR, Art. 89).

HARMONIZED TREATMENT AND INTERPRETATION OF THE DEFINITION OF "PAYMENT FACTORIES"

The treasurers expressed the view that the interpretations made by the various NCA's, or national supervisors were not consistent. This problem stems from a logical clarification that needs to be made to the text to better define what a "payment factory" is, and the fact that it should not be considered a financial institution. Treasurers have asked via EACT and their FRAG group to review the text and to regulate to avoid misinterpretations or divergences of interpretation. The current exemption for corporate payment factories has been subject to varying implementation across Europe. A clarification in the current review of the EU payment regulation could certainly help removing confusion and risks. In our opinion, a payment factory, i.e., a central payment factory is aimed at paying and collecting on behalf of affiliates (belonging to a same group – i.e., fully controlled under IFRS), whatever the types of payments outside or inside the group, external and intragroup payments. Today, in some countries the Supervisors interpret it as a financial institution, with all related obligations if it includes external payments. We all know that a payment factory makes sense if it pays and also collects the external payments to suppliers and from clients. These suggested changes would ensure that the EU's treatment of payment factories is aligned with that of other jurisdictions, such as Switzerland, where centralized payment operations by these entities are fully exempted from PSP-authorization requirements. This would promote the competitiveness of the EU payments environment and avoid potential relocations of EU-based corporate payment factories to neighboring jurisdictions. Centralized payment management within a corporate group makes payment operation management more cost-efficient and reduces risk. Payment transactions between a parent undertaking and its subsidiary or between subsidiaries of the same parent undertaking which are provided by a payment service provider belonging to the same group and reception of funds and collection of payment instructions on behalf of a group by a parent company or a subsidiary should be excluded from the scope of this Regulation.

These suggestions are in the spirit of the Commission's proposal but attempt to align the legal text to the realities of EU business practices.

ENABLE ACCESS OF NON-BANKS TO CENTRAL PAYMENT TRANSFER SYSTEMS

Treasurers strongly support the Commission proposal to allow non-bank PSPs to access central payment transfer systems by amending the Settlement Finality Directive (SFD). The current exclusive access of banks to payment transfer systems creates a competitive disadvantage for non-bank PSPs who are required to go through a bank PSP when settling transfers. This situation indirectly creates additional costs (by reducing competition – which is not the objective of EU) for corporates and consumers. The 'Same Activity, Same Risk, Same Regulation' principle, non-bank and bank PSPs should comply with the same regulatory requirements.

EXTEND MANDATORY IBAN-NAME CHECK TO ALL PAYMENT TRANSFERS

As corporate end-users of payments, treasurers welcome the Commission's focus on tackling payment fraud, one of the most worrying topics for EU business today. I fully endorse the proposed extension of fraud prevention tools such as the IBAN-name check to all credit transfers. Treasurers call for these checks to be mandatory and free of charge to ensure maximum protection. For corporate end-users, a harmonized level of protection across standard and instant credit transfers offers a higher level of security against fraud and 'social engineering' cases. In the context of a tool like IBAN name-check, we recognize that there could be stronger ways to identify counterparties than their names (by the way, same arguments were discussed in the Instant Payment Regulation negotiations). Indeed, when it comes to a credit transfer between two legal entities, a unique entity identifier can be used as a complementary tool for the correct identification of the payee. Amongst the unique entity identifiers, EACT expressed its support exploring the inclusion of the global Legal Entity Identifier (LEI), a national tax identification number or local business registration number. The LEI can equally form an additional layer of protection in Corporate Seals. Since many corporates already use their LEI for other reporting or have such tax or business identification codes in their systems, an option to check the IBAN against a unique entity identifier (an entity's LEI or the mentioned codes) has the potential to form a reliable, digital age-proof, and tested global solution.

4. LEGAL CLARITY ON AUTHENTICATION OF CORPORATE-INITIATED REFUND PAYMENTS

Treasurers firmly support the intention to ensure that authentication measures for corporate-initiated refund payments are sufficiently strong and effective. However, the PSD2 framework currently requires such refunds to be authenticated by corporates, which do not always have the tools to do so. Particularly, the context of refund payments, the responsibility for Strong Customer Authentication (SCA) falls upon the merchants' PSPs, but these entities lack the protocols and interfaces to authenticate these transactions.

ENHANCE STRONG CUSTOMER AUTHENTICATION VIA A 'CORPORATE SEAL'

I also support measures contributing to better fraud prevention, AML/CFT, and sanctions compliance. This can be done through further enhancing SCA and facilitating the uptake of the Corporate Seal (issued by a recognized Trust Service Provider (TSP)) in conjunction with two-factor authentication (2FA). The Corporate Seal is both a contract concluded between the bank and the corporate as mutually trustworthy parties as well as a cryptographically high-level-secured-IT-connection between a corporate and a bank to perform payment instructions and for example receive bank statements in return. The implementation of a Corporate Seal obliges the corporate to comply with SCA and to check the identity and legitimation of the authorized signatory in the same way banks perform KYC onboarding checks. The Corporate Seal greatly improves efficiency, trust, and international ability.

FINAL COMMENTS AND RECOMMENDATIONS

We therefore feel that the excellent work of EACT is once again to be commended. Indeed, the association has expressed its position and the essential points to be considered. Initial discussions with the Commission and MEP's show that the treasurers' demands are reasonable and logical. We can therefore remain optimistic and believe that the new PSD3 will correct and complete PSD2 to enable it to go further and continue its framing of the payments environment and to frame the ecosystem to enable it to be more competitive, more efficient and to reduce costs. Let's be confident: with the next Commission, we'll undoubtedly have a PSD version 3.0 that's even more elaborate and efficient.

THE NEW TP DIRECTIVE: A DOUBLE-EDGED SWORD?

On 12 September 2023 the EU Commission presented a draft directive on transfer pricing[1] with the aim to establish a uniform set of transfer pricing regulations designed to standardize the application of the arm's length principle throughout the EU.

THE DIRECTIVE'S DEFINITION OF "ASSOCIATED ENTERPRISES" SEEMS TO BE STRICTER THAN THE LUXEMBOURG CONCEPT, WHICH INCLUDES "INTERESTED PERSONS[4]

What is the impact on Luxembourg?

The directive and Luxembourg tax law[2] follow the OECD's concept of the arms' length principle[3] so that the impact of the directive should remain limited. Certain differences subsist which may result in uncertainties: the directive only applies to cross-border EU-transactions, while the Luxembourg rules also cover domestic and non-EU transactions. The directive's definition of "associated enterprises" seems to be stricter than the Luxembourg concept, which includes "interested persons[4] . Luxembourg tax law also requires a larger application of compensating adjustments. Regarding corresponding adjustments, the directive does unfortunately not go much further than the OECD's guidance or Luxembourg domestic rules (a simplified fast-track procedure without the necessity to trigger a MAP[5] is nevertheless foreseen). Finally, the directive restricts the arm's length value to the interquartile range, while Luxembourg law accepts the entire range.[6]

When should the directive come into force?

The directive should be implemented by 31 December 2025 and apply as of 1 January 2026, provided that it is approved by all the EU Member States. Sweden has already made some reservations, e.g. that a global solution including non-EU States would be preferable

Is it a good initiative?

After the failed attempts by the EC to impose a stand-alone European concept of the arm's length principle in the Fiat case[7], one may welcome the adoption of the OECD's arm's length principle. Trying to harmonise the transfer pricing rules within the EU, with a view to reduce compliance cost and standardise administrative practice, seems as well a legitimate initiative. However, to the extent most EU Member States are also OECD Member States and already apply the OECD standards it remains questionable whether the directive is necessary. In addition, the EC reserves itself the possibility to add new rules in the future, which may be seen as yet another attempt by the EC to interfere in the Member States's tax rules.

1 Proposal for a Council Directive on transfer pricing COM(2023) 529 final.
2 See article 56 of the Luxembourg Income Tax Law dated 4 December 1967.
3 See Article 9 of the OECD Income and Capital Model Convention 2017.
4 See article 164(3) of the Luxembourg Income Tax Law dated 4 December 1967.
5 Mutual Agreement Procedure.
6 SeeAdministrative tribunal, 13 July 2021, 43264.
7 See Alain Goebel, Viktoria Dimitrova,"Fiat finally won the case: TP takeaways from a decade of litigation" International tax Review, February 2023 - https://www.internationaltaxreview.com/article/2bbi2g030nxg9mq6akphc/sponsored/fiat-finally-won-the-case-tp-takeaways-from-a-decade-of-litigation.
8 Except Malta, Cyprus, Bulgaria and Romania.

Alain Goebel,
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Arendt & Medernach.

RELATIONSHIP OF CORPORATE TREASURERS WITH CFO'S, AUDIT COMMITTEE AND BOARD.

The role of the treasurer has evolved over the years, and even more so since the various crises we have experienced. They are faced with an ever-increasing number of challenges, an ever-expanding scope of tasks and new financial regulations, in an increasingly complex economic environment. These challenges offer him an opportunity to reposition himself and to raise his profile by reminding himself of the importance of treasury. Its role can become as strategic as some claim. But is he capable of seizing this opportunity, and what is his relationship with the C-level? That's the question you need to ask yourself.

A CONSTANTLY EVOLVING ROLE

If there's one financial function that has undergone strong growth and many changes, it's that of treasurer. It is one of the most sophisticated, broadest, and most technical functions, requiring the most varied skills and IT tools. Apart from the arrival of IFRS, consolidation and accounting have not changed over the last thirty years. Management control is unchanged, and let's not even mention mergers and acquisitions, for which the only change is the method of financing (a treasury function). The scope of the treasurer's duties has expanded to include many different tasks, such as pension fund management, reinsurance captives, Enterprise Risk Management (ERM) sometimes, customer risk management, etc. Financial regulations have made the treasurer's life more complex. Each crisis has affected the function, and each is an opportunity to strengthen the legislative framework. The undisputed Master of Finance is cash or liquidity. Cash management is a kind of pulse of the company's financial health, which we forget can survive (accounting) losses but not once a lack of liquidity to meet its obligations. The treasurer is the knight of finance and the CFO's major pawn (if we compare to chess), his queen, or a rook, perhaps.

IS TREASURY THE ROYAL ROAD FOR THE FINANCE DEPARTMENT? PERHAPS NOT

We know that treasurers rarely end up as CFOs, although there are a few exceptions. A few recent cases in Germany might suggest that things are gradually and slowly changing. We can only rejoice. In my opinion, this is due both to a fantastic and unique job that's hard to give up, and to the character of the typical treasurer. Treasury is undoubtedly a gilded cage. It's surprising that this specialist in financial risk management doesn't more often become the CRO (i.e., Chief Risk Officer). He is in the best position to manage, mitigate and quantify risks. And yet... few become CRO's... We don't prepare them to change roles during their career. What's more, with so much to do with multiple crises, poly-crises, challenges of all kinds, he lacks the time to campaign to become CFO. He's so busy that he forgets to manage his own career. It's a shame, yet so common. He has many opportunities to shine, but either he doesn't take them, or he comes back into the limelight for a fleeting crisis, and then he's forgotten. Financial memory is special in that it is short. A treasurer whose work is valued and who has the support of the CFO in general will have a more successful career and a greater chance of becoming CFO than one who is left to his own devices. It's a question of culture. The company's financial situation is also an important factor and will place greater or lesser demands on the treasury position.

RELATION WITH THE C-LEVEL

Admittedly, the relationship with the C-suite has grown over the years. It's true that he must produce more content for the Board and Audit Committee than ever before. But here again, it produces without necessarily presenting. Audit Committees receive tons of documents, but in the end they are more accounting documents than financial or treasury documents. What should be the central part of the reports is sometimes a minor part of the report to the Audit Committee. The relationship is generally good, though not perfect. Let's just say that it has improved over time. It seems to us that the presence of the Treasurer would be essential for any Audit Committee. On the other hand, perhaps not on the Board of Directors (unless you belong to the "C" level). Admittedly, each crisis has put pressure on the treasury department, but has also repositioned it (at least temporarily).

TECHNOLOGY, THE ENABLER TO BECOME (MORE) STRATEGIC.

Technology is the ideal way to reposition yourself and become truly "strategic". By using technology, we can reinforce internal controls, lighten the day-to-day workload, and enable the treasurer to concentrate on analysis and even more on strategy, by not just producing figures and analyzing them, but also making recommendations to the C-level. Technology now makes it possible to achieve a real level of hyper-automation, with ever more powerful solutions and above all consolidation tools, such as FENNECH, to extract the quintessence of the various solutions and give them what they sometimes lack. Rather than digitizing or thinking that a TMS means being automated, we need to go to the next level, the level of what I call hyper-automation. It's a long road, and a goal that never stops being pushed back. Too many treasurers rest on their laurels and neglect automation by accepting spreadsheets. In a post-WIRECARD world, it's more important than ever to demonstrate excellence in treasury management.

WHAT THE TREASURER NEEDS TO REPOSITION HIMSELF

The first thing he or she lacks is the ability to communicate better and "sell" himself/herself. The ability to synthesize figures and reports to get to the heart of the matter. He/she needs to stop believing that "more is better" when it comes to financial reporting. He/she needs to be concise. Finally, he/she needs to get closer to the operational subsidiaries and develop partnerships with operations. To evolve towards the strategic role, he/she is promised, he/she must pass through an essential stage: automation. Technology is the vector that will enable him/her to move from a role that is still too operational, to a role that is partially analytical and above all strategic. But to become more strategic, it needs to improve the efficiency and quality of what it produces. It's no longer enough to produce a report, but to produce it reliably, more rapidly, not to say immediately, and with relevant recommendations. When you lose yourself in the pain of producing figures, you end up forgetting how to interpret them. Freeing up time is therefore a prerequisite for any strategic evolution. We believe that curiosity is also a necessary quality, given the constant evolution of the function.
We shouldn't forget that very few CFOs have a treasury background. Is it a lack of interest in treasury? An unfamiliarity with this technical function? A background as a financial controller? It's hard to say why so few CFOs come from a treasury background.

THE TREASURER'S FUTURE MAY LIE IN BECOMING A CLO

We could see the treasurer becoming a kind of "Chief Liquidity Officer" (i.e., CLO). To do this, we'd need to add a new "C" and bring him even closer to the CFO and/or his/her Deputy. If cash is king, then its stewardship must be a priority and entrusted to seasoned professionals with greater power. Its repositioning is well established, but it is magnified during a crisis, and temporarily returns to the limelight until the crisis fades. This title would be the perfect recognition of his/her crucial and enhanced role. The treasurer's humility should not hide his/her enormous skills and potential. Whatever happens, his/her role will continue to grow and develop and further crises will regularly remind the CFO of it. It's up to each treasurer to reposition himself or herself more appropriately, and to work on personal branding and communication to convince superiors of his or her intrinsic value and under-exploited abilities. I see a bright future for the modern treasurer, capable of acquiring the "soft skills" needed to evolve.

THE IMPORTANCE **OF DATA FOR TREASURERS:** EMBRACING THE ERA OF «TREASURY ON-DEMAND»

In the rapidly evolving landscape of finance, treasurers face a pressing need for real-time information and efficient decision-making. To meet this demand, the concept of "treasury on-demand" has emerged, highlighting the necessity for treasurers to dematerialize and digitize their operations to enhance resilience. In this digital era, data has become the lifeblood of effective treasury management, making it essential for treasurers to adopt a data-driven mindset and prioritize the quality and utilization of data over technology alone.

A STRONG DATA FOUNDATION: THE BEST LINE OF DEFENSE

Treasurers must recognize that strong data serves as their best line of defense against risk. Traditional, low-tech treasury practices pose significant risks to any company, as they are prone to errors and lack the agility needed to navigate today's complex financial landscape. The digital transformation of treasury operations is vital, as it enables treasurers to free themselves from mechanical and repetitive tasks while minimizing the potential for mistakes. The key to achieving this lies in intelligent automation, which streamlines processes and enhances efficiency, ultimately empowering treasurers to make more informed decisions.

DATA: THE CORE ELEMENT OF DIGITAL TRANSFORMATION

In the pursuit of digital transformation, it is crucial to understand that data takes precedence over technology. Although technology plays an integral role in scaling and utilizing data effectively, the quality of the data itself acts as the foundation, often referred to as the "digital asset." Many companies mistakenly place excessive reliance on technology, erroneously assuming it to be the primary driver of success. However, true success lies in the ability to comprehend and communicate about data. Data literacy is rapidly becoming a vital skill in the 21st-century, enabling individuals to ask the right questions and actively participate in data-driven conversations.

THE VALUE OF DATA AND EFFECTIVE DECISION-MAKING

Data holds immense value only when accompanied by actionable insights. Before harnessing data to solve problems and make informed decisions, it is crucial to fully comprehend the underlying issues and explore how data can provide solutions. However, it is equally important to differentiate between the data that can be obtained and the data that is truly valuable. Wasting time and resources collecting irrelevant data hampers progress. To avoid this trap, treasurers should consistently ask themselves, "If I had the data, what could I do?" This question helps focus efforts on acquiring the most meaningful and impactful data.

FOSTERING DATA LITERACY AND A DATA-DRIVEN MINDSET

Organizations today are inundated with data, evident in the proliferation of reports and dashboards. To navigate this data-rich environment, treasurers must evangelize and champion data literacy throughout their organizations. Data literacy empowers individuals to interpret and communicate insights effectively, enabling them to leverage data as the world's most valuable asset, as proclaimed by The Economist. Embracing powerful analytics and data mining as essential skills facilitates a better understanding and utilization of data, helping treasurers extract meaningful insights and drive positive business outcomes.

UNLOCKING THE POTENTIAL OF APIS AND REAL-TIME DATA EXCHANGE

While many treasuries still rely on scheduled, file-based systems for data exchange, the emergence of Application Programming Interfaces (APIs) offers a transformative solution. APIs enable seamless data exchange between software applications in real time, eliminating the need for scheduling and providing treasurers with immediate access to critical information. Embracing APIs and real-time data exchange enhances the agility and responsiveness of treasury operations, enabling treasurers to make informed decisions quickly and efficiently.

LEVERAGING DATA FOR GROWTH AND PERFORMANCE

In the pursuit of data-driven treasury management, the ultimate goal is not simply to extract as much data as possible, but rather to leverage data strategically to drive growth, reduce waste, enhance customer satisfaction, and improve overall company performance. Effective data utilization requires treasurers to adopt a storytelling approach, transforming data facts into actionable insights that resonate with stakeholders. By effectively communicating the value derived from data, treasurers can drive organizational buy-in and foster a culture of data-driven decision-making.

In summary, treasurers must recognize the significance of data as they navigate the evolving financial landscape. Embracing a data-driven mindset, prioritizing the quality of data, and leveraging technological advancements such as APIs and analytics are essential steps toward achieving real-time treasury operations. By harnessing the power of data, treasurers can empower their organizations, enhance decision-making, and drive long-term success in the digital age.


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Benjamin Defays,
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CASH, THE LIFEBLOOD OF BUSINESS.

Many companies, especially medium-sized and small ones, all too often forget the importance of maintaining a good treasury and enough liquidities. In fact, a company can make ten years of book losses without going bankrupt. On the other hand, if it cannot meet its obligations, it goes bankrupt through cessation of payments. There are even profitable companies that disappear for lack of liquidity. Access to liquidity is therefore the sinews of war. That's why we need to preserve and secure it. And by the same token, company size is no excuse for not managing treasury with care. What are the rules to follow for a company, and even more so if it's a small one?

Cessation of payment, cause of bankruptcy

We often forget that a company can easily survive accounting losses (provided it has sufficient equity). On the other hand, if a company is unable to meet its obligations at a given point in time, due to a lack of liquidity, it will go bankrupt immediately. Stoppage of payment is therefore vital and fatal. To avoid it, you need to ensure and protect yourself in every possible way against any liquidity risk (e.g., with back-up lines of credit, with an invested cash reserve, with optimal and dynamic management of working capital requirements, with sufficient or increased capital, etc.). And when you have liquid assets (or what we call "cash equivalent"), you need to optimize their management, to increase yield and to place them in short-term positions so that they can be rapidly mobilized and accessed. Liquidity only makes sense if it is accessible. Indeed, if a company has holdings or subsidiaries, even if they are controlled or consolidated, and cannot access their cash, it cannot be considered as «accessible» and usable cash. To avoid this situation, you need to be prudent and manage your cash flow, even if you don't have a treasurer. Excess liquidity does not necessarily have to be distributed, and having a reserve or cushion to absorb extreme situations is good practice. Similarly, it is advisable not to maximize leverage by taking on too much debt. Too often, SMEs are undercapitalized and overleveraged.

Confirmed lines of credit

The second piece of advice is to negotiate a "committed» back-up credit line to act as a safety net in the event of financial problems. Think of COVID, a sharp rise in the price of raw materials, a delay in the delivery of materials, a war, etc. Opportunities abound, and risk management recommends taking out insurance by setting up an unused but usable line of credit in case of need. The art lies in properly defining the size of the lines to be set up (too small and they create liquidity risks, and too large and they cost too much and pose risks).

Consolidation, the «must-have

Consolidation is often avoided by medium-sized companies, out of a concern to cut costs, «bury the fish», hide certain things from their stakeholders, etc. Admittedly, it is a costly and time-consuming exercise, but necessary and ultimately compulsory to enable the bank to measure risks and protect itself by granting credit to the umbrella company and avoiding «structural subordination», fatal to large, over-decentralized groups. Consolidation is the bane of SMEs, and that they fear it even though it provides clarity, visibility and transparency. A company with nothing to hide won't refuse to consolidate its accounts. There have been too many cases of fraud in recent times for consolidation and auditing to be imposed.

The banking relationship: a risk to be managed.

We can only advise you to dynamically «manage» your relationship with your bankers, and not to do so passively or only when you need to. You don't develop a relationship when you need it, but when you don't, so you're ready when you do or would need it. It's a risk: the risk of losing your banker or not finding one, and to mitigate it, you must manage the relationship by investing in developing it and providing support if and when it's needed. This is why you need to avoid using too many banks or, conversely, having too few and becoming too dependent on them. The banker's profitability will sustain the relationship. It's important to keep this in mind, and to distribute your operations fairly.

Anticipating future flow forecasts, a preventive tool

«Gouverning, it is predicting; and not anticipating, it is running at its loss» (Emile de Girardin - La politique universelle / 1852). We could also say that to manage is to foresee, and to foresee nothing is to run to financial ruin. Here again, the small business doesn't see future cash-flow forecasting as a solution, a tool, an insurance policy, rather than a cumbersome, imperfect, useless or costly task. Of course, it's complicated and time-consuming to set up, but it's vital if we are to survive and anticipate future needs.

"Working" liquidities

It is interesting to invest excess liquidities to maximize returns. Money can't sleep, it must remain liquid, but we must extract the maximum yield. Here again, we see too many SMEs letting their money «sleep» in their bank accounts. This only makes their banker happy. On the other hand, it is essential to have cash «invested» in the short term (so that it remains liquid and can be mobilized quickly - the very essence of the word «liquid»). You'll be able to extract a return on your cash while keeping it «available». Liquidity is the blood or oxygen that enables you to adapt and satisfy cash requirements to pay off debts and keep pace with the seasonal nature of your operations. Working capital can also be managed and optimized. Liquidity doesn't just come from shareholder capital, credit lines or excess cash. It also comes from optimized management of working capital.

Outsourcing, the panacea

Too often, the CFO will claim that he/she doesn't have the resources or the treasury expertise in-house. Admittedly, this is the case for many companies. We can advise them to appoint someone who will be responsible for all or part of this task, and train or coach them. Treasury management can also be outsourced via a Treasury as a Service (TaaS) solution, which offers tools and ad hoc personnel. The «it's not affordable» excuse is no longer an option, these days.

Survive a hemorrhage and die for lack of oxygen!

A company «could survive a reasonable hemorrhage (i.e., accounting losses) and perish from a two-minute lack of oxygen (i.e., lack of liquidity). There are all too many cases of companies that are described as «profitable» but perish for lack of cash. This is the case of companies that grow too fast. A company's survival depends not only on its ability to sell its products and services, but also to satisfy its creditors and pay off its debts to avoid bankruptcy.

PHYSICAL **CLIMATE** RISKS

WHAT ARE PHYSICAL CLIMATE RISKS?

Physical climate risks refer to financial risks that arise directly from the physical impacts of climate change and climate events. They are categorized into chronic and acute risks. Chronic risks refer to climate variability, gradual temperature and precipitation shifts, or sea-level rise. Acute risks are extreme events such as floods, droughts, heat and cold waves, wildfires, and storms, whose frequency and severity are amplified by climate change. Physical hazards affect businesses every day.

Physical climate risks have very tangible financial consequences today, and they are expected to increase rapidly, especially in Europe where temperatures are rising more than twice the global average. They affect sales, production costs, working conditions, productivity, and cause disruptions and damage to assets, infrastructures, and supply chains. They directly affect the businesses' cash-flows, asset values, and credit ratings.

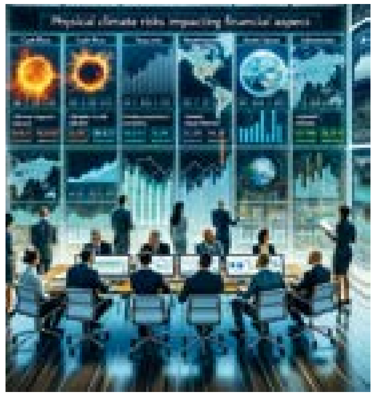
WHAT ARE THE DIMENSIONS OF PHYSICAL CLIMATIC RISKS?

Physical climate risk assessment involves evaluating various critical dimensions, including the nature and location of each peril, its present value based on historical data, future projections, and the characteristics of at-risk assets. About ten standard perils, such as thermal stress, heatwaves, cold waves, droughts, floods from precipitation or flash floods, storms, forest fires, and rising sea levels, are recognized for their widespread effects across most business sectors. Additional perils may be pertinent for specific companies or sectors.

Risk projections generally align with the IPCC's greenhouse gas emission reduction scenarios, with treasurers typically focusing on a projection horizon of up to ten years. This period balances the immediate impacts of climate change against the longer-term nature of adaptation strategies.

The assessment also hinges on the characteristics of the assets at risk, like warehouses, plants, or key suppliers, and their operational or financial attributes, such as their contribution to company margins, employee involvement, or energy consumption. Understanding these factors enables the calculation of each peril's value at risk and facilitates the consolidation of this information to gauge overall risk exposure comprehensively.

This process mirrors how treasurers



determine a net currency position, applying stress with implied volatility to ascertain the value at risk, providing them with the necessary information to manage and mitigate physical climate risks effectively.

AS PHYSICAL CLIMATIC RISKS ARE NEW TO CORPORATES, ARE THERE SPECIALIZED SERVICE PROVIDERS AVAILABLE WHO FOCUS ON ESTIMATING PHYSICAL CLIMATE RISK?

Physical climate risk may be a relatively new concern for some companies, but it's already a familiar issue for investors. In response to investor demand, rating agencies offer company-specific climate risk scores, akin to credit or ESG scores. These scores, which may range from 1 to 5 or use color-coding from green to red or letter grades like A to C, depending on the provider, offer a quick reference for asset managers. They can use these scores to easily compare and select between two assets, identifying which is ostensibly less exposed to climate risk.

But the reliability of these scores is being questioned, particularly due to the characteristics of company assets that are used, which are generally not provided by the company themselves. Initial studies have indicated that scores can vary or even diverge significantly between different providers. This variability raises concerns about the dependability of these scores for making informed, risk-based decisions in a corporate setting. Moreover, such simplistic scoring systems are inadequate for treasurers, who require detailed figures and the capability to simulate various scenarios. For instance, a treasurer would find little use in being told that their FX exposure in EUR/USD is rated as 'orange' or '2 on a scale of 5.' This lack of detailed information is similarly unhelpful in the context of climate risks. Treasurers need precise data to accurately size investments and evaluate the return on investment against the actual reduction in risk.

PHYSICALCLIMATERISKS WAS BORN OUT OF THIS LACK OF ACTIONABLE PHYSICAL CLIMATE RISK MEASUREMENT?

Precisely. Physicalclimaterisks emerged in response to the pressing need for actionable physical climate risk measurements. Our team brings years of experience in climate risk measurement and management to the table. We've worked collaboratively with operational and financial corporate managers, harnessing collective intelligence, to create a climate risk assessment platform tailored to meet the specific needs of each treasurer.

WHAT MAKES PHYSICALCLIMATERISKS DIFFERENT FROM EXISTING SOLUTIONS?

Our platform is the result of practical insights gained from collaborations with risk managers, focusing on ensuring effective climate change adaptation for their companies. We offer the same level of data transparency and methodological clarity that treasurers are accustomed to in managing other risks. We focused on creating a set of transparent, replicable, and auditable risk metrics based on certified historical data from Copernicus (ERA5) and over 20 global climate projection models (CMIP6). We avoid proprietary data and opaque practices, ensuring that every risk measure or score is transparently calculated and based on publicly available, certified data. Our platform enables treasurers to identify and rank each asset according to its current and projected risk over the selected time horizon, based on the chosen IPCC scenario. We provide a second metric that pinpoints assets most likely to incur significant damage or loss, using historical and projected data. A third metric assesses the rate of risk evolution, again based on historical and projected data. These three dimensions of risk analysis allow treasurers to effectively prioritize assets most at risk.

In our approach, treasurers input the characteristics of the assets, and our platform applies climate perils to each, generating actionable risk indicators for direct use in decision-making. This empowers operational managers to make decisions, distinguishing our solution from existing ones that assign a color or grade to a company. Our goal is to enable operational managers to act on information they understand and can easily access, to enhance their company's resilience and capacity to adapt.

NEW ACCOUNTING AND SUSTAINABILITY RULES WILL APPLY TO MANY COMPANIES FROM 2024. HOW DOES PHYSICALCLIMATERISKS HELP COMPANIES?

Indeed, IFRS S2 and CSRD (ESRS E1) will require most companies to disclose at least the proportion of assets materially exposed to climate risks and the associated monetary value. With Physicalclimaterisks, reporting is generated automatically. It's just a click away

IS THE ONLINE PLATFORM ALREADY AVAILABLE?

The platform is not yet available online, but it is fully operational on our intranet. We are currently providing all the necessary risk assessment elements and actionable indicators to companies. Treasurers simply need to contact us and specify the assets they want to include in the risk assessment. Our goal is to ensure that the platform is user-friendly and efficient, so we are actively seeking funding to enhance its ergonomics. This improvement will enable each treasurer to independently manage their company's resilience, making the platform a more effective tool for navigating climate risks.

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Jean-Louis Bertrand,
CEO Weatherisus

EMIR, OR ECHTERNACH SLOW PROCESSION

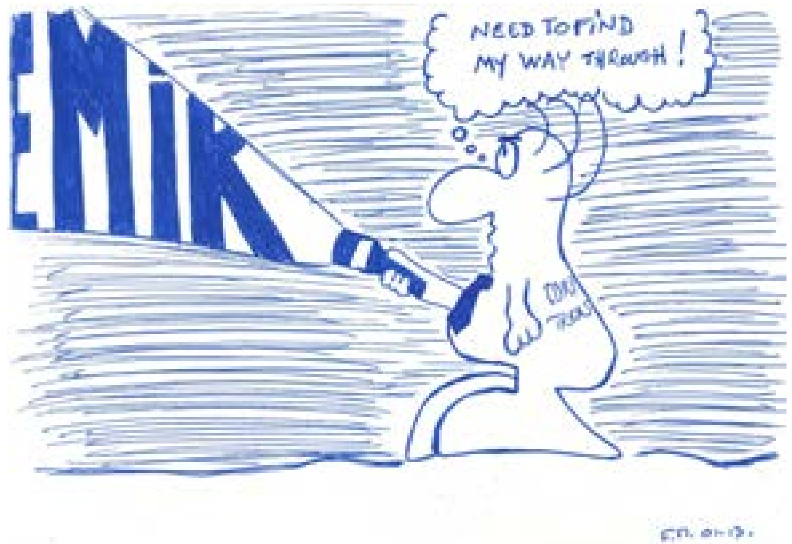
European Market Infrastructure Regulation (better known by its acronym "EMIR") is the most talked-about of all, especially in the wake of a financial crisis. Hedging foreign exchange (FX), interest rates and commodities is the very basis and essence of the treasurer's job. Risk hedging is the treasurer's DNA. Amending the regulations governing OTC derivatives is certainly a useful way of marking out and securing the markets. However, this must not be to the detriment of companies and the "real economy". Revising EMIR again and again to roll back tried and tested gains and call into question the robustness of a tried and tested system could be highly damaging and counterproductive. Let's look at some of the political ideas that could have a lasting impact on the treasury profession.

ECHTERNACH PROCESSION ?

Taking three steps forward, only to take two steps back, has never helped anyone move forward. Treasurers and financiers need stability, to know what legislative environment they're operating in. Constant change, however justified, is detrimental to the markets. Uncertainty is never good for market equilibrium. We have seen the extent to which the European Commission, pushed by the European financial watchdog, i.e., ESMA, has tried to propose measures to revise the well-balanced and adjusted EMIR refit. It thought it would leave it to ESLA to review the definition of the concept of hedging, which is a risk. It seems to us that this concept should be perfectly aligned with the definition in IFRS9 (formerly IAS 39), and therefore be largely "principle-based" rather than "rule-based", leaving room for restrained interpretation. It is up to each one of us to demonstrate to the national supervisor that our OTC hedges are indeed allocated to this objective. The principle of the "hedge accounting" exception, if one qualifies for it, should be sufficient to demonstrate the objective pursued. It frequently happens that a company has 100% of its OTC derivative transactions effectively dedicated to hedging. It seems to us, therefore, that there is no point in going back on this definition. Let's be consistent and align our definitions with those of accounting standards.

A MISCONCEPTION...

The second false "good idea" or misconception was to revisit the possibility of exempting inter-company OTC derivative transactions from reporting. Here again, a treasurer hedges the underlying risk of a subsidiary through an internal transaction mirrored on an external transaction with a bank. The intercompany transactions cancel each other out, leaving only the external transaction consolidated. So why on earth report what cancels out? EMIR refit had corrected this nonsense, and now we want to call it into question and take a few steps backwards on the incomprehensible pretext of "greater transparency". The problems of a few energy



companies, on products traded on organized markets (and therefore not OTC derivatives) should not impact all industries, and even more so on other products. Regulated products require collateral, and the difficulty of financing this collateral cannot be erased by removing the reporting exemption for inter-company OTC transactions.

CONCEPT OF "GROUP"

Moreover, the Commission proposal introduces a change in Article 10(3) by removing the existing reference to the company 'group' as regards the OTC derivatives contracts that are considered hedging – and thus do not count towards the calculation of the clearing thresholds. The new wording seems to imply that to meet the 'hedging exemption', the underlying business risk would have to be in the same entity carrying out the derivative transaction. With centralized treasury functions this test would hardly ever be met. This is because, with centralized treasury functions, it is the group treasury that enters derivatives transactions with financial markets on behalf of the local business entities that have the underlying business risks. This could de facto lead to the end of all the centralized treasury functions, which are an international best practice well established for all corporates. The rationale behind the article 10.3 change has not been detailed, but the solution is to stay with current EMIR wording. Again, they would alter the essence of treasury function consisting in centralizing operation for efficiency and cost reasons.

NEVER SHORT OF IDEAS...

But even more worrying are the draft amendments suggesting the removal of the hedging exemption for European non-financial entities (see amendments 305 & 306). European companies are not sitting on piles of cash, and refinancing is becoming a problem as rates rise. Borrowing to put collateral in place to "guarantee" OTC derivative transactions and their "fair value" variations would be complete nonsense. Wouldn't the risk be that European companies would relocate, hedge with counterparties outside the European Union, or even worse, no longer hedge at all? Giving European companies a competitive disadvantage was certainly not the intention of the founding fathers of the union, nor of the current Commission.

"MUST HAVE"

No, hedging is not a "nice to have", but it is a "must have" for EU NFC's. The "real economy" hopes the current EMIR refit will remain as it is now. Central clearing is not an option for EU NFC's. If we change the rules, we may kill a market, the hedging and impact corporates. If EU companies are no longer able to manage some risks (i.e., FX, IR, commodities) which are not core business risks, and which their competitors in other parts of the world are still able to manage, that makes EU MNC's extremely vulnerable in the global economy. Political leaders want to create "EY economic security", want to grow "EU champions" in strategic sectors, increase competition in Europe. Such a move on EMIR re-refitting would directly impact those ambitions as it would massively put EU MNC's at a competitive disadvantage. How could we claim to have a vibrant and attractive capital and derivative market if its regulatory regime is pushing its non-financial end users to set up outside of the EU to meet their derivative needs? That is the question we all have in mind, and we expect the EMIR re-refitting will not turn into a sort of Echternach procession.

DISCLAIMER

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

HOW TO BEST BALANCE
ITS SHORT-TERM INVESTMENT PORTFOLIO FOR CORPORATES?

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. There is no one-size-fits-all solution, but here are some general guidelines that may help you:

Diversify your portfolio across different asset classes, such as stocks, bonds, cash, and alternative investments. This can help reduce your exposure to market fluctuations and enhance your returns over time. One easy way to create a diversified portfolio is to invest in mutual funds, exchange-traded funds, or index funds — all of which are invested in multiple securities — versus individual stocks, thereby reducing risk1.

Align your portfolio with your short-term and long-term goals. For example, if you need to access your funds within a year or less, you may want to allocate more of your portfolio to cash or cash equivalents, such as money market funds, certificates of deposit, 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 stocks or other growth-oriented assets that can offer higher returns over time2.

Rebalance your portfolio periodically to maintain your desired asset allocation. Portfolios naturally get out of balance as the prices of individual investments fluctuate over time. Rebalancing means selling one or more assets and using the proceeds to buy others in order 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 mix2. 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 your personal circumstances3. You should also consider consulting a professional financial advisor who can help you design and manage your portfolio according to your specific needs and preferences.

I hope this information helps you balance your asset management portfolio for a corporate. If you have any further questions, please feel free to ask me.

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:

DIVERSIFICATION:
Spread investments across different asset classes and instruments to reduce concentration risk. Diversification can include cash equivalents, money market instruments, and short-term fixed-income securities.

CASH EQUIVALENTS:
Keep a portion of the portfolio in highly liquid cash equivalents, such as Treasury bills and commercial paper. These provide safety and quick access to funds.

MONEY MARKET FUNDS:
Invest in money market funds that offer competitive yields while maintaining liquidity and safety. These funds typically invest in short-term, high-quality debt securities.

CERTIFICATES OF DEPOSIT (CDS):
Consider CDs with varying maturities to match your cash flow needs. They offer higher yields than standard savings accounts and are insured up to certain limits.

SHORT-TERM BOND FUNDS:
Allocate a portion of the portfolio to short-term bond funds. These funds invest in a mix of short-duration bonds, providing relatively higher yields than money market instruments.

TREASURY SECURITIES:
U.S. Treasury bills, notes, and bonds are considered among the safest investments. Treasury bills, in particular, offer short-term maturities and minimal credit risk.

COMMERCIAL PAPER:
Invest in highly rated commercial paper issued by reputable corporations. Commercial paper is short-term debt with maturities typically ranging from a few days to a few months.

CORPORATE BONDS:
Consider short-term corporate bonds issued by financially stable companies. Focus on investment-grade bonds to minimize credit risk.

MUNICIPAL BONDS:
Explore short-term municipal bonds for potential tax advantages. Be cautious about credit quality and ensure that they align with your risk tolerance.

FLOATING RATE NOTES:
Floating rate notes (FRNs) can provide protection against interest rate fluctuations as their interest rates adjust periodically based on prevailing market rates.
Treasury Inflation-Protected Securities (TIPS):

TIPS can provide a hedge against inflation. Consider adding them to the portfolio to preserve purchasing power.

LADDERING:
Create a ladder of investments with staggered maturities. This strategy ensures that funds mature at different intervals, providing liquidity and flexibility.

RISK ASSESSMENT:
Continuously assess and reassess the credit risk associated with your investments. Stay informed about any downgrades or changes in creditworthiness.

STRESS TESTING:
Conduct stress tests to evaluate how potential economic or financial shocks might impact the portfolio. Adjust the composition as needed to mitigate risks.

PROFESSIONAL GUIDANCE:
Consult with financial advisors or treasury professionals who specialize in corporate cash management to tailor your investment strategy to your specific needs and risk tolerance.

REGULATORY COMPLIANCE:
Ensure that your investments comply with any regulatory requirements or investment policies that govern your organization.

Remember that the allocation to different investment products should align with your corporate's financial objectives, risk tolerance, and liquidity needs. Regularly review and adjust your short-term investment portfolio as market conditions and financial goals evolve.

Simply Treasury

WHITE PAPER

FOCUS

TMS SELECTION

SPOTLIGHT

VOICES OF THE INDUSTRY

LONG-TERM INVESTMENT

"I think that the selecting the right TMS tools is never an easy exercise. The choice of the T(R)MS come with high stakes not only because of the functionalities supported is a crucial task, but also because our companies usually will use these solutions for more than a decade".

Patrick Verspecht (TRILLIUM)

CHALLENGES OF TMS SELECTION

"The decision of the TMS to be implemented will impact the organization with long-term effects. A wrong or sub-optimal selection would increase frictions the treasury team will face day after day. New technologies are promising significant enhancements. However, higher expectations placed on treasurers and their broader scope of responsibilities increase the pressure in selection higher than ever".

Marco Pescarolo (FERRERO)

TREASURY DIGITIZATION PASSES THROUGH MORE MODERN TMSS

"Digitization also passes through a change of TMS, to better fulfil new treasury needs and faster respond to top management increasing demand. Starting by an IT roadmap may be a good idea. Once we know precisely what we need, we are better placed to launch a comprehensive RFP and to explore the type of technology required to modernize our treasury organization".

François Masquelier (Vice-Chairman of EACT)

HOW TO BEST CHOOSE A TMS?

CONTEXT:

The strategic importance of treasury organization has steadily increased over the past few years. The recent COVID crisis has re-emphasized the key role of treasury in critical economic situations. It has become more important and reflects the increasing complexity of business strategies and high expectations from the C-level to respond and fast changing environment we must face. CFO's want scalable, proactive, digitalized and performing treasury organizations to be more resilient and well-armed to struggle with liquidity and market volatility issues.

CONDUCTING A TMS SELECTION:

In such a complicate economic environment, it is crucial to define a solid forward-looking treasury organization and the choice of the optimal TMS is one of the major steps. Many multinational companies still have outdated treasury management systems, in place for ages. They fear changing tools in this post-COVID recovery phase. However, it is the perfect timing to revamp the treasury organization and treasury digitization passes by a best-in-class TMS implementation. Companies have come under increased pressure from all shareholders and supervisors to increase transparency and to improve financial performances. The solution will come from technology innovation, more automation, further centralization, and a complete redesigning of the treasury operating model.

TMS AT THE FOREFRONT OF DRIVING AUTOMATION OF TREASURY FUNCTION:

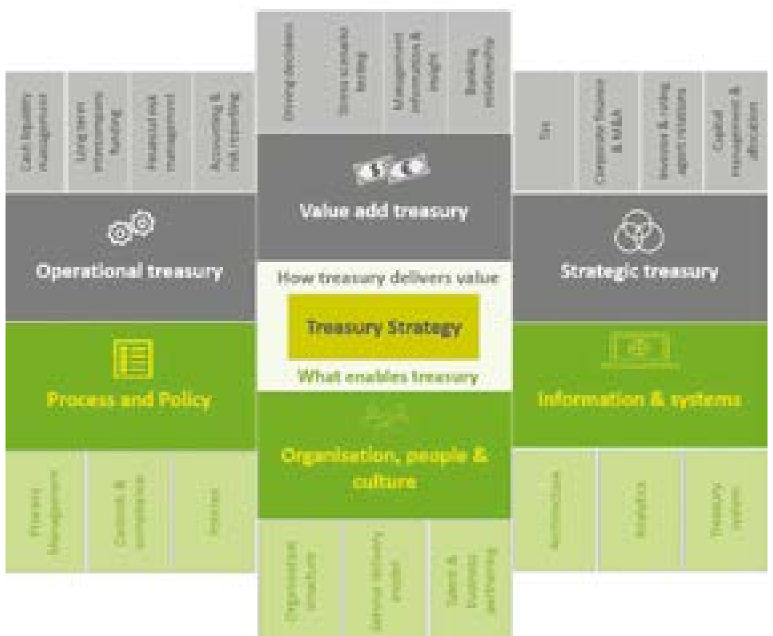
TMSs, as technologies, have changed in the last years. This treasury IT organization back-bone delivers today more powerful functionalities, faster and more secured processes but also it enables a full automation of treasury functions. TMSs, a central piece of treasury IT architecture, have been at the forefront of driving automation of the functions, straight-through processing, and integration with other systems. Nevertheless, to reduce the usual need of customization and to present the maximum options to fit specific business requirements, the choice of the most appropriate TMS solution is extremely important.
The main objectives of a treasury organization are to preserve liquidities, protect financial assets and deliver dashboards and reports to help CFOs taking faster decisions. For achieving these objectives, treasurers need flexible and scalable technology infrastructure, secured connectivity to banks, fully integrated database, and automation of reporting production.

FACTORS INFLUENCING TREASURY TECHNOLOGY:

Treasury organization and development are influenced by several factors:

1. The fast developments and the growth of the company, coming often from acquisitions to be integrated.
2. The new regulations, accounting standards and tax provisions (including Transfer Pricing rules).
3. The high demand from CFOs who want a more agile treasury organization and treasury in real-time and upon demand, able to react faster, be more accurate in reports delivered and in risk analysis.
4. The increased pressure on costs to be cut and limited human resources.
5. The treasury operations and demand for efficiency and centralization under the group in-house bank.
6. The obligation of keeping pace with new technological developments and requirements to prevent from cyber-attacks and ensure business continuity.
7. The quest for seamless IT interfaces, dematerialization of paper, full STP and increased connectivity.

A FULL OFF-THE SHELF SUITE OF T.M.S



TMS'S ARE VITAL IT TOOLS WE LOVE TO HATE

Very often treasurers are not entirely happy with their TMS. These tools been around for so long now, but there is still a vast chasm between what treasurers expect from a new solution and what it can deliver, generating a form of frustration. One useful step towards alleviating this disappointment would perhaps be to not have too many fixed ideas about what the tool and to define the solution that best fits your needs. If you start from the belief that you are seeking the best or most suitable solution possible rather than perfection itself, you are more likely to be able to avoid that so common exasperation. This approach can best be summed up as the Coué Method, i.e., the calibration of your expectations and the setting of (more) reasonable ones, without allowing yourself to be thrown of course by an over-enthusiastic vendor.

"MULTI-TENANT SOLUTIONS" THE FUTURE

The "single-tenant" solution has admittedly permitted the specific configuration and development of the most suitable solution for each client. However, this type of solution is starting to disappear in favor of "multi-tenant solutions" preconfigured in terms of functionalities and hosted and maintained on the vendor's cloud, where each client uses the same version of the software. Their price and deployment time will be necessarily lower as a result, but treasurers will have to adapt to these predefined models instead of adapting the system in line with their way of working. However, "one size does not fit all" applies here and this will compel users to bend to the tool rather than vice versa, except when demonstrating the usefulness of the functionality for all users.

TMS, THE BACKBONE OF TREASURY MANAGEMENT ORGANIZATION

The treasury department is certainly the most sophisticated and better equipped department in terms of IT tools. In this technological ecosystem, the TMS is the backbone, although interfaced to another essential pillar, i.e., the ERP(s). With the vision of a thriving, interconnected ecosystem in mind, treasurers must consider potential missing elements that the TMS should provide. The more comprehensive the future TMS, your digital backbone, will be, the less satellite solutions will be required.

PARTNERING WITH ITS IT VENDOR

As already mentioned, it is advised to develop partnership with its vendor. If you can get commitments from your supplier, it will help the implementation and the future developments.
Your "TMS partner" should demonstrate a good track record. It is useful to check their history of successful implementations, to talk to existing reference clients to check whether they are satisfied by the solution and the services. A good partner regularly communicates its strategy, development roadmap and future available functionalities. The partner must demonstrate its capacity to invest in innovating and developing products.
Some growth metrics may help to assess the vendor quality, i.e., client growth, revenue growth, profitability, and client ratings (like Net Promotor Scores – NPS). Eventually, you must check the position of the vendor into the business growth cycle. You would be well advised to also check where the product is positioned on its life cycle and maturity scale. Just like a car, it is not recommended to buy the latest version before changing the model if you want to keep it for a long time.

CORPORATE FOCUS WHEN SELECTING A TMS

Before building a (short) list of IT vendors, RFP's and demos, the treasury should know what looking for to choose the appropriate solution for his/her specific needs. As this solution should last your organization through many years to come, it is important to identify the best (long-term) partner that will support your operating needs now and in the future. You must understand their current capabilities, offerings, but also their roadmap to make sure that trajectory is aligned with your organization's own. Treasurers often thought they know the goal; they are aware of problems and pain points that are driving to seek out a new IT supplier. They claim having a clear vision for the solution that could fix their problems. But they should not be tempted to skip or give a short shrift to this essential selection process. What is complicate it to anticipate your future needs.
Your (new) partner must show capacity to evolve in parallel to your growing requirements. It is worth assessing vendors evolving and innovating capabilities and future strategies.
The foreseeable future of treasurers, although tough to precisely define, consists of more efficient operations, with growing data and operations; better insight to drive this growth and scalability to adapt to new requirements and regulations; options for other modules to complete the range of functionalities and tasks; and eventually modern technologies to enhance the recruitment of talents, who do not want to become spreadsheet champions. For the unforeseeable future, no one can predict, like recent crises, it pleads for smart, agile, and up-to-date tools to cope with the unknowns.

	What are the areas Treasurers should consider and look for when selecting TMSs:
1	Focus alignment - Expertise in similar industries as yours
2	Ability to invest in innovations and to acquire specialized Fintech's- size of partners and track records
3	Leveraging the power of customers community - Key user groups
4	Clear strategy, modern mindset and ability to scale up
5	Responsive to customers needs - LT collaboration - ability to address client specific needs
6	Solid technology stack - SaaS provien expertise
7	Communication capacity to explain how they differentiate and innovate

BUILDING A CASE

A successful TMS implementation requires a solid business case to demonstrate the benefits, both qualitative and quantitative, of the new solution and the pay-off period. It explains why the pricing is key and why treasurers must properly size the TMS they want to implement to avoid overpaying unnecessary functionalities.

- Getting buy-in from top management: treasurers must have demonstrated capacity to deliver and gained in IT projects credibility (i.e., track-record of successful implementations). It is a communication issue and the capacity to convince of the benefits of a TMS project.
- Assessment of benefits and ROI: how much could you save by changing the TMS or implementing a TMS? You must include the qualitative elements, like enhancement of internal controls, mitigation of risks of fraud and errors by automation, increased efficiency, …
- Finding the strategic IT fit: a TMS must be incorporated in the whole finance IT strategy. It requires to convince the CIO of the choice of the "best-of-breed". It should be aligned to the whole finance digital strategy.
  The treasurer should identify all stakeholders to check whether and how the new tool can support their own responsibilities and tasks. Understanding current state of technology and potential of new technologies, including AI and machine learning.
- Disciplined selection process: the RFP and IT projects best practices must be applied to guarantee the success. It is important to precisely define the business requirements, today and future's needs; the impacts on external and internal relationships; and the resources allocated, from the treasury team and from the IT department.
- Determination of depreciation and value increase: an IT asset will be depreciated over time, although in the meanwhile the treasurer must assess the increase in value in terms of efficiency, visibility, scalability, analysis, new functionalities, and new reports.

CHALLENGES

- Given the large number of suppliers and solutions, choice can be complicate.
- Difficult to convince the CIO of that TMS best-of-breed solutions are not necessarily proposed by ERP vendors, whatever the ERP.
- Allocation / dedication of internal resources for the scoping, implementation, and go-live phases.
- Building a business case and demonstration of benefits of investing in treasury technology.

Andrew Winders

FIS

Senior Manager Business Solutions Group

INTERVIEW

©DR

How to Successfully Implement Treasury and Risk Management system for Your Business

Implementing a software system like Treasury and Risk Manager – Integrity Edition in your business is a big step. Based on our experience of successfully implementing a catalog of 400 fintech solutions for the past 40 years, we know that encountering the implementation as part of the criterions of your vendor selection process will highly impact the success rate of your integration.

Know Your Business Vision

Firstly, get a strong grasp of your business vision, goals, and future needs. Only then can you develop a reliable implementation strategy. As you are investing in a solution for the next 10 years, having a perspective on your company's strategy & go beyond the treasury expertise is key.

There are two kinds of strategies for implementing Treasury and Risk Manager – Integrity Edition:

1. Packaged Approach: This is ideal for organizations with limited resources & in the need of quick wins in terms of tools. It is a turnkey solution with quick ROI and lower costs.

2. Customized Approach: Larger organizations often take this route. Before even signing any contracts, your business will have a thorough planning process with the Integrity team. The goal is to not just replicate your existing processes but to improve efficiency and value.

Flexibility in Project Delivery

Who should be responsible for delivering the project? You have options:

- Work directly with FIS' profes sional services team.
- Partner with a consultancy you already have a relationship with.
- Choose a hybrid approach combining both options above. This approach gives you ac cess of a best-of breed solu tion more specifically when you have the support of a consultancy firm to help you define your Target Operating Model ahead.

We go even further with the new generation of tech savvy treasurers by training them and give them the capacity to be completely autonomous & in some cases do part of the implementation themselves.

What Resources Do You Need?

The amount of time and resources you will need depends on your role and the project's size. From the accounting team up to the IT department, who may need to devote less time compared to a treasury analyst, who is more involve, you will still need those important resources for a successful integration.

In addition to the resources working on the project, the treasurer must also ensure the full sponsorship of the CFO, and the guaranteed support of the IT department for any part of the project that falls within its remit.

CONCLUSION

Treasury Management Systems (TMS) are not just a nice-to-have; they are essential. They make cash flow management a breeze and keep you in the loop with all your bank accounts. Plus, they are great for reducing financial risks. You need to choose your TMS wisely, factoring in your business size, available resources, and future plans. Companies like FIS offer solid, all-in-one options that you can count on.

Do not overlook the importance of security and compliance, either. The TMS landscape keeps changing, mainly because of collaborations with fresh, innovative startups. The integration of various systems can also make your financial operations more efficient.

Finally, do not forget that your opini on counts. Customer feedback is critical for improving these systems. So, think about your needs and make them known. Picking the right TMS is your ticket to streamlined, hassle-free financial management.

TAKE AWAYS

CRITICAL TECHNOLOGY COMPONENT OF AN EFFICIENT TREASURY MANAGEMENT

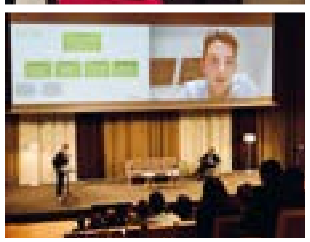
The Treasury Management Systems are arguably the most critical technology component within treasury for the foreseeable future. Therefore, the choice of the most appropriate solution, proportionate to the company needs and requested functionalities, is exceedingly important. Before contemplating such a TMS selection process, the treasurer must prepare a business case and ROI to get investments validated by the CFO. Once, the budget is allocated, you can launch a RFP (i.e. "Request For Proposal"). And the importance of TMSs within treasury organization justifies guaranteeing this comprehensive analysis of existing best market systems. Given the size of these types of investments for corporates, it is essential to challenge the best-of-breed vendors, to maximize chances of a successful implementation at lowest cost.

1	Financial solidity of the IT vendors - to be resilient and to ensure sustainability of products & services over time
2	Innovative characters and capacity to be leading edge and state-of-the-art provider
3	Large range of products (even if through acquisition of Fintech's or partnership)
4	High-quality services and maintenance, as well as customer support 24/7
5	Customer user groups to share with peers, learn about developments and express their needs and solid credentials of comparable
6	Excellent understanding of the customer business specificities as everyone thinks it is unique and incomparable
7	Evidence of leadership of the company (via articles, conferences, thought leadership, active presence, awards, any sign of quality, …)
8	Pricing (which obviously and more than ever is a critical criterion)
9	Reporting capabilities and customization features as well as easy connection to other ETL tools/BI solutions and good ergonomic
10	Proactivity on new IFRS standards and financial regulations, as well as vision of future of the function to anticipate technical needs

CONCLUSIONS

A DIGITAL DISRUPTION LOOMS ON THE HORIZON

The boundaries between solutions are becoming more fluid and that barriers are being lowered, offering new opportunities. Cost pressure and efficiency improvement will help convince treasurers to review their technological strategy. The need for more real-time information and a more predictive approach is forcing us to reinvent ourselves. COVID has increased further need for real-time treasury, the "Treasury-On-Demand" concept. Unfortunately, our old road maps and strategies have all too often come up short, so that is the first piece of advice to be taken on board. The entire ecosystem is changing, with the arrival of SWIFT "GPI", instant payments, KYC registers, APIs with the PSD2, new e-payment methods and new business models, RPA's, AI; machine learning, etc.… Of course, a treasury's IT strategy cannot be frozen forever. It needs to evolve… and fast. Selecting the right partner is key. Automation, in whatever form, is the primary objective. The treasury is the depository for a mass of financial data. To evolve, it needs to transcend its initial roles and focus more on data science.



ATEL ANNUAL CONFERENCE

On october 5th, atel held its 2023 annual conference at pnb. Vincent Marchand (bnp), Herwing Temmerman and Kimberley Pages (bearing point), Iga Mlynarczyk and Jean-Bernard Dussert (ey), Frédéric Simon (convera) and Peter ILbeer (airplus) presented specific topics. participants then enjoyed a cocktail reception.

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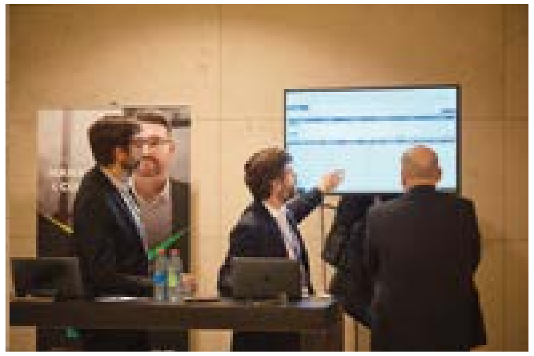

ATEL TECH DAY 2023

On November 30, ATEL organized its second ATEL Tech Day at the ECCL. Vincent Sanchez (KYRIBA), Odile Brandstetter (MAJOREL), Bruno Lawarée (FERREO), Mario del Natale (JOHNSON CONTROLS), Josef Rettenmeier (ALTER DOMUS), Jonathan Prince (FINOLOGEE), Michael Diet (INTENSUM), Milia van Mol (FIS), Thomas Keim (SERRALA), Arjan Hes (TREASURY SPRING), Patrick Simeon (AMUNDI), Alexandre Sortais and Frédéric Saunier (DIAPASON), Corentin Maricq and Anne Massardier (PwC), Christian Mnich (SAP), Emmanuel de Rességuier (FENNECH), Darryl Claret (NEW BRIDGE), Anne-Sophie Dufresne (BGL BNP Paribas) and Michael Pechner (eBAY) each animated presentations around treasury tech themes. The participants then enjoyed a cocktail reception.

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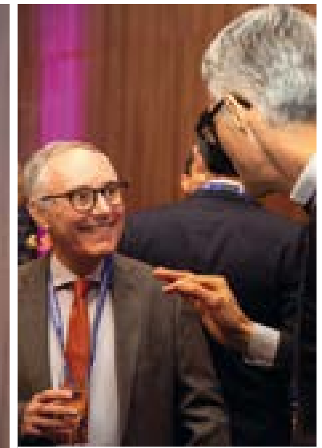
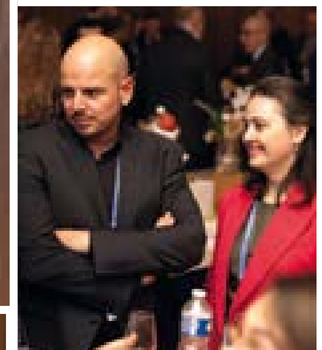
EVENT COVERAGE

ATEL WINTER 2023

On December 13th, ATEL held its 2023 Winter Conference at Arendt. Dominique Coste (Exalog), Petra Besson Fencikova and Bertrand Durnez (Societe Generale Private Wealth Management) and Edouard Beauvois (AiVidens) presented insightful presentations around specific themes. Afterwards the participants envoyed a delightful cocktail reception.





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