ATEL
Luxembourg Association of Corporate Treasurers

MAGAZINE #100

TREASURER

THE CORPORATE TREASURERS' COMMUNITY MAGAZINE

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TREASURER
The Corporate Treasurers' Community Magazine

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We produced our first magazine when I joined ATEL at the very outset. It never crossed my mind that we would reach issue #100. It seemed so distant then that I would have found it scary. The President asked me to produce an article, the first of a long series. I would never have imagined that I could have derived so much pleasure from producing them and I have to confess that I didn't even notice the issue numbers clocking up. We celebrate the 100th issue, but not the last, of our magazine, which has grown in size and wealth of features. It has evolved, just as our job has, over these many years and it has adapted to the changes and new requirements in the profession. It has also adapted for technical, accounting and regulatory environment in the subjects that it tackles. It has been able to evolve in format and content and also gained a digital edition 10 years ago. It was ATEL that produced the first online treasury magazine while retaining its paper magazine. We think that paper, even in a digitalised world, has its place. The paper version can be kept, passed on, can be read in small batches, and taken with us when we travel. The paper version stands the test of time. Our magazine now goes well beyond our Luxembourg frontiers. It is an international English magazine for treasurers produced by treasurers. Beside the paper and on-line versions, we now have an E-Mag version that can be read on smartphones. All this makes it unique in Europe. Thanks to its readership and advertisers, it has been able to survive and expand. It is your forum and the vehicle for promoting ATEL, Luxembourg and the expertise of its treasurers. It is your magazine, and we want to develop it even further to ensure it meets your expectations and gives you what you want. We want to ensure that it dovetails better with current challenges and also to ensure that you can «consume» it in its various forms any time, any place, any where, as the Martini advert said. If there were one thing I really wanted right now, it would be the job of writing issue number 125, 150 or beyond. This magazine it is also the embodiment of the enthusiasm of a few unpaid volunteers, who are dedicated and devoted to their profession. I would like to thank all readers and advertisers for your support. But we would never have been able to achieve this result without the help of our General Secretary, Frédérique Lambert-Joslain. Her painstaking work, often unseen, but very real and effective, is the cement that makes it possible for us to publish this truly professional magazine. I cannot thank her enough for her invaluable support. To some extent, this magazine is hers, and on behalf of ATEL, I would like to thank her warmly. Thank you all for your unstinting help and support. Rest assured that we will try to provide you with a quality magazine for many years to come. Long live ATEL and its treasurer magazine!

François Masquelier,
Chairman of ATEL

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LUXEMBOURG YOUR BEST PLACE FOR TREASURY

During a press conference held in the EY Luxembourg office, François Masquelier, Chairman of the Association of Corporate Treasurers in Luxembourg (ATEL) and Brice Lecoustey, Partner, Responsible for the consulting activities at EY Luxembourg, have been pleased to announce the launch of a new joint publication entitled Luxembourg, your best place for treasury.

Download the brochure on www.atel.lu

As many companies aspire to expand and centralize their treasury activities, the Grand Duchy of Luxembourg has positioned itself as a perfect place for multinationals looking to relocate their treasury management centers.
Luxembourg appears as a stable and efficient environment in the EU as regards tax, legal and regulation matters.
The country's attractiveness for treasury and financing activities is also based on several pillars including the working conditions, labour cost, the infrastructure and the financing opportunities which make Luxembourg so unique.
Following the major changes that have started to deeply undermine the market and question some longstanding principles, Luxembourg has implemented several initiatives to address the new arising challenges for treasurers including robotic processes automation, data analytics, blockchain technology and Fintech. As a result, 34% of the Luxembourg financial sector players engaged in joint-partnerships with Fintech companies.
"Apart from its expertise in the fund administration and the banking sector, Luxembourg has competence in other industries. It is therefore not a coincidence that many international groups have opted for the Grand Duchy devoted to operational excellence", adds Brice Lecoustey.
Last but not least, the Luxembourg banking community is endowed with a state-of-the-art support infrastructure for treasury and financing-related operations while being easily accessible for FinTech, start-up and more mature companies.

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Gaëtan Dumont, ATEL Vice Chairman, François Masquelier ATEL Chairman & Brice Lecoustey, Partner, Responsible for the consulting activities EY Luxembourg.

With its deep connection between the banking industry and corporate treasurers, Luxembourg has proved to be a location of choice for cash-pool centers, combining treasury and financing activities and accounting shared service centers.
François Masquelier concludes: "ATEL undertakes to play a major role in promoting the Grand Duchy and to promote our country as a key hub for treasury and financing operations abroad. ATEL will assist multinational companies wishing to move their treasury or financing centers to Luxembourg and will play a role of "facilitator" to support new comers. In addition to being recognized internationally, ATEL releases numerous publications and organizes trainings sessions on a regular basis, while making an active contribution to promote Luxembourg beyond national borders."

VIP INTERVIEW

TREASURY LINE:
A COMPREHENSIVE TREASURY ERP

Imad Ben Mariem, DataLog Finance CEO, offers his advice on Treasury Management Systems (TMS) and comments on regulatory changes within the profession.

> **DESIGNED WITH USABILITY IN MIND, USERS OF TREASURY LINE CAN COPY AND PASTE BOTH UPSTREAM MASTER DATA AND INTERNAL CORPORATE STANDARDS/PROCESSES FOR STANDARDISED WORKFLOWS ACROSS AN ENTIRE INFORMATION SYSTEM.**
> Imad Ben Mariem, CEO DataLog Finance

What would you say to corporate treasurers who are about to choose an integrated TMS and what would your recommendations be?

Treasurers have seen their profession undergo significant change over the last few decades, from spreadsheets to smart Treasury Management Systems, from independent daily treasury services to a globalised 360° management of all the financial flows of a company.

A modern TMS has to integrate these changes, anticipate future treasury needs and practices and focus on the treasurer's expectations, which are: One: a truly integrated system, relying on a single database and shared master data, so that duplicates are avoided and the risk of error is drastically reduced. Two: full visibility of an organisation's cash position, with unlimited possibilities to search, sort and filter any entry or value for optimised productivity. Three: infinite report possibilities, with Business Intelligence layers, to meet the organisation's various needs. Four: functionalities which enable collaborative work, with strong administration, segregated views and tasks depending on authorisations and profiles. Five: scalable software and functionalities which don't require heavy operational acceptance testing. Six: access to the solution at anytime, anywhere, with no additional installation requirements. Seven: total security and flexibility.

What are the key advantages of your solution compared to other products on the market, particularly those sold by big players?

Whereas some TMS only cover some facets of the treasurer's jobs, Treasury Line is a comprehensive treasury ERP with wide-ranging functional coverage.

The system includes all the components for cash, treasury and risk management with a front-to-back-to-payment approach and multi-norm accounting including IFRS, of course. Treasury Line is also the only TMS which includes an automatic payment factory and comprehensive bank communication at its core, along with the necessary AML/CFT functions and standard or electronic bank account (eBAM) and SDD mandate management.

Designed with usability in mind, users of Treasury Line can copy and paste both upstream master data and internal corporate standards/processes for standardised workflows across an entire information system. Treasury Line works in any corporate IS environment without any specific developments and can then be accessed via a simple web browser and Internet connection from all over the world, via secured processes and protocols.

Among the other functional assets, I particularly want to mention Treasury Line's simple administration and maintenance, which lead to a reduced total cost of ownership (TCO).

Our Treasury Line product is "à la carte" and reversible, since we offer both SaaS and On-Premise modes.

Several new regulations and IFRS standards have come into effect over the last few years. How does your company address these key changes and how do you respond to users' expectations, given the crucial nature of compliance these days?

Our clients are large companies. So we are obliged to monitor and implement new regulations to be compliant and to respond to users' expectations before such regulations are enforced, as will be the case with the GDPR in May 2018. We have a dedicated team which is responsible for ensuring regulatory monitoring and assessing the impact on our solution. This impact translates into functional specifications which are then integrated into Treasury Line by our development team.

Treasury Line is currently fully compliant with international regulations, including the new 2018 IFRS standard (IFRS 9). In addition to new regulations, the latest innovations are also integrated into Treasury Line as soon as they are available to provide our clients with the most up-to-date tools and features. For example, we are currently working closely with SWIFT and some of our clients on the GPI pilot.

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Imad Ben Mariem,
DataLog Finance

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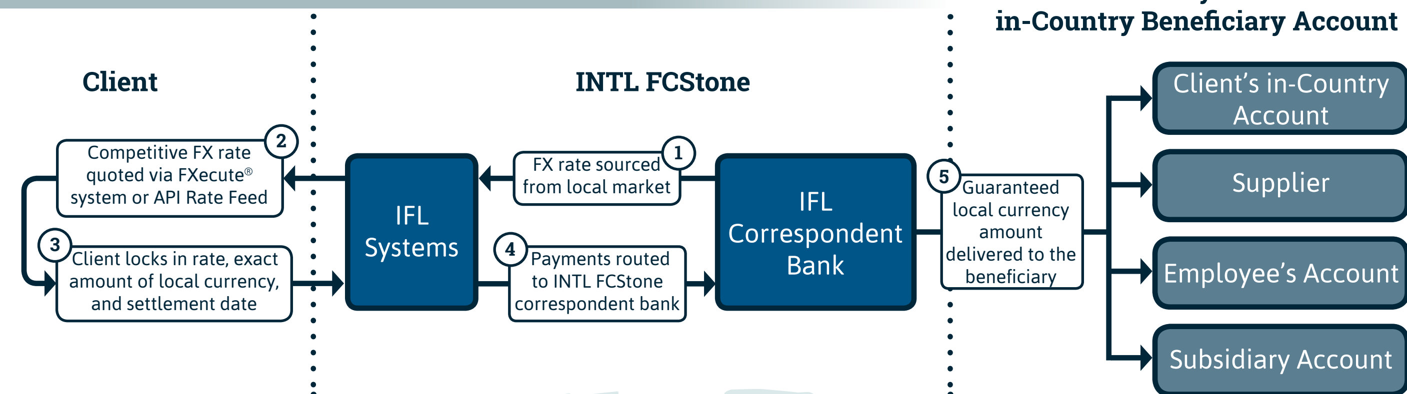

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ATEL SUPPORTS TREASURERS TO REMAIN EMPLOYABLE

Interview with Benjamin Defays in charge of this new initiative.

One of our role as Treasury Association is to make sure current and future members have access to best in class services in order for them to remain employable together with supporting those who are looking for new challenges. There are a lot of tools available to succeed in this project, and we must explain how to use them in order to ensure the future of the function.
As companies constantly seek to create value to satisfy their customers, a competitive workforce is a must-have to achieve their long-term objectives, and this goes with efficient support functions, just like treasury. Without a real dynamic of passionate learning, innovation, and the eager for value creation, treasury centers will certainly fail to provide the service level required by their company to succeed.

Do we Corporate treasurers have an attractivity issue with young financial professionals? Is it difficult to convince the millennials and generation Y to join treasury function?
I believe it is a visibility more than an attractivity issue. The treasury function is not well known nor fully covered in University courses (except very recently for of few of them), and therefore young financial professionals are more likely to be oriented towards the banking or audit industry (more popular) for their first job. That being said, I see it becoming a changing trend. Indeed, the new generation is looking for something different: they want to avoid monotony and be able to grow in their company. In that sense, the Corporate Treasury world is a perfect fit since it is constantly evolving. From Junior Treasury Analyst to Group Treasurer, there are lots of opportunities available for truly motivated and passionate treasury professionals. This function is becoming more and more strategic, and expectations getting higher each year, which makes it almost impossible to be a repetitive role.

Retaining treasurers can however be difficult, and this mostly (but not only) relies on the company's management. Young professionals will not look for a boss at first, they will be looking for a mentor, a coach, a guide. They will seek challenges with clear objectives so that they can have a career vision. It is definitely not only about the salary. It is key to attract and retain talents within our organizations for the attractivity of the function, and therefore its sustainability.

→

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How to remain "employable" in treasury? Is there any recipe or tips?
There definitely are some tips for that, and the receipt is simple: change your ingredients regularly, otherwise they'll become quickly out of date and so will you.
This does not only apply to the youngers, since the function looks different each year. This applies to all treasury professionals.
You must read, learn, share and talk. There're so many materials available (online and paper-based), training programs at all levels proposed by treasury associations across Europe (some available online as well), and most of all so many passionate professionals ready to share knowledge and best practice during treasury conferences, …

> **WORKING IN TREASURY WILL PUT YOU AT THE CROSSROAD OF YOUR COMPANY'S ACTIVITIES AND THEREFORE WILL BRING OPPORTUNITIES WITH IT.**
>
> Benjamin Defays, Treasury Analyst, Koch

Really, everything is out there to keep you up to speed and employable. That being said, it is true that treasury training programs are not always affordable and that not everybody has the opportunity to take on its holidays to free up some time and participate to those events. Employers have an important and key role to play here by supporting their employees in their approach. This must be seen as a long-term investment and a way to retain their staff.

What are the qualities treasurers must have these days to fit into their new evolving role?
Not speaking about the basics like foreign languages for example, team spirit, analytical skills, … there're no doubts that technical knowledge is essential to fit and succeed in this role becoming more and more specific. Besides, strong IT and excel skills are often required. You also need to be open to change (e.g. new technologies), be proactive and creative.
Then, soft skills come into play of course. Communication is a good example, since you must understand your customers (the businesses) if you want to add value and be a strategic partner. By the way, ATEL proposes various training sessions in Luxembourg on soft and technical skills to help our members be more prepared. Don't hesitate to visit ATEL's website to be updated.

Do you think we can imagine a career in corporate treasury and how being successful?
Absolutely can. Working in treasury will put you at the crossroad of your company's activities and therefore will bring opportunities with it.
That being said, it has broad and very specific responsibilities at the same time, which makes it sometimes complex to change role. It can be relatively easy to move from Back to Middle Office responsibilities for example, or become Cash Manager and then move to a more Front Office function. However, coming up through the ranks will require patience (and a bit of luck). This is important for the millennials and generation Y to assimilate: be patient, take time to learn, make mistakes (and learn how to avoid them), meet people, and take opportunities as they arise. These will be great assets in your career.
Also, one of the best ways to improve your skills in treasury is to see what others are doing, so… be curious! Invite your

→ peers to visit your offices and show them what you're doing, how and why. Ask them to share their best practices and try adapt it to your company the next day.

Do you think that the younger financial professionals and treasurers are developing their networks? (when I mean networks it is not LinkedIn or any other virtual network)

Surely not enough and the digitalization of (every)things is not really helping. It's easier to stay at home and publish, share or like articles but you cannot truly believe this is networking. On top of that, even if it seems easier, you must take great care of your digital footprint. This is sometimes forgotten at the expense of reputation.

To be clear: no network, no sustainability, no job. It might seem a bit exaggerated that but I'm convinced that if you want to "guarantee" or at least protect the long-term perspective of your career, you have no choice but to build and maintain a real network. You cannot just be registered in an association and never show up or do nothing (what's the purpose anyway?)

> **ON ONE HAND, TREASURERS ARE RESPONSIBLE FOR THEIR OWN EMPLOYABILITY.**
> Benjamin Defays, Treasury Analyst, Koch

Luxembourg is very small and you can easily get weekly events on at least one subject you like, not too far away, and most of the time for free. It is good to talk with people and get a sense of what is done elsewhere, get out of your daily routine and bring something back at work the next day. I think this is truly adding value to your company, and your employer will certainly see it. Who doesn't want employees who stay up-to-date?

I hope the new generation is aware of the stakes concerning the longevity of its career and the opportunities a real network can bring. I am confident that what we do at ATEL goes in the right direction and helps improve the situation.

What is ATEL doing to help its members to remain "employable" and to get the right skills? Have you launched some initiatives to give support to your members?

ATEL is composed of passionate people who make everything possible to make the function constantly grow overtime. Regarding the employability, we have launched several projects last year which we should reap the benefits of very soon: there is a conference on the Sustainability of the Treasury Function to happen in May 17th 2018 with key speakers on how to remain employable, how to retain talents and how to take care of our digital footprint (stay tuned on our website for more details) ; we have built partnerships with profilers and recruiting agencies to provide free assessments to our members when one gets lost or needs guidance (or even loses his/her job); we are working on giving more clarity and visibility on the so-many training centers and programs available using partnerships as well ; and we are spreading the word about treasury in local and foreign Universities in order to attract talents to Luxembourg. This is just the beginning of a long and yet interesting journey.

Although it might seem challenging, the sustainability of the treasury function is not that complicated to achieve: treasury professionals must keep informed about changes on the market and listen to career stories, advices from specialists and knowledgeable professionals, visions shared by treasury-peers, and maintain a real and dynamic network thanks to conferences organized by the various treasury associations. Most of all, they must have appetite for continuous learning. This is what is truly valued by companies who never stop trying to keep up with the competition. On one hand, treasurers are responsible for their own employability. On the other hand, ensuring a sustainable treasury function is also the responsibility of heads of treasury departments (employers) who have to attract new treasurers and retain them over time. It is their duty to train, guide and mentor their teams by sharing their skills, experience and tips, therefore safeguarding the quality, diversity, and variety of the job.

With qualified and trained treasurers who embrace change, treasury will become one of the most strategic partners of their company.

Interview with Benjamin Defays

PSYCHOLOGICAL PROFILE

WHAT SORT OF PERSON MAKES A TREASURER?

Treasurer's type of personality is particular and usually misunderstood. Because of their function, they often demonstrate a certain conservatism and resistance to changes, despite their evolving role. "Once a treasurer, always a treasurer" could be applied to a majority of them. They fall in love with their highly technical job.

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Corporate treasurers have a particular type of personality, one that is often misunderstood. This is because of their personalities, perhaps, but perhaps also because of a certain reticence. I would not like you to think that their characters are all the same. However, almost all of them that I have met share features that give them this very distinctive personality. Treasurers are beings who are more reserved than other finance people, as if they were sure of the importance of what they were doing, and so did not need to draw attention to it or show it off. They are as much reserved as they are conservative, in my opinion. They have only a moderate liking for change, and sometimes allow themselves time to be convinced of the value of changing an approach or technique. It is their very pragmatic side that often comes to the fore. They are great technicians, good at multi-tasking and versatile. They like what they do, and the words "once a treasurer, always a treasurer" could well apply to them. Hyper-technicians who might suffer from boredom in any other section of finance department or any other job, even the CFO's job. They like the diverse nature of their job and think it the best job in finance, without being arrogant or thinking that they are the most indispensable. They are aware of their role, but do not see themselves as being key to the whole finance department. They see themselves as being a strong and important link in the chain, although many of them often forget all about that, wrapped up in their very specific technical tasks. Treasurers love what they do (sometimes to the point of not being open to change) and might be seen as being victims in a way to their very sexy and attractive jobs. They are therefore loyal, even over the long term, and do not find what they do to be repetitive. They can certainly be grumpy, sometimes. For example, they don't like new regulations, which they find pointless and restrictive. They criticise them freely, but do not make a big deal of anticipating the potential impact that they may have. They like to moan after the fray without having tried to avoid it. Typically, they complain after the event. They are more reactive than proactive. Don't ask them to be the ones to kick off the revolution, unless it is to be a peaceful and gentle revolution. They therefore have strong although not outgoing personalities, and it would not be wrong to say that they are not the greatest communicators in existence in finance. This is one of their weak points, and they know perfectly well that it is something they need to work on. They know full well that communication, both internal and external, is vital these days. They show restraint because CFOs often see their treasury departments, just as they do their accountancy or consolidation departments, as being necessary but not very interesting. Treasury department, which may be seen as a bit mysterious, does not greatly interest all CFOs. The financing aspect, perhaps, because it is more crucial than the rest. This lack of interest often forces treasurers in particular to "sell" their projects better than their colleagues do. They don't like doing it, however. The evidence suggests they do not understand what is needed to defend their projects, or even worse what is needed to "sell" them. They manage financial risk, and they like doing that. That does not make them adrenalin junkies. They are often opposed to risk and they like to adhere to the policies and principles laid down. They are anything but rebels. They are loyal lieutenants, on whom you can rely. They could be criticised for a lack of boldness and creativity. They are often not the pioneers who push the boundaries in treasury management. They are great fans of spreadsheets and firmly believe that their own are perfect and completely reliable.

To sum up, treasurers might briefly be described as lovable, discreet, competent, loyal and reliable, while at the same time being hyper-technicians. They should certainly work on raising their profile in the eyes of their colleagues, to attain a standing more in keeping with their skills. The financial crisis and a few burdensome financial regulations have helped with that. Their position has improved and their role has gained greater recognition over the years. It is over to them to take it further and achieve the status that they ought to have, perhaps questioning themselves every so often. But here again, you will have realised, this is not something that comes naturally to them. They need to step outside their comfort zone, because with a bit more creativity, desire for change and boldness, they could make themselves indispensable and even more highly regarded.

François Masquelier,
Chairman of ATEL

PERSONAL BRANDING, IS IT ESSENTIAL?

Why is it important to manage your personal branding and your LinkedIn profile even when if you are not searching for a new challenge or a new job?
Your profile is by its very nature public so anyone can see it. It is your virtual handshake it is your "hello this is me". This is your introduction before you have even walked into a room. So, when someone says to me; "Do you think I should have a photo?" I always reply when was the last time you walked into a party, turned your back to everyone and then tried introducing yourself to everyone at the party? This is your first introduction. It is your first and only chance to make a positive first impression. What do you want someone to think about you? You need to manage your profile and present yourself in a positive manner every chance you get! Also remember you are 21 times more likely to receive a connection request by having a photo on your profile.

Any basic tips you can give our readers to enhance their LinkedIn profile?
When you look at your LinkedIn profile, I want you to ask yourself these three very complex questions:

SO WHAT? SO WHAT? SO WHAT?

Let me explain, when you write your LinkedIn profile it might look very slick with a nice profile photo, a good outline of you and your career, you explain how you have progressed throughout your career, you make sure it has your contact information, you complete your mobile and email numbers in your profile. Great start!
Now close your laptop, walk away, have a tea / coffee or something stronger maybe, then take a sip of critical potion and become your own worst critic, get really nasty, become the Simon Cowell nasty judge from the X Factor for 10 minutes.
I want you to open your laptop, go back to your profile and ask yourself in a loud, brash, hard-nosed way.

© DR

– SO WHAT?

As you go through your profile, I need you to be really critical. It might say that you are a flexible, motivated Treasurer with 20 years' experience – SO WHAT, I don't care! There are five other Treasurers applying for the same job as you and they have 20 years' experience and they are just as flexible and motivated as you!

I need you to ask the following questions of yourself and as you answer them put the answers into your profile. You must know what makes you different or unique, where you add value, what difference you make to the company you are working at and to your team, how much money you saved them in the last year, two or three years in terms of your and team achievement and if you cover your wage, what is your point of difference and your standout achievement of your career so far.

Especially in your most recent two to three positions. Write it down, put it in your profile.
Make your profile worth reading.
Grab my attention.
Make people want to connect with you.
Demonstrate to other like-minded professionals that connecting with you is worthwhile and you can add value to them too!

Don't forget you need to stand out! You need to convince someone via your profile that you are worth meeting. If I am looking to recruit you or if I'm wanting to connect with you, I want to connect to someone that has made a difference at the company.
So, keep asking yourself as you walk through your profile...

> **YOU MUST KNOW WHAT MAKES YOU DIFFERENT OR UNIQUE, WHERE YOU ADD VALUE, WHAT DIFFERENCE YOU MAKE TO THE COMPANY YOU ARE WORKING AT.**
> François Masquelier, Chairman of ATEL

SO WHAT?

In your most recent role detail two or three achievements and make a feature of them within your LinkedIn profile.

How will you know when your branding is / has worked effectively?
I would say when your profile really represents you and that people understand who you are. The way I would test its effectiveness is to try and ask a friend, someone that doesn't know you necessarily in a work capacity, someone that is a stranger to you and your role in a work sense.
Get them to read or review your profile and then ask them to tell you who they think you are. If their description as someone that doesn't know you as a treasury professional is an accurate reflection of who you are and what you do, then give yourself a pat on the back. However, if their description isn't quite right then maybe use their mistakes as your guide/thumbnail to help you improve or rewrite it to give you the description that you really want people to see, think and feel about you.
At the end of the day remember the impression you can make via LinkedIn and via social media is about not only what people say, think and feel about you when you around them but it's actually about what people say about you when you have left the room.
It is the lasting impression you give to anyone who will judge you and the effectiveness of your personal brand.

When your email pings with new connection requests and your business network starts growing rapidly with exciting new treasury contacts. When your phone starts ringing with invites to participate, speak or lead sessions at industry conferences. Possibly much, much more!
Any investment in your brand is an investment in you that has got to be time well spent!

Mike Richards,
Chief Executive & Founder
The Treasury Recruitment Company

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THE AGGREGATION OF MARGINAL GAINS...

In a discussion with a CEO, I asked what the Objective was for 2018... "Add 35% to our Sales..." And what's the strategy for achieving that...? "Sell 35% more Product..." Not much of a strategy, in fact, in business I find that Objectives, Strategy and Tactics are blurred into a phrase, statement or incantation that is meaningless at best.

So how can we improve performance; whether it be Sales, Profit & Cash or Career, Personal Best or our Relationships...?
In the book "Will it make the Boat Go Faster..." Ben Hunt Davis MBE describes how the GB Men's Rowing Team went from mediocrity to Gold at the Sydney Olympics in 2000; it's a story of questioning everything from training to diet, personal hygiene to focus – and asking the same question of everything they did – will it make the boat go faster.

Being faster in a boat is not just a case of rowing harder, it's the cumulative effect of 100's of tiny aspects conspiring to give them the edge, it is the focus on these tiny or Marginal Gains that when Aggregated lead to Gold.

So how can the same principles be applied to business...?
The process is simple, it involves breaking down the "activity" into component parts, then analysing each one such that it improves or contributes more effectively to the outcome.
In this sample business, to attract new clients, prospects are invited to a seminar, appointments are arranged, and quotations submitted – the statistics look like this...
Each step has been systemised and analysed so that the conversion between each stage can be measured – effectively for every 20,000 people invited to a Seminar the company gets 10 new Clients.
To improve this and build the business – and achieve the 35% Growth the CEO mentioned above wanted – all we have to do is improve each component of the system by a marginal % to effect an improved result.

If we improve the conversion rates at each step of the process by a Marginal 10% the reworked system will look like this.
The net effect of a 10% Marginal Improvement is a 60% increase in new clients.
Not by focussing on just "selling more" but by improving the system that delivers the outcome; of course, this "system" will be different for every company but the same principle applies.
The is a fabulous series of Video's on YouTube produced by the owner of a business called FastCap in the USA where you can see the effects of Aggregated Marginal Improvements explained and brought to life in an engaging and →

entertaining way – just search for "Lean Manufacturing – Lean Factory Tour – FastCap.

How can these principles be applied to any company…?
Simple – analyse the system, break it down into component parts, then improve each component by a marginal percentage and the results will be remarkable.
My background is in Franchising where companies make their fortunes by understanding the power of systems that lead to predictable performance, then the rent the rights to use those systems to others who pay handsomely for the ability to use a proven method.
We had a phrase we would use with any Franchisee that wasn't hitting their targets;

"USE THE SYSTEM…"
The same principles can be applied to career, professional and personal development too. In my work as a Business Coach, I work with systems and processes on every call with my clients, I also work on them and their teams enabling them to become more effective and productive.

Personal performance is dependent on a number of factors from health and wellbeing to knowledge and mindset.

For a person to become more effective in their work, it is not realist to simply tell them to work smarter, or classically "do more with less…" these slogans and exhortations only serve to irritate and undermine the process.
Let's say for example that this "funnel" of activity applies to a member of the team.
It's typical of many people, not that they are bad at what they do, but the environment they create for themselves doesn't serve them in fact it becomes toxic to them and affects their ability to perform at work and restricts the opportunities that become available to them.
You may recognise yourself or someone you know in the chart…!
If a person wants to improve their life, income or become more "opportunity ready" then they can't just change the outcome – they must improve the contributory factors affecting it.
In this second image the structure has been changed with improvements in 5 key areas of activity that will result in tangible improvements in the quality of outcome.
The same principles that apply to business efficiency productivity and efficiency are equally applicable to people – in fact in too many organisations, the systems are improved but the people are neglected.
Managers fail to recognise that people use systems and not the other way around.

AND FINALLY…
If you'd really like to go to the source of continuous improvement, check out the works of Edwards Deming, who arguably is the father of TQM, Lean, Agile and surely inspired Bill Smith of Motorola to develop the ubiquitous Six Sigma system back in 1985.
Deming put forward a 14 Point Plan for Total Quality Management that focussed on the process rather than the outcome alone, recognising that the contributory factors were the key to achieving successful results.

David Holland,
MBA Founder and CEO
Results Rules OK

IF A PERSON WANTS TO IMPROVE THEIR LIFE, INCOME OR BECOME MORE "OPPORTUNITY READY" THEN THEY CAN'T JUST CHANGE THE OUTCOME – THEY MUST IMPROVE THE CONTRIBUTORY FACTORS AFFECTING IT.
David Holland, Founder and CEO, Results Rules OK

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EMPLOYABILITY

EDUCATION: A MUST FOR THE FUTURE OF THE TREASURY COMMUNITY

Everyone knows that Treasury responsibilities include cash management, corporate finance and financial risk management. However, when we have a more investigative look, we realize that the Treasury function is covering also a range of additional tasks requiring more skills than the ones originally necessary. The Corporate Treasurer is more and more involved with strategic, key, often complex responsibilities within the Company.

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Another finding is that today, it is difficult for an enterprise, whatever its size, to recruit young treasury professionals. Indeed, with the exception of two or three Masters in Treasury programs provided by some High Schools and Universities in France, the general offer in high value Treasury Education is extremely poor in the France/Benelux region. This creates the need for those companies hiring new resources to fill their vacancies in their treasury team to opt for internal, hands on training, with the risk of concentrating the teaching on some specific topics.

Another thought which comes in mind when looking at this problematic of "New Generation of Treasurers" is the predictable shortage of valuable candidates willing to embark on a treasury career. In addition to the continuous increase of new regulations impacting one way or another the corporate treasury world, the Brexit which will induce the relocation of a number of financial and treasury functions to countries such as Luxembourg, and the new technologies and solutions surging in mass in the treasury landscape, we have to cope with a certain gap going to be created in many treasury teams, as the majority of highly experienced senior professionals are going to retire in five to ten years from now.

ATEL in cooperation with the House of Training (Chamber of Commerce of Luxembourg) has initiated a new project which has as clear objective to provide an in-depth treasury cursus adapted to the today's requirements of the Treasury Community. The targeted audience is not only the young finance professional freshly graduated, but also any one wishing to enlarge their knowledge in treasury or looking for a refresh of his expertise.

While it is still too early to publish an exhaustive content and agenda, here are some explanations on how it would work. There will be several modules, such as, naturally, Cash Management, Corporate Finance and Risk Management, but also Regulations, Trade Finance, Treasury Accounting overview, Advanced Excel for treasurers & Financial Maths, Technologies, Cyber Fraud, Pension, Insurances. Some of the modules would be optional.
The training language will be English.
Modules would be split into sessions of half day or full day (most probably a mix of both).
The length of this cursus will reach between 13 and 15 days equivalent, split around 4 to 6 months (still to be confirmed). There will be homework and coaching.
The trainers will be approved by both ATEL and the House of Training and will be a mix of Academics and Professionals.
There will be a good balance between "ex-cathedra" teaching and analysis of real business cases.
A final document will attest the successful completion of all the mandatory modules, and we strongly believe that its value will quickly be recognized by the treasurers community.
This new Treasury Education Program is expected to start in the first quarter of 2019 and will be held in the building of the Chamber of Commerce in Luxembourg.

ATEL and the House of Training believe that this program will fill a gap, long time identified in the Region, and will help promoting Luxembourg as a place to be for Treasury Activities!

ATEL AND THE HOUSE OF TRAINING BELIEVE THAT THIS PROGRAM WILL FILL A GAP, LONG TIME IDENTIFIED IN THE REGION, AND WILL HELP PROMOTING LUXEMBOURG AS A PLACE TO BE FOR TREASURY ACTIVITIES!

Patrick Verspecht, Treasury consultant, FinMetrics Belgium

BIO

EXECUTIVE MASTER IN FINANCE (SOLVAY BRUSSELS SCHOOL OF ECONOMICS, ULB, BRUSSELS). Board member of ATEB, Member of ATEL, Belgium Representative to IGTA (International Group of Treasury Association), approved trainer at the House Of Training and TMI Academy. Until 2016, Global Treasurer of General Electric Measurement & Control.

Patrick Verspecht,
Treasury consultant for US corporates & Manager of FinMetrics Belgium

DANS UN MONDE QUI CHANGE
L'EXPORT N'EST PLUS UN CASSE-TÊTE

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BLOCKCHAIN
A LIBERTARIAN PANACEA?

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Blockchain, the technology underpinning Bitcoin, has given partisans of the libertarian movement unlooked for backing. This technology and its offshoots will soon give rise to a number of solutions, over and above cryptocurrencies. Surely we are at the dawn of an economic revolution? What might its consequences and implications be? Who would use these applications and lay down the legal framework that would govern these blockchain solutions? These are a few examples of some of the questions that we ought naturally to be asking ourselves.

BITCOIN, THE START OF A REVOLUTION?

Over the last few months, a profusion of articles, reports and other presentations have come out on this fascinating new blockchain technology. Its best ambassador is none other than the Bitcoin which has now reached highs that would have been unimaginable a few years ago. It is often said that this technology could spark a complete revolution in many sectors of economic activity, just as the internet did for all business activities. What is more, it could even take the very way our modern society is structured and turn it on its head. However, going beyond the purely technical workings of blockchain, which are difficult to explain because they are so complicated, blockchain raises questions about some of the implication of its ever-widening spread. It was developed as the result of a venture driven by libertarian ideals, with the underlying idea, initially, of sidelining intermediaries, such as central banks and even some government bodies. Might this decentralised system lead to a partial withdrawal of governments and their ancillary institutions from the role of intermediary?

→

COULD BLOCKCHAIN BECOME AN INSTRUMENT TO SERVE LIBERTARIANISM?

Blockchain technology is an innovation that operates in a decentralised way to make permanent records of transactions, such that they cannot be deleted. Each transaction has an encrypted block, containing one or more transactions and the data relating to them. These blocks are recorded in a digital block chain, each of which has been approved by the group. Before a block can be added, each node in the network must validate and approve it. What is more, the data stored in a block chain can never be deleted.

Blockchain could therefore be described as a sort of accounting general ledger or unchanging register of transactions that stores blocks of data shared on a network of computer nodes. This is often seen as having the merit of simplifying transactions, increasing transparency, reducing costs and reinforcing reliability. However, the most fascinating aspect of Blockchain is perhaps the way it can do away with the intermediary in dealings between parties to a transaction. Parties to a transaction who do not necessarily know each other can deal with each other, without supervision, with no intermediary and with no centralised third party. This is a totally new way of sharing value, money, information or contracting securely for ownership rights, while at the same time saving on administrative formalities.

The features of this decentralised register mechanism, which gives users more power, clearly chime with certain claims and values advocated in libertarian political philosophy. Sakashi Nakamoto, the creator of the blockchain, and the consortium that developed Bitcoin, certainly had libertarian aspirations and wanted to break free from the conventional monetary system. Nonetheless, it would be a mistake to go so far as to think that all Bitcoin users were libertarians. Nevertheless, and sometimes without them realising it, they may be using a technology that has major features that dovetail with certain aspects of the ideal libertarian society. Blockchain might therefore be the technology that demonstrates the technical feasibility of taking some powers away from governments and passing them to individuals.

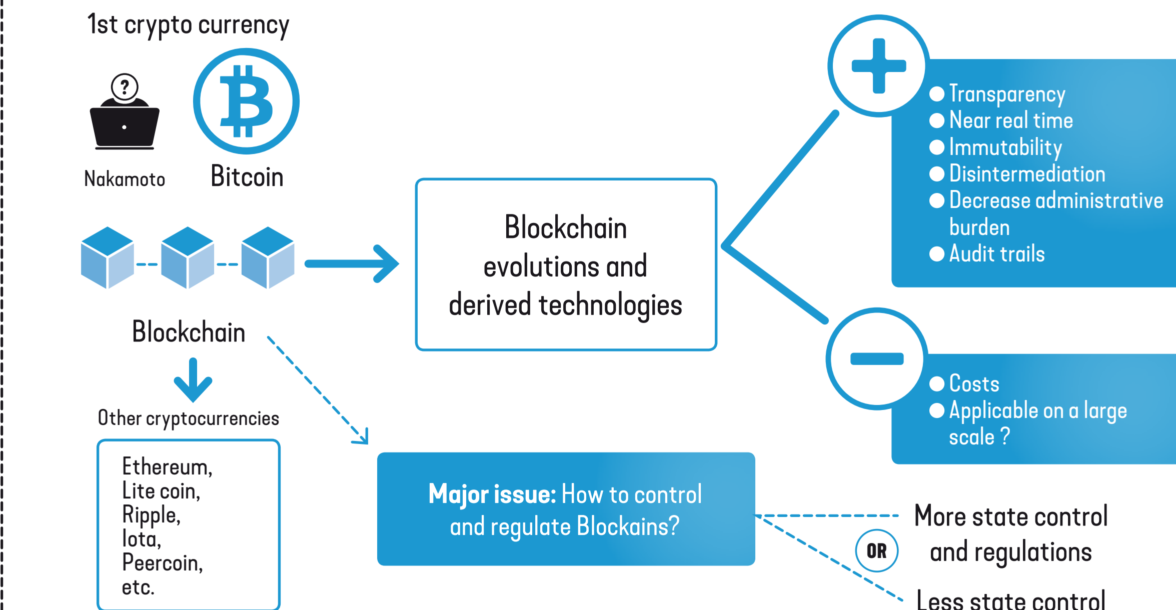
LIBERTARIANISM IS CURRENTLY IN FASHION

Libertarianism is alive and well, especially in the United States. This political and philosophical movement fundamentally regards individual liberty and individual property as natural rights. It also advocates free markets. Libertarians therefore put an overwhelming emphasis on liberty and deplore any unlawful infringement of it. From this perspective, governments ought to confine themselves to a minimalist role, so as to keep any infringement by them of individual property rights to the lowest possible level. The most obvious form of this infringement is taxes. This movement has taken tangible shape in the form of a Libertarian Party in the United States. During the last presidential election, it established itself as the third largest party.
The merits of the blockchain seem to fit in well with libertarian ideology. However, while it may lead to the State losing some of its influence in certain spheres, the impact may be more nuanced, and we even need to allow for the possibility of it having the opposite effect.

WEAKENING OR STRENGTHENING OF THE STATE?

This technology could therefore potentially enable people to break free from the State and its ancillary bodies, such as central banks and market infrastructures, avoiding the need to use intermediaries for certain transactions. It could therefore be a building block in the libertarian edifice by allowing for greater individual freedom at the expense of weakening centralised authority. Cryptocurrencies are a perfect illustration of the consequences that the application of this technology may have. These currencies are based on the blockchain or technologies deriving from it, and are global virtual currencies, not government sponsored. The total quantities of them are voluntarily and immutably limited. This would have been inconceivable in the past, as the right to mint money was seen as belonging to the State. The rise of these virtual currencies would seem to be another reaction to the 2007 global financial crisis.
This technology makes it possible to bypass the control of governments and central banks when using, valuing and trading currencies. Governments have reacted to bitcoin in a variety of ways. Some countries such as China and Russia see them as an enemy and ban them, whereas others, such as Germany, recognise them as private currencies.

The use of blockchain as a road towards a libertarian society is by no means completely mapped out. It may have been seriously cast into doubt by recent experiments by some governments in using blockchain to carry out administrative tasks on their land registries, their citizens' civil status registries and even healthcare systems. We could mention initiatives by the Swedish and Georgian governments, both of which set up a secure and transparent real estate register with the aim of ensuring the transactions on it were secure. This brings out another paradox. This technology, which was intended to free people from government control, has ended up being used by some governments.



YESTERDAY WILL SOON BE A FADING MEMORY

Human imagination would seem to be the only limit on blockchain's potential. This revolutionary technology raises a myriad of questions. What should be designed its legal framework? What industries will be affected? What about anonymity and safeguarding the right to privacy? What jobs will be created and which others will come under threat? How well will it cope with the forces resisting it? We can now see the plethora of potential solutions that this technology and its derivatives could provide.
The irony of what we find is that this mechanism, which arose from libertarian aspirations and was supposed to loosen government's grip, could end up having the opposite effect. Several governments are in fact trying to use this technology for their own ends, which would completely hijack its original purpose. Only the future will show us to which side the scales will tilt and what the future holds – for private blockchain applications intended to foster liberty on the one hand, and experiments with alternative uses by governments on the other hand.

Blockchain and its derivatives may also in the future be used in a whole host of other industries, including in fintech companies. Indeed, some of them already use this technology and will use it even more in the future, since it seems to hold infinite potential, for example for supply chain finance, e-payments, FX, financing and more.

There are still many unanswered questions as to how governments are to oversee these applications, on the regulations to be introduced to lay down the limits to be observed and finally on the oversight powers to be conferred upon supervisors to prevent the excesses inherent in new solutions of this type. The very role of banks and central banks, market infrastructure and other clearing houses has now been cast into doubt. Nobody knows whether this will be for the better or for the worse. Blockchain might shift the boundaries and forced everyone in the finance industry to rethink their business model and review their operating methods, failing which they risk disappearing completely.

> **SCIENCE IS WHAT A FATHER TEACHES HIS SON; TECHNOLOGY IS WHAT A SON TEACHES HIS FATHER.**
> Michel Serres

Blockchain may not be the libertarian panacea that will free us from government control, but it has paved the way for undoubted progress. We are only just at the dawn of this revolution. We need to be ready to adapt to it.

Simon Masquelier, Student

François Masquelier, Chairman of ATEL

FINTECH

VIRTUAL CHAOS

AND TREASURY VULNERABILITY TO CYBER-CRIME

In 2017, cyber-crime was undoubtedly the word on everyone's lips in treasury departments, along with blockchain. What is it? Are treasurers the intended potential victims? How do you prepare for the worst in an uncertain world? The risk of computer crime should be tackled in the same way as any other risk, without relying solely on the group IT people, or the CIO or CISO.

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ARE YOU REALLY PREPARED FOR THE RISK OF COMPUTER CRIME?

The biggest worry is that most treasury departments have not yet prepared a contingency plan or potential scenarios of situations that might affect them. Scary, isn't it? However, treasurers – the guardians of the temple of cash and short-term investments – are vulnerable and play a key role in every organisation. Protecting them becomes an even more pressing need. The problem arises, as with drugs and doping in professional cycling, from the growing and terrifying inventiveness of internet criminals. They are always a few steps ahead of you and are devoid of scruples. Devious attacks may spring up from anywhere, which is where the problem lies. Treasury fraud and ransomware are very much in vogue. It is the paradox of sophistication that the rise and spread of computerisation throughout the world makes these attacks all the more harmful and damaging. The imagination of hackers knows no bounds. You are not roped off in a ring, instead you need to fight on all fronts, which makes it a dangerous battle. The role of treasurers in protecting against computer fraud is therefore to educate and to strengthen internal controls, at the price of additional costs and a heavier administrative burden. For the last few years we have regularly used penetration tests and some reformed hackers now offer their services to the finance industry. Preparing yourself for the unthinkable and all the rest is not in people's nature, even though their jobs may involve managing risk. What every single one of them wants above all else is never to appear in any financial newspaper. To be happy in finance, you need to maintain a low profile and keep your head below the parapet, as the old saying goes. We should bear in mind that even SWIFT has been attacked (i.e. Bangladesh Bank), Google and Facebook have been victims of payment scams, and credit card details have been disseminated by malware. Spectre, Meltdown and more have appeared more recently, and there are too many others to mention them all. The fact that they process important, high-value transactions involving intensive use of technology (the most intensive in finance department) makes the role of treasurers, the CFO's corsairs, crucial. Over 80% of treasurers questioned at recent conferences and surveys stated that this risk was right at the top of their current list. It is a fair bet that it will stay there for quite some time.
The key merit of centralisation, if nothing else, is that it prevents risks or gathers them together in one place to limit vulnerability. But that is not enough. The problem arises from the failure to allocate sufficient human resources and sometimes financial resources to averting risks of this type. What should worry us most is that this new form of criminality is growing at double-digit rates each year.

> **ACCORDING TO ALLIANZ 2018 BAROMETER, CYBER-RISK IS THE TOP ONE, AS A CONSEQUENCE OF THE GROWING DIGITIZATION OF ECONOMY.**
> François Masquelier, Chairman, ATEL

HOW SHOULD WE TACKLE THE THREAT OF CYBER-RISK

There is no perfect method, but CISO's and CIO's try to embed best practice, as do Chief Risk Officers (CRO's). This involves painstaking and gruelling work, because hackers are incredibly agile. Whenever any loophole is plugged, another may appear. You never really have time to take a breather or relax.

HOW TO BEST ADDRESS CYBER-RISKS?

- ⚠ Identification of business @ risk
- ⚠ Strategy and risk tolerance including means to be spent on IT security
- ⚠ ISMS review (Information System Management Security) + internal capabilities valuation and audit certification (e.g. ITGC/Soc1Type2, ...)
- ⚠ Policies and processes in place - alignment of IT strategy to global group strategy and risk appetite
- ⚠ Governance and internal guidelines to address cyber-risks across group to ensure 3 lines of defense
- ⚠ IT systems and technology in place to be rolled-out
- ⚠ Business Contingency Plans (BCP's) and DRP's and design of future IT infrastructure for shaping the defense processes against attacks

1 company

IN 13 IS VICTIM OF A CYBER-ATTACK. AMONGST THE MOST FREQUENT, BY ORDER OF IMPORTANCE, ARE CRYPTO-RANSOMWARE, VIRUS INFECTION, PHONE HACKING, HUMAN ERROR, CYBER THEFT AND DATA LEAKAGE.

→

BEHIND EACH HACKER OR FRAUDSTER THERE LURKS A HUMAN BEING

Fortunately or unfortunately, we should never overlook the human dimension in fraud, even IT fraud. It may also have its roots in avoidable or unavoidable errors, negligence or intent by employees to harm the company or to enrich themselves at its expense. Hackers and fraudsters are human beings. Their behaviour may be slightly different, but they must be understood and appraised. They have specific motivations and sometimes, for internal fraud in any case, you can try to avert it by careful selection of staff, through giving information and through education on how to tackle risk. The problems may very often derive, for example, from social networks (social engineering attacks), from phishing, and from all those treasury tasks that are not sufficiently automated or are too manual. So prevention is all too often neglected. Well-informed employees who have had the risks and consequences explained to them will be more careful. Those with ill intent will tend to think twice about attempting fraud. It seems certain that the greater part of the compensation claims submitted to insurance companies (2/3) comes from proven frauds arising from human behaviour by employees of the company itself – negligence leading to losses or penetration by hackers, spyware, etc. Deficient practices, unintentional negligence, errors in following procedures and the like are as frequent as they are avoidable if tackled properly. Management and CIO's focus on systems whereas human beings could also play a substantial role, voluntarily or otherwise. Some businesses try to develop a «cyber-smart employee» culture, identifying possible gaps in skills and providing training to remedy them as far as possible. Commitment from everyone is critical in this never-ending battle. What is needed is procedures, policies, training sessions, practical advice, coaching and prevention. Seeing IT fraud as being confined to hackers alone would be to take far too narrow a view. We put too much emphasis on IT and machines, whereas they are no more than machines. A centralised approach to managing this also has merits. It is worthwhile laying down group tools and policies. Requiring 100% of payments to be encrypted and using a single ISO 20022 type format would seem to be a good solution, for example. Avoiding multiple local electronic banking systems would be means of prevention through standardisation. Avoiding multiple interfaces, and also state-of-the-art systems, are advisable. The new EU Directives and measures coming into force, such as the GDPR, may provide an opportunity to review and revisit certain processes to make them more robust.

BUT WHAT IS CYBER-CRIME, IN THE FINAL ANALYSIS?

IT crime covers all crime involving a computer and/or the internet. Computers may be used in committing the crime, or may be the targets. It is an offence committed against individuals or groups of individuals by people with criminal motives who intentionally damage a victim's reputation or cause physical or mental harm to the victim, directly or indirectly, by using modern telecommunications networks such as the internet or mobile phones. Such crimes can threaten the security and financial health of a nation or a business and have financial and reputational consequences of unlimited extent. This is certainly a very wide definition, but it is comprehensive and covers what we are talking about.

> **SUBSCRIPTION TO CYBER RISKS INSURANCE POLICIES HAS DOUBLE IN A YEAR AND WITH GDPR, IT SHOULD INCREASE EVEN FURTHER!**
> François Masquelier, Chairman, ATEL

MORE SPECIFICALLY AFTER THE "WANNACRY" AND "PETYA" ATTACKS IN 2017, THE REGULATIONS INTRODUCED IN RESPONSE TO THIS TYPE OF RISK, SUCH AS THE GDPR, MAY FURTHER THE CAUSE HELP COMBATING FRAUD (POSITIVE EFFECT) WHILE AT THE SAME TIME REQUIRING THE EXPENDITURE OF RESOURCES AND MONEY TO ACHIEVE COMPLIANCE (NEGATIVE EFFECT).

BIGGEST THREATS TO MNC'S – WORST CYBER LOSS SCENARII
Classic examples often encountered
Working with new suppliers / changes in suppliers' bank details
Risk of being invited to execute wire transfers to alternate fraudulent bank account
Senior Executive / CEO attorney impersonation-employers pressured by fraudsters to act quickly and secretly in handling transfer of funds
Request to transfer funds from top executive's compromised account to a second employee responsible for processing these types of requests
Data theft via fraudulent requests using business excutive's compromised e-mail to impersonate a specific employee
Requests for invoice payments to fraudster controlled bank accounts to several vendors (via fraudulent correspondence through composmised e-mail addresses)

MITIGATING CYBER-RISKS

How can we mitigate these IT risks of hacking and of both internal and external fraud? The answer will not be found in a book of magic spells. But we may be able to offer a few worthwhile tips (see the graphic below). These are only basic outlines to which everyone should add their own prevention measures. Let us bear in mind, too, that there are some initiatives in existence that are worth highlighting, for example SEPA mail DIAMOND, which has been introduced in France for the secure transmission of IBAN bank details – the problem lies in the lack of standardisation, once again, and the lack of real will on the part of certain banks; SIS ID to check the match between the account number and identifier by awarding a score; dedicated anti-fraud modules such as those offered by KYRIBA, based on big data and behavioural analysis, to isolate suspect behaviour; there are many online training courses on prevention; etc.

HOW TO MITIGATE AND TO PREVENT CYBER-RISKS?

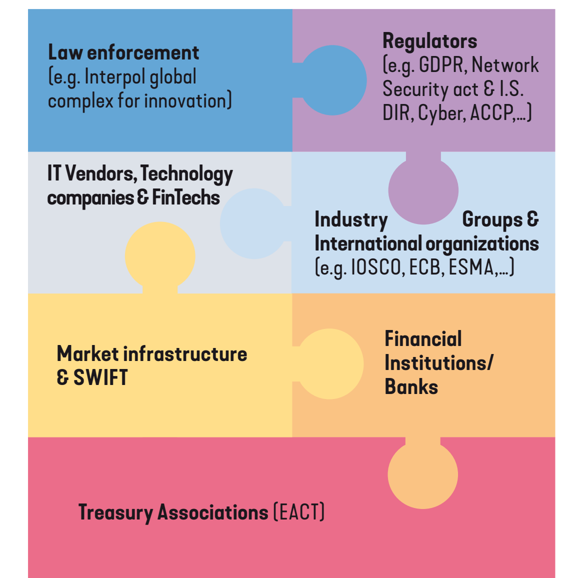
- ☑ Clear and comprehensive IT policies and strategies in place
- ☑ Proper information distribution within the group / sharing informaiton on incidents
- ☑ Regular education programs / preventing by information sharing
- ☑ IT (high level) certifications (e.g. ISAE 3402, SAS 70, SSAE 16, ISAE 3000,...)
- ☑ Sharing information and alerts with Int'l Treasury Associations (e.g. EACT) and National ones (e.g. ATEL,AFTE,VDT, ASSET, NACT, ...)
- ☑ Subscribing to cyber-insurances (which also imposes regular expert reviews on site)
- ☑ Increasing reconciliation frequencies for key financial processes and internal audits
- ☑ Automation of processes at treasury level and full STP / leveraging more technologies
- ☑ Regular intrusion tests done by experts and specialists
- ☑ Reinforce authentication processes / additional layers of security/regular reviews of Internal Controls, documentation and testing
- ☑ Regular effective off-site BCP's and DRP's runs
- ☑ Restriction to company network access for bank transfers and via mobile devices
- ☑ Dedicated PC's for payment origination excluding social network and mail access
- ☑ Secured SWIFT bank connections ideally wit 3Skeys / certification as SWIFT users
- ☑ Regular back-ups with ad hoc back-up policy - culture of data protection and security of offices

> **THE NUMBER ONE PRIORITY FOR CORPORATE DIRECTORS IS CYBERATTACKS (ACCORDING TO RECENT SURVEY FROM AKIN GUMP STRAUSS HAUER & FELD).**
> François Masquelier, Chairman, ATEL

DON'T BE EASY PREY!

Countering IT risk or cyber-risk is the responsibility of everyone, particularly treasury departments which, because of their high volumes, are very exposed and are the targets of choice. They are natural prey. We have offered you a few tips for averting these risks. It is through the widest-ranging and most coherent combination of these methods that success can be achieved, and that the onset of risk can be averted. The way to limit risk is through the use of these cutting-edge, powerful and secure tools, by applying a coherent group strategy, with special alerts and by following best practice. You need to identify the risk, protect yourself against it, detect it or the signs of heightened risk, and react appropriately and recover if need be (in the last resort).

7 JOINED FORCES TO FIGHT CYBERCRIMES



One of the best means is training and sharing the feedback from experience. Obviously, you can take out insurance; but this is no magic bullet, and the insurer will ask for evidence of the action you have taken to ensure the risk is kept down to the minimum. Having insurance does not mean you can relax and rely on the systems in place. Quite the opposite, you have to keep on demonstrating to the insurer that you are a continuing to enhance your prevention and protection measures. You need to revisit them and improve them continuously, unfortunately. If there is an incident, you can be sure that either the premium, the excess or the insurer will change. Managing IT risks is a culture, a mindset and a way of working. And we should not forget that top management must set the tone. Another key component for success in this relentless struggle is the cohesiveness of the people involved and the stakeholders.

It has been said: "When it comes to security, the digital transformation demands an approach that has been radically reshaped compared to the traditional approaches, together with comprehensive methodologies to tackle the threat, from keeping a watch and surveillance through to managing attacks and crises" (Bertrand Hasnier-Sopra Steria Consulting). We cannot advise treasurers and CFOs strongly enough that they should radically review their strategic approaches to managing IT risk. Because the hackers have not yet finished with us, specially if you think about Steve Jobs' words: "It's more fun to be a pirate than to join the navy".

François Masquelier,
Chairman of ATEL

FINTECH

L'INNOVATION AU SERVICE DES ENTREPRISES

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Quel que soit le marché et quelle que soit la clientèle, entreprises ou particuliers, l'innovation fait partie de notre ADN.

Nos solutions digitales donnent à nos clients les moyens de garder une longueur d'avance dans leur vie personnelle et professionnelle. En effet, nous cherchons toujours à offrir les outils bancaires à la pointe de la technologie, faciles d'utilisation, ergonomiques et qui sont associés au plus haut degré de sécurité existant.

DES INNOVATIONS ÉPROUVÉES AUPRÈS DU GRAND PUBLIC

Depuis toujours, l'industrie a développé et testé des produits ou services qui ont été ensuite démocratisés pour le grand public. Avec l'essor des nouvelles technologies, on observe désormais des mécaniques inverses. L'avènement des smartphones et tablettes dans notre vie privée a accéléré de manière drastique les développements des outils d'online banking pour les particuliers, en termes de performance ou d'ergonomie. Notre rapport à ces outils et à la banque ont été modifiés : un client ne se connecte plus sur le « site transactionnel de sa banque » mais bien sur « son espace personnel » (My ING, dans le cas d'ING Luxembourg).
Nous proposons à nos clients particuliers un online banking performant et plébiscité pour sa facilité d'utilisation. Il nous semblait donc naturel d'en faire profiter nos clients entreprises.
Il y a 3 ans, le service d'alerting, initialement développé sur My ING pour la clientèle particulière, a été étendu aux entreprises. Ce service permet à nos clients de recevoir des alertes liées à un événement sur leurs comptes. Ce système les informe en temps réel, par e-mail, lorsque par exemple le solde de leur compte descend en dessous d'une limite définie ou encore lorsqu'un paiement supérieur à un montant choisi est réalisé à partir de leur compte.
Face au succès de cette première adaptation, il a été décidé d'aller plus loin et d'ajouter les fonctions liées au monde de l'entreprise tout en gardant son esprit original : efficacité, sécurité et facilité d'utilisation. My ING Pro était né.

> **NOUS PROPOSONS À NOS CLIENTS PARTICULIERS UN ONLINE BANKING PERFORMANT ET PLÉBISCITÉ POUR SA FACILITÉ D'UTILISATION. IL NOUS SEMBLAIT DONC NATUREL D'EN FAIRE PROFITER NOS CLIENTS ENTREPRISES.**
> Marie-Christine Rinaldi-Radio, Head of Client Services & Business Coordination Wholesale Banking, ING Luxembourg

POUR UNE MEILLEURE GESTION…

Cette nouvelle fonction apporte aux entreprises une solution simple pour gérer les opérations de paiement. L'innovation la plus emblématique est certainement la mobilité. Plus besoin d'installer un logiciel lourd sur les ordinateurs de l'entreprise, un simple accès à Internet suffit et une connexion via smartphone ou tablette est également possible. Par ailleurs, la solution est compatible avec les appareils Apple et Android.
Une innovation n'a de sens que si elle correspond à un réel besoin de l'entreprise : pour illustrer ceci, prenons l'exemple d'un virement qui, dépassant une certaine limite définie par l'entreprise, doit être cosigné par le CEO pour être exécuté. Si celui-ci est en voyage d'affaires, le virement pourrait être bloqué jusqu'à son retour. Avec My ING Pro, il peut valider facilement ce virement sur son smartphone avec son token LuxTrust.

LA CO-CRÉATION : PLACER NOS CLIENTS AU CENTRE DE NOTRE PROCESSUS D'AMÉLIORATION POUR CRÉER DE LA VALEUR

My ING Pro n'est pas un outil figé ! Il évolue constamment et est adapté en tenant compte des besoins de nos clients : nous avons en effet mis en place un processus de co-création avec eux. Depuis son lancement, de nouvelles fonctionnalités ont été ajoutées grâce au feedback de nos utilisateurs. ▬

Marie-Christine Rinaldi-Radio,
Head of Client Services
& Business Coordination
Wholesale Banking
ING Luxembourg

LYXOR
Asset Management
GROUPE SOCIETE GENERALE
20 ANS D'INNOVATION

À 20 ANS, NOUS N'AVONS PAS FINI D'OUVRIR DES PERSPECTIVES.

LES AIGUILLEURS

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THEY HAVE THE ANSWER YOU HAVE THE QUESTION

Fintech companies look to be the future of banking. We hear a lot about them, but what are we to expect of them? Is the banking industry facing a risk or an opportunity? Can banks adapt and change their culture? The outlines of tomorrow's banking industry are starting to take shape. Technology is not incompatible with the business of banking. People have been talking about technology companies for the last three years, although we have been seeing a resurgence in financial IT since 2007. Fintechs have the answer, whereas banks and treasurers have the question. All that is needed is to match the two together. The crisis and the regulations flowing from it have changed the landscape and fostered innovation. The fact remains, though, that the digital risk is rightly the biggest risk on the banks' radar.

COMPLETE INNOVATION, BREAKING WITH WHAT EXISTS NOW

You will have heard so much about Fintechs that they will be etched into your memory and you will be sick of them. Nevertheless, no one could conceive of the world of the future without these innovative new disruptor enterprises. The world is going to change very quickly, but nobody knows how or in what direction. It is like a train trip. You have to set out and leave the platform without really knowing where you're going. This journey is necessary but we often dread it, and culture and heritage count for a lot in this connection. By clinging to our bench on the platform, we risk missing the right technology train. We need to be ready to question everything and to change our mindset. Banks, and not only banks, need to rethink their business models and press into service the new technologies that lead to innovation.

But as we now know, the new technologies go hand in hand with cyber risks and IT crime. This gives rise to what I would call the three paradoxes of the financial technology revolution:

1. The first paradox is that of sophistication: the more technical we become, the more vulnerable we become.
2. The second paradox is that of the spreadsheet which is more widely used than ever before whereas the solutions have never before made so much possible.

3. The third paradox is cost inflation, for example with SWIFT. The necessary increase in security requires such high investment that the total cost has stopped falling and has now started to rise.

Here again, the more technology evolves, the more startling the increase in its cost. We see that technology is not always logical. Unfortunately, it is not easy to plot out our roadmap through this profusion of technologies and solutions, with their greater or lesser degrees of sophistication. In our defence and that of the banks, it must be acknowledged that this is a particularly difficult exercise to carry out and a major challenge. It is a matter of evolving and revolutionizing things in a low-key way so as not to disrupt everything, while at the same time achieving transformation. It is a peaceful revolution like the bloodless Portuguese April coup, or the Tunisian "Jasmine Revolution", not something done by force, which would never work. Low-key but effective, that is what banks and corporates need today.

In a world in which bank products are becoming "commoditised", the only way to set yourself apart is through experimentation. To retain a competitive advantage, banks must use and develop technologies. Digitalisation sweeps aside barriers. The regulatory uncertainties remain. People's time is precious, and they do not want to spend it on the financial aspect alone. If they are to survive, banks need to be part of the platforms and to belong to the ecosystem. It is all too often forgotten that the financial crisis and the regulations introduced as a consequence of it have given a boost to creativity and innovation in finance. The regulations intended to correct the wayward behaviour of the past have changed the financial environment, as with PSD2, for example. New payment methods, the spread of B2C, new players and new (virtual) currencies have shaken up the whole ecosystem.

CATEGORISING THE SERVICES PROVIDED BY FINTECH COMPANIES

On the face of it, FinTech, an amalgam of finance and technology, would seem to describe innovative start-up type companies (but not only to start-ups since some of them have been in existence for 20 years or more) that use technology to reformulate financial and banking services. After the financial crisis, some finance people embarked upon entrepreneurial ventures to reformulate financial service provision through the use of innovative IT. The idea is to simplify finance, and to make it more accessible and less expensive.

Fintechs need to be categorised as a function of the themes and subjects they address, so as to bring them into sharper focus, since there are so many of them and each one is more diversified than the next. We propose to split them into the 12 "clusters" below.

MATCHING THE NEEDS TO THE MEANS

Matching those who have the answers and the solutions, without knowing to what use they could be put, to those who have needs but do not know that the solution to their problems already exists. The difficulty lies in matching solutions to needs. The technologies, including block chain, exist but have not yet found their proper application. These technologies will be diverted and used for purposes other than those planned at the outset. We should welcome the fact that cryptocurrencies have sparked an explosion in new technologies. This was the catalyst that spurred a new wave of technologies, because Fintech's already existed, and some of them had even been years ago, before recent explosion of new smart technologies. The crisis gave rise to Bitcoin and block chain, and revitalised the "new technologies". There were Fintechs that did not realise they were Fintechs – companies that had been in existence before 2007 but that had the impression that they could not qualify as Fintechs. Therefore, it doesn't mean necessarily start-ups.

> **THE MORE TECHNOLOGY EVOLVES, THE MORE STARTLING THE INCREASE IN ITS COST.**
> François Masquelier, Chairman, ATEL

FINTECH'S BY CATEGORY

#Financial #Technology

Q. What is a Fin Tech ?

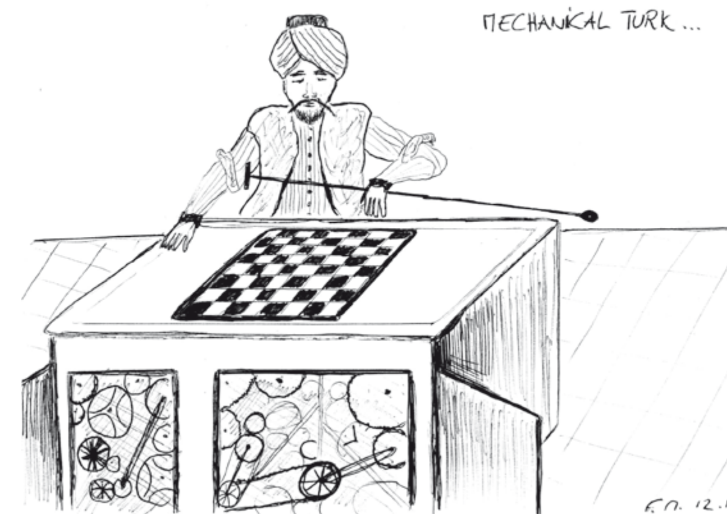
Answer

Fintech is a portmanteau of financial technology that describes an emerging financial services sector in the 21st century. Originally, the term applied to technology applied to the back-end of established consumer and trade financial institutions. Since the end of the first decade of the 21st century, the term has expanded to include any technological innovation in the financial sector, including innovations in financial literacy and education, retail banking, investment and even crypto-currencies like bitcoin.

LENDING (incl. crowd fuding)	PAYMENTS (incl. int'l money transfer)	CONSUMER BANKING (credit)	PERSONAL BANKING	EQUITY FINANCING	RETAIL INVEST-MENT (incl. e-money)	INSTITU-TIONAL INVEST-MENT AND FUNDS	FX/MMF PLATFORM (incl. PZP solutions)	WorkCap & FINANCE SUPPLY CHAIN	DATA (proces-sing, ana-lytics,...)	CAPITAL MARKETS (Infra-structure)	TRADING & INVESTING

WHAT DO TREASURERS WANT? IF ONLY THE BANKS KNEW!

If there is one thing the treasurers do not want, or no longer want, it is the proprietary bank solution. A single and isolated bank that restricts them to working with one single establishment with a multiplicity of solutions. That leads to dependency on the banks. Treasurers want to be "bank agnostic". Agnostic and therefore able to change banks just as they would change their clothes. We are a long way from that. Treasurers want multi-bank solutions, solutions that are multichannel, multiproduct and that combine applications. Why put all your eggs into one basket with one single bank when making them compete would pave the way to flexibility. Dynamic discounting solutions, for example, are a perfect illustration of what treasurers would ideally like. We can find many other examples these days. Overdependence is costly and stops us winkling out the best prices. The banking industry has all too often believed that it had a guaranteed regular income, that is was a necessary evil, that changing banks would be very burdensome, and that inertia would therefore act in its favour. In its favour, certainly, but only up to a breaking point, which we are on the verge of reaching.



THE MILLENNIAL GENERATION IS MAKING ITS PRESENCE FELT, AND WITH THEM EVERYTHING WILL CHANGE!

Some people seem not to have grasped the fundamental change brought by the generation that is now coming into its own. The latest generation will mean that, for the first time in the history of humanity, there will be five different generations in the market at the same time. The most recent is, however, very different and has expectations that will revolutionise the way things work. We need to prepare for it. For them, everything needs to be simple, efficient, linear, free of charge or nearly free, and independent of the restrictions of any system. Choice and freedom are important to them. We therefore need to adopt models that fit their image – simple and efficient. Easier said than done. If we do not adapt to their expectations, however, we very quickly risk running into headaches and conflicts.

THE LACK OF STANDARDS, A TEMPORARY SAVIOUR?

The lack of standardisation currently allows the banks to give the appearance of surviving. For instance, a KYC register does not seem a likelihood since they cannot come together to agree on a standard. On purpose, perhaps? All the transfer formats, even XML formats, are different, and it does not seem possible to agree on a universal standard. The banks are clutching desperately to this straw. But it is a will-o'-the-wisp and no more than a respite. The technology companies' idea is to make the customer experience simpler. The banking industry is in a good position, but it is not irreplaceable. It needs to adapt and also to automate its own internal processes. Here again the legacy IT infrastructure is such that everything is difficult and expensive to change. To really enter into a new level of technological developments, we need to define more universal standards, key pre-condition.

> **WITH TECHNOLOGY, WE MAY EXPECT TOMORROW'S BANKS TO OPERATE ALONG THE LINES OF A PLATFORM MODEL RATHER THAN A PIPE [PRIVATE INVESTMENT IN PUBLIC EQUITY] MODEL.**
> François Masquelier, Chairman, ATEL

MECHANICAL TURK OR REAL INNOVATION?

To innovate, the culture needs to change. Financial institutions have evolved enormously over the last ten years since the financial crisis, in terms of compliance with the new regulations. They have invested in controls, systems, and even in technology. However, their legacy IT systems are such that any change is difficult if not impossible. Often banks can patch solutions onto the existing systems, ending up with a shaky mishmash. Digitalisation is perhaps not all that it is made out to be, and like the "mechanical Turk" chess playing automaton, the banks are a long way from total automation. At the time, it was possible to impress Maria Theresa of Austria with this chess playing machine that turned out to be all too human in the end. But we cannot be bamboozled. Total digitalisation is a long way off. With technology, we may expect tomorrow's banks to operate along the lines of a platform model rather than a PIPE [Private Investment in Public Equity] model. This is where the revolution lies. The banking industry needs to adapt and the task needs to create the means to do it, failing which a lingering death lies in wait. But every need for change involves a cultural revolution, and here we think that it will fall short. The *Uberisation* of all business models it is like a train about to depart. You know you have to climb on board, but not always exactly when and at what price.

Not getting on board is tantamount to becoming obsolete and disappearing, but committing too much too early would also be harmful. With technological innovation, it is all about judging the right measure, in outlook and in experimentation, especially since the standards have not been laid down and the landmark technologies have not emerged. Banks think "customer experience" and claim a customer focus – we beg to disagree. They need to adapt to their co-workers and their staff, who are sometimes ill-prepared for these imminent changes. It is a matter of innovating, of taking risk, and of entrepreneurship, but also of being aware of what already exists and of those who deliver it, whence the concept of *"intrapreneurs"*. Big data does not yet seem to be of major interest to the banks. Who has as much data as they do, however, for example credit cards, that would enable them to anticipate customer wants and offer them appropriate solutions? The banking industry could become a supplier of services other than just financial services.

IT ALL COMES DOWN TO DATA!

Computing power has doubled every year since the 1970s. More data has been generated over the last two years than since the outset of the history of humanity. This is a sign that data has become a decisive weapon. And what if the banks, following Amazon's example, were to see certain products as being an occasion or opportunity for gathering information and selling products without earning money but instead generating customer loyalty? Amazon Prime does not aim to make money or to take out Netflix, but instead to win even greater loyalty from the customer base. The banking industry should take its cue from this model, especially since with PSD2 it will have to open up to APIs in any case and share. The banking industry is robust, it has a history, and it has stood the test of time. Its financial standing and credit rating makes it key player that could act as a control tower, and a powerful and crucial aggregator. The trick would be to agree to have promotional products or even loss leaders to corner for itself the flows of information and data (with a huge caveat about the GDPR which will come into force next May 2018). It could become even more of a key player than it already is. Data is the crucial weapon of future, and being able to handle it will be the key to managing customer wants. The banking industry will then be able to offer more services, even non-financial services, to its customers. The banking industry needs to shake off the dusty, outdated image that clings to it. I am always amazed that banks are represented as classical buildings or Greek temples in presentations and graphics. Could you think of anything less appropriate to portray a bank? It is far too simplistic an image. Data is the oil of the fourth wave, and technology is its engine. Has the banking industry grasped the importance of the abundance of data that it holds? It has certainly not placed as much importance on it as it ought. This data could be a lifesaver for it. It is over to the banking industry to make better use of it.

THE BANKING INDUSTRY OF THE FUTURE IS ALREADY IN THE MAKING!

No one can say whether the banking industry will survive or whether alternative banking will succeed. We may suppose that the banking industry in the form that we know it now will not survive. It will be different, or disappear completely. The banking industry has grown bigger and fatter, has had many regulations imposed upon it, and has become somewhat inert and slow to change. It must not become complacent and regard itself as unassailable. Quite the opposite, it is faced with the risk of new entrants to the market. For the most part, the banks seem pretty laid back whereas they ought to be alert and on their guard. It is as if some of them had been left behind on the station platform. Those ones have most certainly missed the innovation train. It is a mistake to think that the barriers to entry are too high. Because the new entrants are selective and will avoid having to apply for bank status with all that goes with it in the way of restrictions and other regulations. The banking industry should base everything on its customers and use them to win their loyalty. As is well known, the young are likely to be the least loyal. More than ever, banks need to win them over if they want to have any hope of keeping them as customers. They face a major challenge if they want to come out of the digital revolution as winners. As Heraclitus of Ephesus said, *"There is nothing permanent except change."*

> **DATA IS THE CRUCIAL WEAPON OF FUTURE, AND BEING ABLE TO HANDLE IT WILL BE THE KEY TO MANAGING CUSTOMER WANTS.**
> François Masquelier, Chairman, ATEL

François Masquelier,
Chairman of ATEL

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THE NEW WAY
TO BORROW AND RUN BUSINESS

Interview with François Lévy, Founder of Loansquare.

BIO

FRANCOIS SPENT 10 YEARS IN THE FINANCIAL SERVICES AS MANAGER AT CSC THEN ASSOCIATE PARTNER AT IBM. He mainly focused on the optimization of the structured finance processes within major Corporate and Investment Banks. He also participated to the launches of innovative services: loan platforms, Blockchain pilots... Since November 2016 Francois is cofounder and CEO of Loansquare.

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Could you present Loansquare platform solution? In what is it innovative in terms of financing?

Our solution is the first SaaS solution allowing Corporations to request for new loans and to monitor them after the closing in a 100% digitized way. Corporations can decide to connect with their partners, including banks, investment funds, but also lawyers, auditors...

Our company proposes simultaneously a loan management platform, a shared agenda and data-room, as well as a secured communication system between all parties to a loan. I founded it two years ago with two partners: Etienne Royole, a former colleague in my previous Investment Banking consulting firm, and Jean-Pierre Schmit, CEO of Jemmic, a lux IT company focused on the development of secured applications for Banks. Jemmic is the provider of Trafec, a SaaS multi-bank platform used in the trade finance at Geneva. It enables Corporations to issue Letters of Credit with a dozen of Corporate and Investment Banks.

When we met Jean-Pierre for the first time in Paris, we directly agreed on one thing: if we can change the way we do trade finance, why would it be impossible to do it with financing activities as well?

A couple of weeks after, we had a common vision: digitizing the full credit chain, to drastically decrease risks and time processing, and at the end of the day, to reduce fees paid by borrowers. As of today, we back-tested platform with two tiers-1 investment banks, and can already use our solution to send instructions to banks, receive digitized term-sheets and compare them with your own benchmark grid. This is already a huge step forward for the financing world, but we want to go even further by automating term-sheet generation, agency management ...

Complex lending operations are not 'industrialized' and still highly manual or paper-based. Do you think that a loan platform will have the same success as FX platforms or Money Market Fund platforms?

How can you explain that 90% of derivatives are now managed through platforms versus less than 15% for loans? We now have the right technologies to be able to handle large and complicated derivatives...why not for loans? This is our solution: we bring best of breed technologies, we a high level of security, to allow our customers to experience a new way to borrow and run their business.

Whatever the kind of loans you deal with, a lending platform brings significant benefits: for a vanilla loan, in a matter of months, you will be able to manage it 100% online, even on the legal aspects; for complex structured deals, we move step by step with our customers, focusing first on interactions between financial institutions and borrowers, to finally integrate the whole ecosystem into our platform (including pools of banks..., export credit agencies...).

Financing is the last unindustrialized market of the financial services. The loan market is the next sector which is going to be impacted by platformisation. Even if Banks are aware of this, they are mainly focused on the interbank market (agency processes), whereas our priority is to provide borrowers with simple and innovative services to finance their activities.

What are the benefits for a corporate to go through a platform instead of directly reaching its bank? Is it an opportunity to get access to other lenders? To better benchmarks? To share its loan business among a larger number of banks?

First of all, we see few banks developing their own client portals, but what borrowers expect is a single multi-bank platform to manage loans. It is obvious that requesting for a new loan requires to connect with several financial institutions and to compare their offers. The added value of a multi-bank platform is also high to follow-up your portfolio. All companies work with several banks even most of Small and Medium Companies.

What are the difficulties encountered when you develop such a platform? Apart from the changes in use and market practices?

One of the most important milestone toward success is the ability to create a network effect, to keep bringing more and more corporations and banks on our platform. Nonetheless, we also propose internal modules to our customers, in order to boost their capabilities on the short term, and prepare them to the incoming platformisation of lending activities. Another challenge is to show to Banks that Fintech startups are an opportunity to bring a lot of value to them and their clients. Banks must understand that platformisation enables them to reduce costs and risks with straight through processing. Another key success factor is the evolution of the regulatory environment. In the same way as MIFID or PSD2, you could see new requirements forcing Banks to trade through platforms or to open their data to external providers willing to enhance client experience. The Anacredit reporting is the first step toward more transparency on the Loan Market, and platform like ours can help financial institutions and corporations to be compliant.

> **IF WE CAN CHANGE THE WAY WE DO TRADE FINANCE, WHY WOULD IT BE IMPOSSIBLE TO DO IT WITH FINANCING ACTIVITIES AS WELL?**
> François Lévy, Founder, Loansquare

How could the association of corporate treasurers help you?

We already work closely with the French association of corporate treasurers. The best way to move forward is to launch "real" pilots with a group of motivated treasurers. In France, we work on the business aspect (covenants, drawings...) but we also explore IT innovative solutions, notably around Blockchain and smart contracts application to loans. Send us a quick message on our website so we can start working together toward building the next-gen lending platform!

Could we envisage to use Loansquare platform to manage intercompany financing transactions or third-party financing (for groups that finance their counterparties/clients)?

Of course, you can! Our platform is built to handle most of real world use cases, and can be offered in white label licensing for major banks and corporations. In addition to traditional lending processes, we also cover intercompany financing, internal portfolio management, and even secondary market platform for investors. Our aim is simple, become the leading European platform for lending activities.

LUXEMBOURG

CENTRALISATION DE TRÉSORERIE ET EXIGENCES EN MATIÈRE DE PRIX DE TRANSFERT

L'environnement prix de transfert (i.e. prix pratiqués entre entreprises liées) encadrant la pratique de cash pooling (ou centralisation de trésorerie) est aujourd'hui en pleine évolution. Des recommandations ont été publiées par l'Organisation de Coopération et de Développement Economiques (OCDE) en juillet 2017 et de nouveaux principes sur les transactions financières devraient être édictés par l'OCDE dans le courant de l'année 2018.

Le législateur luxembourgeois a mis en place des règles en la matière qui retranscrivent dans la loi luxembourgeoise le principe de pleine concurrence et les conditions de documentation. Ces règles se conforment aux nouvelles exigences de l'OCDE liées aux travaux BEPS (Base Erosion and Profit Shifting).

En vertu de la loi luxembourgeoise, la déductibilité des charges d'intérêt au niveau de l'entité centrale du cash pooling (cash pool leader) est ainsi conditionnée au principe de pleine concurrence. Ce principe est dès lors d'une importance capitale pour les nombreux groupes localisant leurs opérations de trésorerie au Luxembourg.

PRINCIPES DE BASE

Le cash pooling permet de centraliser et d'optimiser les flux de trésorerie au sein des groupes. Il est de ce fait devenu un instrument essentiel dans la gestion de la trésorerie.
Deux types de cash pooling sont habituellement implémentés: (i) un cash pooling physique (zero balancing cash pooling) avec un transfert physique de la trésorerie des participants vers le cash pool leader en fin de journée ou (ii) un cash pooling notionnel (notional cash pooling) sans transfert physique de trésorerie. Les deux types de structures sont néanmoins soumis aux mêmes principes prix de transfert.
L'avantage principal d'un cash pooling réside dans l'amélioration des conditions d'emprunts et de dépôts sur le marché. Grâce à un effet de synergie, les parties prenantes à un cash pooling peuvent bénéficier de conditions qui n'auraient pas été disponibles en l'absence d'une telle structure.
Sur base des recommandations OCDE publiées en juillet 2017, trois éléments sont à analyser lorsque

> **LA RÉPARTITION DE L'AVANTAGE CONFÉRÉ PAR LE CASH POOLING ENTRE LES PARTIES VA PERMETTRE D'ESTIMER LES TAUX D'INTÉRÊT À APPLIQUER AU SEIN DU CASH POOLING.**

des synergies découlant d'actions délibérées et concertées de la part d'un groupe créent un avantage non disponible pour une majorité d'entreprises comparables sur le marché: (i) la nature de l'avantage considéré, (ii) le montant que représente cet avantage et (iii) la façon dont cet avantage est à répartir entre les membres du groupe. Le cash pooling se doit d'être analysé à la lumière de ces trois éléments étant donné qu'il génère un tel avantage via des synergies.

RECOMMANDATIONS OCDE

Nature de l'avantage
L'amélioration des conditions d'emprunts et de dépôts pour les parties prenantes à un cash pooling est essentiellement liée aux deux éléments suivants :

- Des bénéfices sont réalisés grâce à la compensation des flux de trésorerie au niveau du cash pool leader. Le cash pool leader dispose généralement d'une meilleure notation de crédit car il bénéficie à la fois d'un profil de risque diversifié (il diversifie son risque en prêtant à de nombreuses entités du groupe) et d'un soutien implicite (ou explicite) du Groupe. Seul le cash pool leader emprunte sur le marché au sein du cash pooling, ce qui diminue le risque de contrepartie pour des banques tierces et in fine les taux d'intérêt sur les emprunts.
- Des bénéfices sont réalisés grâce aux volumes plus importants obtenus en mutualisant les flux de trésorerie des différents participants. Ces plus gros volumes permettent d'obtenir de meilleurs conditions sur le marché, que ce soit par exemple une réduction des coûts bancaires ou des taux d'intérêt plus élevés sur les dépôts.

Montant de l'avantage
Le montant de l'avantage conféré par le cash pooling est à estimer en analysant les conditions obtenues par le cash pool leader sur le marché et celles qu'obtiendraient les participants. Les flux de trésorerie récents ou prévisionnels au sein du cash pooling sont également à analyser afin de pouvoir estimer cet avantage.

Répartition de l'avantage
Les recommandations OCDE publiées en juillet 2017 préconisent d'allouer les synergies entre les entités du groupe à proportion de leur contribution à la création des synergies concernées. La contribution de chacune des parties prenantes au cash pooling doit dès lors être estimée sur base des fonctions exercées, des risques encourus et des actifs détenus. On peut aussi s'appuyer sur la théorie économique qui prône d'allouer au cash pool leader les bénéfices liés à la compensation et d'allouer aux participants les bénéfices liés au volume. Différents cas de figure peuvent dès lors se présenter:

- Le cash pool leader n'exerce que les fonctions de coordination / d'intermédiaire entre les participants et les banques tierces. La grande majorité des risques sont encourus par les participants au cash pooling. Dans ce cas, une rémunération correspondant à des fonctions administratives pourrait suffire pour rémunérer le cash pool leader. Le profit résiduel est à répartir entre les différents participants en utilisant une clé d'allocation appropriée à priori basée sur les volumes des flux de trésorerie.
- Le cash pool leader a un profil fonctionnel similaire à celui d'une banque tierce. Le cash pool leader possède un savoir-faire, supporte des risques conséquents et possède la capacité de supporter ces risques. Dans ce cas, une rémunération correspondant à des fonctions administratives et une rémunération basée sur ses capitaux à risque (pour couvrir les risques liés à l'octroi de prêts au sein du cash pooling) est généralement attribuée au cash pool leader. Le profit résiduel est de nouveau à attribuer aux participants via l'utilisation d'une clé d'allocation appropriée.
- Une approche simplificatrice consiste à attribuer la totalité des bénéfices liés à la compensation au cash pool leader et la totalité des bénéfices liés au volume aux participants. La répartition des bénéfices est alors à réaliser sur base des flux de trésorerie récents ou prévisionnels au sein du cash pooling. La mise en place d'une telle approche dépendra de la matérialité des transactions ainsi que de la sensibilité des autorités fiscales concernées.

La répartition de l'avantage conféré par le cash pooling entre les parties va permettre d'estimer les taux d'intérêt à appliquer au sein du cash pooling.

CONCLUSION

Les principes OCDE peuvent avoir un impact matériel sur les opérations de trésorerie et leur application peut s'avérer relativement complexe. Dans un contexte de mise en conformité de la loi luxembourgeoise avec les exigences internationales, ces principes et leur évolution doivent être considérés avec attention et adéquatement utilisés dans une étude de prix de transfert.

1. Principes de l'OCDE applicables en matière de prix de transfert à l'intention des entreprises multinationales et des administrations fiscales, 2017, paragraphe 1.161
2. Principes de l'OCDE applicables en matière de prix de transfert à l'intention des entreprises multinationales et des administrations fiscales, 2017, paragraphe 1.162

Nicolas Gillet,
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BEST PRACTICES FOR TRANSFER PRICING

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During this Q&A, Jim Sarrail, Senior Director of Credit Risk Solutions at Moody's Analytics, talks with Srini Lalapet, Transfer Pricing Specialist at Dell Technologies. Srini shares his transfer pricing experience, specifically the benefits of using Moody's Analytics RiskCalcTM software within Dell's transfer pricing process.

JIM SARRAIL: To provide some structure and some specific uses of RiskCalc software at Dell, perhaps you could start with the objectives of your transfer pricing functions in terms of establishing or evaluating arm's length financial transactions and how this software supports that business objective. Then perhaps you can discuss the regulatory environment and some other considerations.

SRINI LALAPET: We have a global footprint, so we have a transfer pricing group that looks at all our entities across the world. We use RiskCalc software and it is critical for all our transfer pricing transactions. Our whole objective is to emulate the market best practice in pricing intercompany loans within our group. We approach intercompany financing the way a third-party bank would when it is providing a loan to a prospective borrower. The first part of the process involves assessing the credit rating or the credit quality of the borrower, and then the next part of the process involves the loan pricing process. If you think about the credit quality of a borrower, think of the important determinants of interest rates. There are other determinants as well, but think about all the factors that are involved in pricing a loan. That is probably the key challenge, and this software provides an efficient mechanism to assess the credit quality of the borrower.
Now you have an established credit rating from a leading credit rating agency. The interesting thing about this software is that, because it has country-specific models, we can use it to come up with the credit ratings for all our group loans wherever they are situated. By doing that, we are able to have a systematic way to compare credit ratings and credit quality of borrowers across the world, after solving the problem of uniformity of assessment of credit quality of borrowers across the world. After solving the problem of uniformity of assessment of credit quality as well the comparability of the credit quality of our borrowers, we look at the various functionalities that RiskCalc software provides.
For instance, we use both the financial statement only and credit cycle adjusted modes to look at Expected Default Frequency (EDF). There might not be much difference between these two modes, the credit cycle does not normally affect the credit rating as much unless there is an extraordinary financial situation like 2008.

The other interesting thing is that this software provides us both qualitative and quantitative assessment metrics. We do occasionally use qualitative data but we do not use that as a standard because using quantitative data is easily defendable in front of tax authorities. Qualitative factors are less defendable so we try to emphasize transparency to the extent possible because these assessments ultimately can buy you tax security and so, if you think about the process, RiskCalc software is fairly critical to take on the assessment. The other way we would think about factors that would affect the standard of rating of the borrower would be the parent's credit rating. We do look at that and see if for instance there is any kind of inclusive or explicit support provided by the parent and if we should be taking that into consideration in assessing the credit quality of the individual borrower. This is something that we have discussed extensively internally within our group and with external advisors. We set up a policy that we use a parent company's credit rating because the parent company has full access to a subsidiary's cash and assets and therefore we generally look to the parent company as a ceiling unless we have special circumstances.

> **WE HAVE A GLOBAL FOOTPRINT, SO WE HAVE A TRANSFER PRICING GROUP THAT LOOKS AT ALL OUR ENTITIES ACROSS THE WORLD.**
> Srini Lalapet, Transfer Pricing Specialist, Dell Technologies

JIM SARRAIL: In the absence of our software, what would be your approach to estimate the credit rating?

SRINI LALAPET: In my experience, some companies have in-house models. So the way we would build a model is to follow the Moody's industry position papers on this particular subject. For example, if we were evaluating credit ratings of companies in the technology industry, we would refer to the your industry methodology and try to build an in-house model from scratch. Now that is a time consuming and probably also expensive process in terms of the amount of effort involved. One of the challenges with having an in-house model is that you must explain the in-house model and the more sophisticated it is, the more difficult it is to explain. The other alternative is to get one of the academic models and you need a high level of expertise to build and work with these academic models. In commercial operations such as ours, we do not have the luxury, the time, or the resources to build in-house models and more importantly we are a little worried about building these models and trying to explain them to the tax authorities. Some tax authorities are sophisticated and perhaps they understand and some tax authorities might not. Also, they might feel that perhaps we are doing something with these models that is not entirely transparent.
I think RiskCalc software is a good tool because we tell the tax authorities that we are using this tool that is provided to us by Moody's, therefore this is an unbiased evaluation of our credit ratings.

Srini Lalapet,
Transfer Pricing Specialist
Dell Technologies

MUTATION
OF LUXEMBOURG TREASURY

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Thierry Bovier, Ralf Heussner and Fabrizio Dicembre, respectively partner International Tax, partner Transfer Pricing and Business Model Optimization and director CFO Services, Treasury advisory at Deloitte Luxembourg discuss the effect of BEPS and Brexit, among other factors, on the treasury landscape in Luxembourg.

Thierry Bovier
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THE OECD BASE EROSION PROFIT SHIFTING ACTION PLANS ARE GOING TO REMODEL PART OF LUXEMBOURG'S TAX LEGISLATION.

Thierry Bovier, Partner International Tax, Deloitte Luxembourg

It seems clear that the tax legislation is/will be evolving, what is your view for treasury centers in Luxembourg going forward?

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THIERRY BOVIER,
PARTNER INTERNATIONAL TAX,
DELOITTE LUXEMBOURG

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The Luxembourg tax legislation has traditionally been in line with the corporate objectives of a treasury center. To illustrate this, we could look at the absence of interest withholding tax paid by a Luxembourg company to a corporation or a bank, the ability for an EU corporation paying to a Luxembourg company to rely on the EU interest and royalty directive or a double tax treaty, the absence of interest limitation deduction rules, or the ability to opt for a non-EUR functional currency.
However, the OECD Base Erosion Profit Shifting action plans are going to remodel part of Luxembourg's tax legislation mainly through the EU Anti-Tax Avoidance Directives' transposition and Multilateral Instrument's adoption. Are those changes a threat or an opportunity for treasury centers?

In our view, the upcoming changes make the right level of substance the cornerstone of any corporate treasury structure. Let's take two examples to illustrate this point.
First, as from 1 January 2019, the Luxembourg tax legislation will have a Controlled Foreign Corporation (CFC) legislation whereby some passive income can be picked up at the level of an EU parent company unless the CFC company will be able to demonstrate that it has a substantial economic activity and/or the right people to manage the risks linked to the assets held by the CFC company. The right level of substance will therefore be key to analyze the future CFC rules in Europe.
Secondly, the introduction of a Principal Purpose Test (PPT) rule provided by the multilateral instrument would deny a double tax treaty benefit if it is reasonable to conclude that obtaining that benefit was one of the principal purposes of any arrangement or transaction that resulted directly or indirectly in that benefit, unless it is established that granting that benefit in these circumstances would be in accordance with the object and purpose of the relevant provisions of this double tax treaty. This will give rise to uncertainties as that PPT clause is subjective by nature and thus raises various questions. For instance, what about a situation where a tax benefit is granted and the tax payer presents economic facts not linked to a double tax treaty?
The upcoming changes raise several questions and corporate treasury strategies should be reviewed from a tax perspective to determine how to best face these new challenges. It is important to bear in mind that the changes are global (e.g., US tax reform, abolition of the Swiss Finance branch regime, foreign interest limitation rules, etc.) and they create clear opportunities for Luxembourg to highlight its operational treasury solutions to remain attractive.

Ralf Heussner
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What are the key transfer pricing challenges affecting treasury structures in general but also specifically to Luxembourg?

—

RALF HEUSSNER,
PARTNER, TRANSFER PRICING AND BUSINESS MODEL OPTIMIZATION,
DELOITTE LUXEMBOURG

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Transfer pricing has become an increasingly challenging issue for taxpayers in the context of treasury structures. There are two key factors driving such complexity. The first factor is the changing international tax and transfer pricing landscape following the OECD BEPS initiative with an increased focus on substance, the treatment of synergies and passive association.
The second factor consists of landmark transfer pricing audits that have taken place over the

→ last couple of years covering treasury arrangements which have further encouraged local tax authorities to scrutinize treasury-related transactions between related parties.
Taxpayers should also remember that in essence all cross-border treasury structures are affected by transfer pricing which include notional, physical and hybrid cash pooling arrangements, advanced structures that extend into payment-on-behalf-of (POBO)/collection-on-behalf-of (COBO) as well as relatively new virtual cash management (VCM) arrangements.
There is a range of key questions that need to be examined to appropriately address the transfer pricing dimension of treasury arrangements and design a defendable transfer pricing policy:

- What are arm's length interest rates or spreads for deposits and withdrawals for cash pooling arrangements and how should these be determined? This is obviously the key question from a transfer pricing perspective but the expectations and operational limitations of treasury departments on the implementation side also need to be taken into consideration, e.g. with respect to the ability of handling different spreads for deposits and withdrawals across different currencies
- Can the interest rates or spreads agreed with external banks be used as so-called comparables and how do these rates impact the risk profile of the cash pool leader and participants?
- How to deal with the current and likely ongoing negative interest environment in the Eurozone?

WE BELIEVE THAT NOW IS A GOOD TIME TO REVISIT EXISTING TREASURY ARRANGEMENTS FROM A STRATEGIC, OPERATIONAL AND TAX PERSPECTIVE.
Ralf Heussner, Partner, Transfer Pricing and Business Model Optimization, Deloitte Luxembourg

- What level of substance and functionality is required at the level of the treasury/cash pool leader?
- How should the creditworthiness of the cash pool leader and its financial capacity to bear risk (capital adequacy) be taken into consideration?
- Should the cash pool leader retain all (cash pooling) benefits or not? If not, what level of remuneration should the cash pool leader retain and what share of the cash pool benefits should be allocated to the cash pool participants?
- How should the creditworthiness of the cash pool participants be taken into consideration when determining interest rates or spreads for withdrawals?
- How should parental and/or cross-guarantees between the cash pooling participants be taken into consideration with respect to the characterization of the cash pool leader and the treatment of cash pool benefits?
- How can cash pool benefits/synergies be tax-efficiently distributed to the participants (considering direct and indirect tax aspects) and how should this be structured from a legal perspective?
- How to deal with advanced treasury arrangements with respect to the additional complexity created by the interjection of shared service centers that perform invoicing, debtor/creditor management, accounting and other services and potential investments required in infrastructure and ERP-systems?

In addition to the above points, it is also important to take into consideration the link to the long-term financing strategy. This is especially relevant with respect to monitoring that treasury transactions that are supposed to be short-term are not de-facto long-term (or structurally imbalanced) positions and to consider consistency between the short-term treasury and long-term financing arrangements (e.g. with respect to determining credit ratings for local affiliates and avoiding inconsistencies that often escalate under audit where one local affiliate enters into a long-term borrowing from its parent while at the same time having excess cash that is being invested into a cash pool).

We believe that now is a good time to revisit existing treasury arrangements from a strategic, operational and tax perspective, especially considering that significant restructurings of treasury structures are being triggered by factors such as the uncertainties created by Brexit and the impact of the Swiss tax reform where Luxembourg is crystallizing as a jurisdiction of choice for treasury activities.

Fabrizio Dicembre

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THE FACT THAT MAJOR INTERNATIONAL BANKS HAVE DECIDED TO RELOCATE THEIR EUROPEAN HUB TO LUXEMBOURG (LINKED TO BREXIT), BOOSTS THE MARKET AND REINFORCES THE OFFER OF LOCAL SOLUTIONS FOR BANKING.
Fabrizio Dicembre, Director CFO Services, Treasury advisory, Deloitte Luxembourg

What are you observing on the Luxembourg treasury market in terms of evolutions and latest trends?

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FABRIZIO DICEMBRE,
DIRECTOR CFO SERVICES, TREASURY ADVISORY, DELOITTE LUXEMBOURG

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Treasury in Luxembourg follows the global trend for treasury centers, with some local specificities linked to the overall fast developing economy, one of the world's largest fund industries, strong players in the banking sector, local or international, all noting the indirect impact of Brexit, and the US and Swiss tax reforms.

The current global trend is to reorganize treasury operations in regional centers of excellence creating cost-efficient structures, optimizing cash operations, developing concepts of in-house banking (payment on behalf – collection on behalf), concentrating investments, and centralizing intercompany financing into specific holdings.

Luxembourg has traditionally been one of the destinations selected by global corporations for registering their treasury operations. However, many companies chose Luxembourg for light structuring of their holdings and did not build up dedicated treasury resources in those holdings. This is now changing.

Treasury in Luxembourg is also a growing role in the fund industry. Over the past years, we have seen the creation of new treasury centers linked to fund managers, especially in the alternative fund sector (real estate and private equity) which after years of strong growth are in need of treasury to support their growth, reduce their banking and transactional costs, and manage the implications of negative interests. Treasury is seen as a business-enabling function and a resource for future growth. Some fund managers have announced the transfer of their international operations from the UK to Luxembourg, further increasing the demand in Luxembourg.

The Luxembourg banking landscape is changing. We are seeing an increasing offer of corporate banking on the Luxembourg market. Obviously, the size of the market is not comparable to the major European hubs, however the fact that major international banks have decided, or are considering, to relocate their European hub to Luxembourg (linked to Brexit), boosts the market and reinforces the offer of local solutions for banking, which is the growing request from treasury centers, as there is a strong trend to favor resident accounts versus off-shore solutions, especially for euro.

In terms of talent, the attraction of Luxembourg remains high. Its quality of life, the safe environment, its cosmopolitan society and stable political environment are some of the country's key assets. At the same time, Luxembourg is suffering from a high inflation of residential costs, especially due to short demand in the rental segment and from an inadequate educational offer. However, these issues are high on the government's agenda and Luxembourg is working on improving its offering in this respect.

As a conclusion, Luxembourg is an attractive place to locate treasury operations and should be considered in the treasury reorganization process or when organizing new treasury centers. Luxembourg has multiple benefits and should take advantage of its position to further attract treasury centers.

INTERNATIONAL

ARE FINANCIAL CRISES INEVITABLE?

Ten years already. In summer 2017, we celebrated the sorry tenth anniversary of the last great financial crisis. We may well ask ourselves the question of what form the next one will take and most of all when it will happen (if it happens). We might also ask whether we have learned from our mistakes and from these crises. That is by no means certain. Finally, where might the next crisis come from, in a specific environment, such as the one we are currently in. These are the questions I would like to tackle, although with no confidence that my words will give any assurance.

"WHAT REMAINS OF OUR LOVE?" IN THE WORDS OF THE CHARLES TRÉNET SONG

What does a crisis leave behind and what do we learn from a crisis? We always learn something, of course. Do we come out of a severe financial crisis bigger and stronger? Probably. However, the learning process seems to take longer than common sense would suggest. We have a short memory for adverse events. People and finance companies are too quick to forget. We certainly try to do better without always achieving the success we might reasonably expect. The causes of crises and the crises themselves come and go like fashions, in a sort of never-ending dance with minor variations. It is as if there were a cycle of crises, doomed to repeat one after the other. The real question is how to prevent them rather than how to deal with them once they have happened. Trying to achieve too much is always self-defeating, and when it comes to crises, trying to achieve too much can often be the cause of the crisis itself and of its scale. The domino or knock-on effect and the effect of correlation mean that today everything is intimately linked together and that sooner or later a crisis will end up impacting a whole series of things by chain reaction. This is the collateral damage. The good news since 2007 is that the budgetary virtue shown by the EU has, to some extent, benefited us all. In terms of regulation, it should also be noted that behaviour has been whiter than white at the European level. The State is once again trying to play a key role in oiling the cogs of the capitalist system, but also acting as watchdog and guardian of the temple.

THE FINANCIAL SYSTEM LOOKS MORE RESILIENT

Although we may reasonably think that the financial system is more resilient than it was before the last crisis, the fact remains that the firefighters are still on hand to fight the fire, in case it should reignite. We would do well to remember the words of Janet Yellen who, in substance, said: "I hope – and I think – that there will be no further (major) financial crises in our lifetimes" (during a speech to the British Academy). She thinks that a crisis of such a scale, greater than the 1929 crisis, is no longer possible in her lifetime. Let us hope she lives a very long time, but I would not like to be the judge of her views. But we must hope that governments and supervisors have learnt from their mistakes. We cannot readily imagine the sudden onset of another crisis. However, we need to remain vigilant. The question to ask is whether there is any risk of implosion. There is, in fact, a speculative bubble on the bonds market (rather than on the equities market, even though it is very expensive). Long-term interest rates are too low. The sudden resurgence in them, when that happens, could have significant effects. An explosion will then no longer be beyond the bounds of possibility. The interest burden of companies will then surge spectacularly. What is more, the Bank for International Settlements (BIS) has warned of the "debt trap" risk. Businesses in the USA have not de-leveraged since 2008. There are many zombie companies whose interest expense exceeds profit before financial charges and taxes. No one disputes that stock prices and PEs are very high. The ratio of prices to earnings stands at over 30 according to Robert Shiller. This ratio was higher only before 1929 and before the dot-com bubble burst in 2000. There are therefore very good reasons for being worried. China is another risk. A landing of one sort or another is on the cards, and there is nothing to say it will be a soft landing. China is thought to be vulnerable while at the same time being capable of affecting the rest of the world. There is a great and worrying over-dependence on the country. Then comes "shadow banking", with little or no regulation, which includes hedge funds, private equity funds, investment funds, crowdfunding and others. The summer 2007 crisis started with liquidity problems in three money market funds. Today, the finger is being pointed at the extraordinary expansion of ETFs (Exchange Traded Funds), tracker funds that are quoted and traded all day long in real time. Many are used for speculative purposes, which is a source of huge risk. The next risk in line is what is known as "sub-prime" automobile loans – these Americans are certainly incorrigible. We are talking about a figure of around USD 1,200 billion, which is 50% higher than in 2007. These loans have obviously been "securitized" and resold to lenders. They are under surveillance. However, nobody wants to see a second "sub-prime" crisis, but who knows… A European crisis is still possible, which is the reason why safeguards have been put in place. Systemic banks are better supervised with strengthened equity. Will that be enough? "Bail- in" mechanisms have replaced the famous "bail-outs". Shareholders have to come to the rescue rather than governments, which have been bled dry. Italy is still a tinderbox that needs watching. Saving its banks has cost the Italian government dear. Happily, for what it's worth, states are less indebted in Europe as a whole thanks to negative interest rates. Against that, growth is still weak and the political situation fragile, even with Macron's arrival and Merkel's re-election.
Geopolitical risk comes next on our list of points that need the greatest attention (e.g. recent Spanish crisis on Catalonia independence). North Korea is a worry, as are some South American countries and the powder keg of the Arab world. Real estate is always a splendid source of risk. The residential sector is dangerous in many European countries in which it is very high. Rising household debt is never good. The deregulation proposed by Donald Trump also looks catastrophic.
Thinking that you can deregulate because things will go better is criminal in the view of experts and other economists. Cyber-attacks and the risk of other types of computer crime weigh heavily upon us. There are an increasing number of reports everywhere of hacking, ransom demands and other digital misdeeds. And finally there might be an unexpected and unforeseen event, the famous "Black Swan" event that could spark everything off. A combination or superimposition of some of the selection of risks that I have covered could cause the whole lot to flare up. The risk of another huge crisis has therefore not completely disappeared, I fear. Furthermore, human nature is such that we spend more time on fixing the last crisis than on preventing the next one.

> **EACH CRISIS HAS BEEN ALLOWED TO ARISE THROUGH A COLLECTIVE LACK OF UNDERSTANDING.**
> **François Masquelier, Chairman, ATEL**

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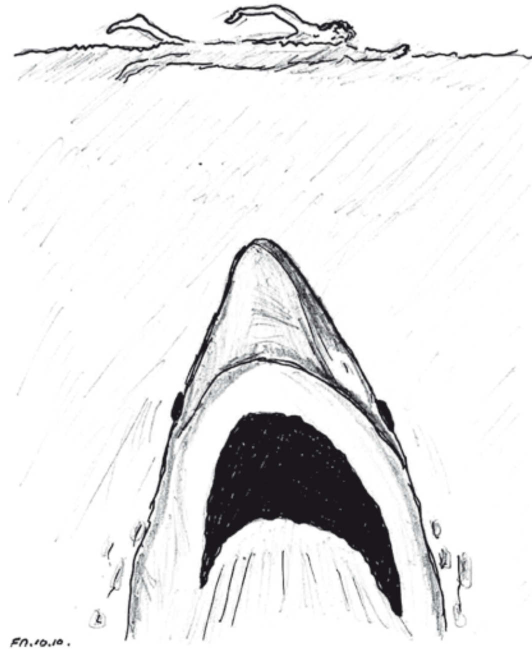
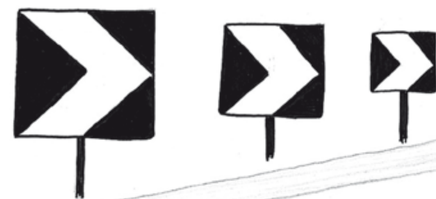


NEED WE FEAR ANOTHER CRISIS?

It is reasonable to think so, or at least to bear it in mind. One alert finance person is worth two, as the old saying goes after being tweaked a bit. In the Middle Ages, residents of a district grouped together to arrange a watchman for themselves, to be forewarned of threats. With the onset of globalisation, international bodies and other supervisors have taken over from these worthy watchman, with a certain measure of success. Arguments from the left and the right ask us to think that, as in 2006, some knowledgeable economists together with the IMF are asking us to believe that commercial banks are stronger and perhaps less vulnerable to shocks affecting lending or the economy. What a load of nonsense! The economy runs on trust and when it disappears suddenly, the whole lot turns into a house of cards. Current imbalances suggest that the risk of readjustment or rerating and a sharp correction cannot be discounted. All the ingredients are there, although that does not in any way mean there is a crisis. We must not talk about the end of the world like doom-mongers. There have been plenty of predictions, but reality has thankfully proved them to be wrong. Higher borrowings and money printing, Brexit and the imbalance in the balance of power that the loss of the UK will have, particularly for the smaller countries, is a major risk that many people would prefer to ignore. Brexit looks as if it may be a Pyrrhic victory for the continental Europeans. The slump in commodity prices, and the price of oil in particular, together with the weakness of the dollar, give cause for some concern in the medium term. Some oil producers are heading for disaster in a race to the bottom, racking up deficits. Imbalances seem to be on the increase as never before. The money supply is increasing without its effects being passed on fully to the real economy. The market has no appetite for it, and this surge of liquidity deepens the ditches even further. The economy seems to have reached an impasse with debt growing faster than wealth creation. Interest rates have hit the floor (less than zero percent in some cases), but the world's debt burden has nevertheless increased by over 200% of world GDP, which is about 40% more than in 2008. The system might be compared to a bike setting off a full speed, which could tip over if it slows down too much. Low interest rates have fuelled stock market and real estate speculation, as we mentioned above. The financial markets are no longer worried because there are on an overdose of monetary morphine, so to speak, which stops them feeling any pain and leaves them seeing economic events through rose-tinted glasses. We have averted our eyes from the vulnerabilities and to a certain extent created new imbalances. The world has never before been so much in debt as it is now (a paradox for Europeans who are tightening their belts), whereas history tells us that every crisis in the past has had its origin in excessive debt. That really is a worry, surely? Stock market capitalisations have hit unprecedented levels. We are being told that robots are about to change the way we live, and also that they may make us obsolete in the fullness of time. It is easy to understand the fears of some of the doomsayers.

"NOTHING HAS CHANGED" (DAVID BOWIE)

But "sleep peacefully, good people!", the politicians are telling us. We have replaced private debt with public debt, and will try to fix it in due course. The problem has been shifted from one place to another without being resolved. Total debt has continued to rise irreparably. The banking system has certainly been consolidated, more in appearance than in fact. We may hope that the complex short-circuit mechanism that has been put in place will work if it is needed. We may hope that systemic risk will be avoided or at least mitigated. Not being just a little worried would be absolute folly. Always being negative and pessimistic about everything is hardly any better. There are risk situations that need to be borne in mind and watched carefully. We need to believe that our contemporaries have learnt from their mistakes and that what happened in the past will not happen again. We at least know that we have been able to withstand one unique catastrophe in modern economic history. Unfortunately, having withstood one major storm in no way guarantees we will be immune and safe from the next one. The economy is transforming so fast that the main risk is that things run out of control or move too fast for the brakes to be put on. World digitalisation is a source of hope and progress, but also risks that we must no longer ignore. In the final analysis, has nothing really changed? At the end of the day, is everything still the same? No, we think not. We are stronger. Each crisis has been allowed to arise through a collective lack of understanding that has created a sort of blind spot on risk, which has stopped us having a clear view of everything that is sneaking up on us. On the other hand, no one is ever strong enough to withstand storms, so the best defences are vigilance and prevention. Let us hope that this one really will be the last for a very long time.



François Masquelier,
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*TMS: Treasury Management System.
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*ESG: Environmental, Social and Governance
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TIME TO START PREPARING

FOR EUROPEAN MONEY MARKET FUND REFORM

Why is it happening, what are the differences with the US and how will it affect you?

European money market fund (MMF) reform has finally arrived[1] and will herald important changes for corporate treasurers and others that use MMFs to manage liquidity. Investors will face new features and fund types, meaning more complexity, but fundamentally, the changes should be manageable once investors become accustomed to the new landscape.

WHY ARE MONEY MARKET FUNDS BEING REFORMED?

There has been a global regulatory effort to address systemic risk in financial markets. The genesis of this regulatory push was the "run" or mass redemption suffered by the MMF industry in the US following the bankruptcy of Lehman Brothers and the infamous Reserve Primary Fund "breaking the buck". This had spill-over effects on other parts of the financial system – notably banks – which were, in part, funded by MMFs.

The primary focus of the reforms has been mitigating susceptibility to runs. The reforms have attempted to achieve this by effecting structural changes to the way funds price and operate, and by introducing additional risk limits. Structurally, the regulations have restricted funds from transacting at a constant net asset value per share (CNAV), save for government only funds and a new fund type in Europe. The risk limits are numerous, including liquidity risk, which is a critical factor for corporate treasurers and accordingly a central pillar of our rating analysis.

WHAT ARE THE DIFFERENCES WITH THE RECENT US REFORMS?

Around 1.3 trillion US dollars moved out of "prime" CNAV funds in the US, with the largest volumes moving in the last few months of the implementation period[2]. Much of this moved into government-only funds, taking the government fund share of the market to almost three quarters of the total from around a third pre-reform. Two key factors drove this shift: first, the reforms introduced liquidity fees and redemption gates to "prime" funds[3]. These are mechanisms to prevent (in the case of gates) or disincentivise (in the case of fees) investors from redeeming en masse. Government-only funds did not feature these mechanisms. Second, the reforms allowed government only funds to continue transacting at a CNAV per share, while "prime" funds were forced to move to a variable net asset value (VNAV) price per share.

> **BASED ON OUR RESEARCH, WE ESTIMATE A NEGLIGIBLE PROBABILITY OF AN LVNAV FUND BEING SUBJECT TO A MANDATORY REFORM-DRIVEN GATE OR FEE.**
> Alastair Sewell, Head of Fund & Asset Manager Ratings, EMEA, Fitch Ratings

	US	EUROPE
Net Asset Value	● CNAV, the 30-year industry norm ● Government funds still CNAV ● Prime (institutional) funds forced to move to floating NAV	● Half of the market already VNAV ● LVNAV introduced: investors' experience similar to existing prime CNAV
Mandatory liquidity fees, gates	● Not for government CNAV ● Yes for prime funds	● Yes for government CNAV, Yes for LVNAV ● Not for VNAV ● Extraordinary liquidity management tools already in UCITs rules

→ WHAT WILL THE REACTION BE IN EUROPE?

We do not anticipate a similar reaction in Europe because of the introduction of the new Low Volatility Net Asset Value (LVNAV) fund and the presence of reform-driven redemption gates and liquidity fees in European government-only funds. The fact that gates and fees are already well established in Europe under the Undertakings for Collective Investment in Transferable Securities (UCITS) provisions will be a factor too, as will the existing VNAV universe and investor base in Europe.

The LVNAV fund type is significant because to many investors it will look and feel much like today's CNAV funds. It will transact at a single price per share, provided its mark-to-market price remains within a narrow corridor and it will be able to invest in the same instruments as today's CNAV funds. The LVNAV fund type will be subject to reform-driven liquidity fees and redemption gates, but, unlike in the US, so too will European government-only funds.

HOW WILL THE REFORMS AFFECT EUROPEAN CORPORATE TREASURERS?

For European corporate treasurers accustomed to CNAV funds the reform will mean that these funds will no longer exist in their current form. Some may opt for government-only funds. We anticipate that most, however, will consider the LVNAV fund type which would imply numerous fund conversions to this fund type and possible new launches too. This is likely to become the largest fund type in Europe by assets under management. However, the "standard" VNAV variant may see outflows in favour of ultra-short duration bond funds due to the minimum liquidity requirements the reforms will impose and the resulting effect on these funds' yields.

Based on our research, we estimate a negligible probability of an LVNAV fund being subject to a mandatory reform-driven gate or fee. Clearly highly rated funds run high liquidity levels, however, the fact that liquidity levels never dipped too low tells us that fund managers have been managing in- and out-flows effectively.

We also conceive it's unlikely that an LVNAV fund would move outside the +/-20 basis point corridor, which would force it to move to variable pricing, unless there were an extreme market shock or idiosyncratic credit event. It's important to highlight that even if a fund did breach the corridor, but then moves back within, then it could resume stable pricing.

Looking ahead, we anticipate European fund managers adopting more conservative portfolio management practices in comparison to US counterparts.

1. The reforms were signed into law in June 2017. They become effective for new funds in July 2018 and for existing funds by January 2019 (12 and 18 month implementation periods respectively)
2. The US reforms were signed into law in October 2014 and entered force in October 2016 after a two year implementation period
3. Funds which can invest in non-government short-term securities such as commercial paper and time deposits.

BIO

ALASTAIR SEWELL IS A SENIOR DIRECTOR AND REGIONAL HEAD OF FITCH RATINGS' FUND AND ASSET MANAGER GROUP FOR EMEA AND APAC.
Alastair was previously a CDO asset manager analyst in Fitch's structured credit group. He began his career as a performance analyst in Fitch's CDO surveillance team. Prior to joining Fitch Alastair worked for a UK local authority.
Alastair earned a BSc from the University of Bristol and an MBA with distinction from the University of Bath.

Alastair Sewell,
Head of Fund & Asset Manager Ratings, EMEA, Fitch Ratings

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OPTIMISER LES STRATÉGIES D'INVESTISSEMENT SOUS SOLVABILITÉ II

SOLVABILITÉ II A CHANGÉ LE PARADIGME DE L'ASSURANCE EN EUROPE. LES COMPAGNIES D'ASSURANCE QUI S'EN SORTENT LE MIEUX DEPUIS L'INTRODUCTION DE LA DIRECTIVE SONT CELLES AYANT ADAPTÉ LEUR MODÈLE EN ADÉQUATION AVEC LES NOUVELLES EXIGENCES RÉGLEMENTAIRES.
David Niddam, Responsable des Solutions personnalisées, Lyxor

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Le 1er janvier 2016, la directive Solvabilité II est entrée en vigueur dans l'Union européenne. Solvabilité II réglemente le montant de capital que les compagnies d'assurance et de réassurance doivent détenir, afin de garantir la stabilité financière des assureurs.

La directive impose une série d'exigences qualitatives et quantitatives aux compagnies d'assurance, qui ont un impact majeur sur la viabilité et le potentiel de rendement des stratégies d'investissement gérées en interne par les assureurs. En particulier, Solvabilité II a rendu les produits d'assurance garantis et de longue durée plus capitalistiques et donc moins attractifs sur le plan commercial. Inversement, les produits d'assurance en unités de compte, avec lesquels les assurés supportent le risque d'investissement, sont devenus plus avantageux. Dans cet avis d'experts, Rudyard Ekindi, directeur au sein de l'équipe Global Investment Solutions et David Niddam, Responsable des Solutions personnalisées chez Lyxor, expliquent comment les compagnies d'assurance peuvent optimiser leurs stratégies d'investissement dans le cadre de la nouvelle directive.

LA DIRECTIVE SOLVABILITÉ II EST UN EXEMPLE DE LA TENDANCE À LA DÉSINTERMÉDIATION À L'ÉCHELLE DE LA SOCIÉTÉ

Rudyard Ekindi : Solvabilité II est née de la volonté des régulateurs et des décideurs politiques de veiller à ce que le secteur de l'assurance ne soit pas exposé à des risques systémiques. Cependant, la tendance à la désintermédiation que l'on observe depuis 2008 ne se limite pas au secteur de l'assurance. Elle concerne également le secteur bancaire et, au-delà, l'ensemble de l'économie et de la société.
Par exemple, les régimes de retraite à prestations définies ont cédé la place à des régimes à cotisations définies dans le monde entier, passant effectivement le risque d'investissement et de longévité au retraité. Les défis socio-économiques associés à ces tendances sont encore incertains, et il n'est pas possible à ce stade de savoir comment ils seront résolus. Mais en ce qui concerne les assurances ou les pensions de retraite, chacun doit être conscient des défis qu'implique le transfert des risques d'investissement vers l'utilisateur final.
Dans le secteur de l'assurance, les incitations des régulateurs ne sont pas nécessairement alignées sur les préférences des différentes parties prenantes. Les répercussions, aussi bien pour les assureurs que pour les assurés, sont inévitables.
Dans ce contexte, les assureurs ont le devoir de concevoir des solutions fournissant un niveau de protection adapté et acceptable pour les souscripteurs.

QUELLES SONT LES SOLUTIONS D'INVESTISSEMENT « SOLVABILITÉ II » QUE VOUS POUVEZ PROPOSER AUX COMPAGNIES D'ASSURANCE ?

David Niddam : Nous avons développé toute une gamme de solutions d'investissement afin d'aider les compagnies d'assurance confrontées aux défis de Solvabilité II.
Presque deux ans après l'entrée en vigueur de Solvabilité II, les assureurs comprennent désormais beaucoup mieux l'impact sur le bilan de leurs solutions de placement choisies. Mais alors qu'ils construisent des portefeuilles d'investissement à partir de plusieurs classes d'actifs possibles (obligataire, crédit, actions, multi-actifs, primes de risque alternatives et hedge funds) en gardant à l'esprit le SCR qui en résulte, ils sont également conscients de la difficulté de maintenir la stabilité du SCR. Les compagnies d'assurance doivent également être conscientes de la politique de valorisation au prix du marché applicable à leurs investissements, celle-ci étant également susceptible de créer de la volatilité au niveau du ratio de solvabilité. Les solutions que nous proposons suivent certains principes.
Premièrement, le risque doit être évalué de façon homogène dans le portefeuille d'investissement, les exigences de fonds propres étant déterminées proportionnellement au risque global lié au bilan.
Deuxièmement, la solution d'investissement doit prendre en compte les exigences des autorités de régulation en matière de protection contre le risque baissier, étant donné que Solvabilité II utilise un cadre basé sur la « valeur à risque » (Value-at-Risk) pour calculer les exigences de fonds propres des assureurs.
Enfin, troisièmement, la solution d'investissement doit être dynamique : en d'autres termes, nous entretenons une relation fiduciaire avec les compagnies d'assurance et travaillons en partenariat avec elles pour gérer les risques en continu – contrairement aux produits de protection qui s'appuient sur l'état du bilan de l'assureur à un moment donné, mais qui risquent de perdre leur efficacité par la suite.

LA VOIE À SUIVRE

David Niddam : Solvabilité II a changé le paradigme de l'assurance en Europe. Les compagnies d'assurance qui s'en sortent le mieux depuis l'introduction de la directive sont celles ayant adapté leur modèle en adéquation avec les nouvelles exigences réglementaires. Notre objectif est de proposer aux compagnies d'assurance des solutions d'investissement adaptées. En tant que gérant d'actifs, nous proposons une expertise combinée en gestion des risques et en produits dérivés, des dispositifs opérationnels flexibles et éprouvés, une plateforme de fonds en architecture ouverte, des économies d'échelle dans le cadre de la conclusion de contrats avec des tiers et un portail technologique garantissant un niveau élevé de transparence. Ces services font partie de notre offre complète à destination des investisseurs institutionnels et sont regroupés sous la dénomination commune « LEAP » (Lyxor's Enhanced Architecture Program).
Nous avons réalisé plusieurs mises en place LEAP au cours des dernières années et nous constatons, d'après nos conversations avec les clients, que les institutions mettent beaucoup plus l'accent sur l'efficacité opérationnelle que par le passé. Alors que Solvabilité II est de plus en plus axée sur la gestion des risques extrêmes de marché et de liquidité, nous aidons les compagnies d'assurance à poursuivre le déploiement de leur modèle d'affaires préféré tout en mettant en place des solutions de couvertures (overlays) nécessaires pour les protéger contre les risques extrêmes.

Rudyard Ekindi,
Directeur, Global Investment Solutions

David Niddam,
Responsable des Solutions personnalisées, Lyxor

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IFRS 16 – LEASES: EVOLUTION OR REVOLUTION?

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"Another year, another standard!" The new IFRS 16 – Leases – framework has been developed to generate more visibility, uniformity and transparency in the lease accounting treatment around the globe. IFRS 16 comes to replace IAS 17 and aims at "setting out the principles for recognition, measurement, presentation and disclosure of leases for both parties, lessee and lessor."

IFRS 16 IN A NUTSHELL

The genesis of IFRS 16 dates back to 2005 when the US Security and Exchange Commission expressed concerns over their estimation (2005: $1.25 trillion[1]) of "off balance sheet" amounts of unreported leases. As a result, the FASB (US GAAP) and the IASB (IFRS) came together and agreed that "a lessee leasing an asset should recognize assets and liabilities arising from those leases."

IAS 17 focused on the distinction whether a lease "was economically similar to purchasing an underlying asset", in which case the lease was classified as a Finance lease and reported on the company's balance sheet, as opposed to →

→ Operating leases which were accounted for with a rental expense being recognized in the income statement instead. The picture was therefore incomplete and did not reflect the companies' real financial position.

MAJOR NORMATIVE CONSEQUENCES

IFRS 16 treats all leases as Finance leases and requires the lessees to "capitalize" those on their balance sheet. The change will not affect the lessors who will continue to use the same accounting treatment as the one described in IAS 17. The lessee is now required to "recognize 1) assets & liabilities for all leases with a term that goes beyond a 12-month period (unless the value of the lease is of insignificant value) and 2) depreciation of lease assets separately from interests on lease liabilities in the income statement."

MAIN IMPACTS

A study over 14,000 listed companies has shown "off balance sheet" lease amounts in excess of $3 trillion[2] (in 2014) urging the IASB to conclude that eliminating the Finance vs. Operating lease classification would increase transparency and uniformity. Effective January 1st 2019, companies will be required to capitalize all their leases on their balance sheet.

In doing so, the present value of the lease payments will need to be recognized either directly as a lease asset or together with property, plant and equipment. Similarly, on the liabilities side of the balance sheet, the companies will record a financial liability that represents their obligation to make future lease payments (whenever lease payments are made over time). The major consequence will be a significant increase of companies' assets and liabilities.

COMPLYING WITH THE NEW PARADIGM WILL REQUIRE YET ANOTHER SIGNIFICANT EFFORT. THE IASB EXPECTS HOWEVER AN INCREASED TRANSPARENCY ABOUT COMPANIES' FINANCIAL LEVERAGE AND CAPITAL EMPLOYED.

On the income statement the former straight-line operating expense (from the Operating leases) will be replaced by a depreciation charge for the lease asset and by an interest expense on the lease liability, making the lease expense treatment uniform. As a result, although the cash effect will be neutral, there will however be a decrease in operating cash outflows with a corresponding increase in financing cash outflows.

1. IASB: IFRS 16 Leases – effect analysis.
2. IASB: IFRS 16 Leases – project summary.

Pierre Marie Sutter,
Manager Wavestone

Vincent Jeunet,
Partner Wavestone

IFRS 16 : Changes in a company's balance sheet

	IAS 17		IFRS 16
	Finance leases	Operating leases	All leases
Assets		---	
Liabilities		---	
Off balance sheet rights / obligations	---		---

IFRS 16 : Changes in a company's income statement

	IAS 17		IFRS 16
	Finance leases	Operating leases	All leases
Revenue	x	x	x
Operating costs (excluding depreciation and amortization)	---	Single expense	---
EBITDA			
Depreciation and amortization	Depreciation	---	Depreciation
Operating profit			
Finance costs	Interest	---	Interest
Profit before tax			

Source: IASB - IFRS 16 : Leases

REGISTERS OF BENEFICIAL OWNERSHIP: NEW RULES TO BE IMPLEMENTED SOON

Draft law No 7217 is to implement new transparency measures provided by Directive 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing ("AMLD 4") through the creation of a central register of beneficial owners ("BOs"). The draft law (which will still have to undergo the complete legislative process in Parliament) provides for some specific safeguards against improper access to said register. The register will be set up under the authority of the Minister of Justice.

CENTRAL REGISTER OF BENEFICIAL OWNERS OF LUXEMBOURG LEGAL ENTITIES

SCOPE

All Luxembourg commercial companies as well as any other legal entities registered with the trade and companies' register fall within the scope of such draft law. This includes, among others, the following types of entities: public limited companies (sociétés anonymes), private limited companies (sociétés à responsabilité limitée), partnerships limited by shares (sociétés en commandite par actions), common limited partnerships (sociétés en commandite simple), special limited partnerships (sociétés en commandite spéciale), foundations, civil companies, interest groupings (GIE), European interest groupings (GEIE) and investment funds (fonds d'investissement). Listed companies (under certain circumstances), common funds and branches of foreign companies are out of scope.

RELEVANT "IN SCOPE" LUXEMBOURG ENTITIES ARE REQUIRED TO OBTAIN AND KEEP ADEQUATE, ACCURATE AND UP-TO-DATE INFORMATION ON THEIR BOS AT THEIR REGISTERED OFFICE.

NEW REQUIREMENTS

Relevant "in scope" Luxembourg entities are required to obtain and keep adequate, accurate and up-to-date information on their BOs at their registered office. Such information must further be uploaded into the central register of BOs (Registre des bénéficiaires effectifs), the so-called REBECO, maintained by the Luxembourg trade and companies' register. Existing entities will have up to 6 months after the entry into force of the draft law to register the relevant information with the REBECO.

INFORMATION TO BE AVAILABLE IN THE REBECO

The information must include the identity of the BO, date and place of birth, nationality and private or professional address of residence as well as the BO's nature and extent of beneficial interests held in the relevant entity. The information must be accurate, complete and up-to-date. The information will be kept in the REBECO for a period of 5 years after the winding-up of the subject entity. All persons having access to the REBECO and becoming aware of incorrect or missing information must inform the REBECO thereof without delay.

ACCESS TO THE REBECO

The information contained in the REBECO will be made available electronically only to national competent public authorities, including but not limited to the public prosecutor, the Commission de Surveillance du Secteur Financier (CSSF), the Commissariat aux Assurances (CAA) and tax administrations. This access is unrestricted. Self-regulatory bodies (such as the Bar Council, Notary Chamber and the IRE) will have a limited electronic access to the REBECO within the strict context of their supervisory functions. Only partial information may be disclosed to these self-regulatory bodies. AML obliged entities (such as for instance credit institutions, professionals of the financial sector, insurance undertakings, lawyers and auditors) will also have a limited electronic access to the REBECO which may be used only where such AML obliged entities are required to carry out client due diligence measures in relation to their clients. Physical access may finally be granted to any person or organisation that (i) can demonstrate a legitimate interest in relation to AML, (ii) is resident in Luxembourg and (iii) has made an official written and duly justified request in this respect. Such access is subject to the prior approval of a formal commission to be created by the Minister of Justice.
Any subject entity may request a restriction of access to the REBECO where such access would expose the BO to a risk of fraud, kidnapping, blackmail, violence or intimidation, or where the BO is a minor or otherwise incapable.
Criminal sanctions may be imposed for non (timely) compliance with this new regulation.
So time to get ready…

Laurent Schummer,
Arendt & Medernach S.A.

Charles Heisbourg,
Arendt & Medernach S.A.

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DATA CHALLENGES IN CORPORATE TREASURY

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A conversation with Vincent Him, Duco, Luxembourg.

What challenges do you see now and in the future in corporate treasury?
A key issue across all sectors is the sheer volume and exponential growth in data. Corporate data is doubling every 14 months and growing by a factor of 50 this decade. The ability to manage this is a significant challenge for all firms, regardless of size, and the ability to successfully exploit it will give firms the edge over their competition.
The rise in data has also increased the number of end user controls required within organisations, and this can have a significant effect on treasury departments. Manual controls introduce risk and reduce auditability which can negatively impact performance and reputation.
Conversations with market participants at the ATEL / Wavestone event last month indicate that treasury firms have done well to address key issues with upcoming regulation. This includes Basel III, and the issues of liquidity management that it presents - especially where holding short-term cash is concerned. Those same people believe, however, that these problems are due to hit other sectors hard, especially the buy-side.

As with so many regulations, responding to Basel III is essentially a question of data - how can it be collated, presented, and used effectively to meet requirements?
With Basel III, identifying non-operational cash and efficiently directing it where it won't impact the balance sheet without generating revenue is a particular concern. This is especially true in an age of negative short-term rates. Treasurers have been through this pain and Duco are now working with firms - such as Wavestone - to construct solutions that can help other institutions.

What impact could Duco have in this area?
Duco's data normalisation product Duco Cube is able to ingest any kind of data, to meet regulatory activity across treasury and other asset classes. Users can apply transformation and matching rules to handle data quality issues in an agile way - enabling fast adaptation to an ever-changing regulatory landscape.
Duco Cube can readily scale to meet the demands of corporates, and across the various segments of the financial services industry. It can be deployed in 24 hours and configured to cover a wide range of treasury and/or other applications. Through our intuitive UI and best-of-breed data normalisation IP we are able to eliminate risk, automate manual processes and introduce operational efficiencies across data processes such as cash sweeping, while offering reliable, scalable solutions to our community.

About Duco
Duco provides self-service data engineering in the cloud. We empower users to normalize, validate and reconcile any type of data on demand. New clients are live in 24 hours, with results in 7 days and tangible business value in 30 days. Our customers include international banks, brokers, exchanges, asset managers, hedge funds, administrators, service providers and corporates.

A KEY ISSUE ACROSS ALL SECTORS IS THE SHEER VOLUME AND EXPONENTIAL GROWTH IN DATA.
Business Development Directo, Duco

Vincent Him,
Business Development Director for Continental Europe, Duco

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DAMIEN GODDERIS (BNP PARIBAS):

A NEW STANDARD FOR CROSS-BORDER PAYMENTS

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Damien Godderis, senior product manager for global cash management at BNP Paribas, says SWIFT's gpi is revolutionising cross-border payments through increased speed, traceability and transparency.

How is SWIFT gpi changing the environment for cross-border payments?
The world of international payments has not evolved significantly for years. Changing that is the goal of SWIFT's global payments innovation service, which has today been adopted by more than 150 banks worldwide and covers more than 220 countries, with the system now live for 43 institutions accounting for at least 15% of international payments traffic. For BNP Paribas, gpi is now the new standard, offering same-day payment execution along with the transparency and traceability that are required by retail customers and especially our corporate clients. The initiative was launched by SWIFT two years ago and quickly struck a chord with banks conscious of the need to improve the quality of service for international payments. The great advantage of gpi over other international payment solutions is that the network already exists and connects the world's banks, so it offers global reach and is easier for institutions to adopt and implement.

What is the critical innovation that enables gpi to facilitate international payments?
The key element in gpi is a unique reference number used by all banks involved in the transaction, allowing SWIFT to identify the transaction in its network, track it and collect all information relating to the payment. The reference number makes clear to the banks involved in the payment chain that it is a gpi transaction, enabling all parties to be updated on its status, and prompting institutions to react more quickly in the event of any issues or delays and to inform their customers whether or not it has been completed. Corporate clients can authorise their beneficiaries to track incoming payments, while payees can obtain a confirmation of credit to the beneficiary, important where this is the trigger for dispatching goods. Further functionality is coming this year, including to stop and recall payments, currently a very cumbersome process for international transactions. Instant identification of the holder of the payment enables a cancellation request to be sent through the SWIFT network – vital in reacting rapidly to prevent fraud. The roadmap for the future includes development of a payment assistant to offer client choices of paths that they can validate in advance.

THE REFERENCE NUMBER MAKES CLEAR THAT IT IS A GPI TRANSACTION, ENABLING INSTITUTIONS TO REACT MORE QUICKLY TO ANY ISSUES OR DELAYS.

Damien Godderis, senior product manager for global cash management, BNP Paribas

What other important developments are taking place in the treasury field?
There is currently a great deal of activity identifying valid use cases for blockchain initiatives. At BNP we are developing a blockchain for internal payments, which will begin operation in April, and we are looking at initiatives outside the banking world such as the Ripple Transaction Protocol. We are also a member of the R3 blockchain platform consortium and have our fintech labs. Gone are the days when projects were so long-term that often products were obsolete by the time they were delivered. Today we focus on co-development, often with fintech partners, on the basis of three to six months' time to market, followed by feedback and further development to add new functionality. For example, we are analysing providers (Banks and Fintech) that would enable the bank to further extend the network for international payments by having access to different local ACH , so we do not have to build partnerships one bank at a time.. The goal of our fintech labs is to review all initiatives on the market, whether in cash management, trading or supply chain, identify technology that can add value and quickly develop a proof of concept. If it's successful, we industrialise it – we no longer wait for a full product to attack the market.

NEW PAYMENTS ENVIRONMENT "E-PAY ME, PLEASE!"

Payment methods are changing with our habits and technological advances. The digital revolution is putting our businesses at risk, and forces us to reconsider the B2C approach. This will have an impact on our dealings with our customers but may perhaps also give us significant competitive advantage, enabling us to access a different set of customers. It is a challenge for the whole banking industry which will forever have an impact on corporates. Is also provides us with an opportunity to revisit our payment procedures, to speed them up and, most of all, to make them even more secure.

PAYING DIFFERENTLY

The electronic payments system has expanded considerably over the last few years because of the increasing use of the internet and online shopping. Together with unprecedented advances in technology, today we have access to forms of payment using machines – different to what they used to be – but which still guarantee efficiency and security. This is at the expense of cash and cheque transactions (even though cheques are holding their own in the USA, a real paradox since it is from there that most of the new technology comes). One of the most popular forms was undoubtedly the credit or debit card. Alongside them, there are alternatives, such as bank transfers in various forms, which are steadily reinventing themselves with most notably SWIFT GPI, electronic wallets, smartcards, or even the much hyped crypto-currencies. You immediately realise that this is a vast landscape, and that digitalisation and paperless transactions, together with portability, have resulted in a profusion of quick and cheap payment methods. We need to incorporate them into our procedures and automate them, just as for any other traditional bank transfer. The issue arises of collecting funds from customers who are ever more demanding in terms of payment methods, and of dealing with suppliers who may themselves want to be paid differently. Faced with this radical transformation of the payments industry, it would seem to be a good idea to redefine the boundaries and consider what the future may hold.

RE-SHAPING OF PAYMENT MARKET LANDSCAPE

Customer Preferences	Consolidation of banking environment Expected disruption in payment methodes Customer experience(s)
Technology	Cloud computing API's Machine-learning, AI and "big data"
Regulations	Robo-advice Open banking PSD2 (+MiFID2)
Market Changes	New Ecosystems Emerging (new) players incl. GAFAN Digital finance is emerging

> **TODAY, WORLDWIDE, > 35% OF CONSUMERS CURRENTLY SHOP ON SITES BASED OUTSIDE THEIR HOME COUNTRY AND IT KEEPS GROWING YEAR ON YEAR...**
> François Masquelier, Chairman, ATEL

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RADICAL TRANSFORMATION

A complete transformation is underway (and has been for some time) in the world of payments. However, change is not happening as quickly as we might think because of high technical barriers, ingrained habits and the complete lack of standardisation. There is a whole series of technical, technological, legal and local/regional challenges that leave the payments landscape in a state of complete flux. The advent of the millennials and of "customer experience" – which they harp on about ad nauseam – is affecting the whole value chain and everyone involved in financial transactions, whether through banks or not, worldwide or local. Whether we like it or not, we need to adapt to this new ecosystem and to what the market wants. There will be ever greater deregulation, disintermediation and self-reinvention, and this is already happening. One thing is for sure: nothing will ever be the same again when it comes to payments. Another thing is that the range will broaden and become more diverse, at least initially, for as long as it takes for the market participants to standardise and consolidate. We therefore need to be ready to accept multi-product, multi-supplier and bank agnostic solutions. The hardware will become ever more moveable, as with smartphones and tablets, and users will want everything, everywhere, on any device and at any moment in time. This is the set of requirements we have to meet to win ourselves a place in the sun in the mass payments market.

MARKET TRENDS AND REVOLUTION IN PROGRESS

Payments are going to increase in number and change in size (always smaller and more repetitive) and also in execution time. As with "instant payment", people want to pay immediately and be credited instantaneously. Generation Y and the millennials want everything NOW! The use of cash is falling and governments want to abolish it, as in Sweden and Israel, particularly for tax reasons. The number of payments has grown phenomenally over the last few years. «Contactless» has become an absolute must for some users. People want less hassle with their payments (frictionless payments) and greater speed, although without jeopardising security. Unfortunately, technological development goes hand-in-hand with fraud. Paradoxically, people are showing acceptance of non-financial companies – FinTech companies – while at the same time as the number of restrictive regulations is being increased. Being a bank today is far from being a sinecure. The GDPR comes into force in May 2018 with all the technical requirements it will bring with it. The PSD2 and MiFID2 recently created a tsunami within financial institutions. On the other hand the "real economy" is working ever more in "B2C" mode. Crypto-currencies (I leave it up to you to decide whether they are currencies at all) are on the rise. Costs are under pressure everywhere. Interoperability would ideally be a requisite, but it is failing to gain ground in the face of the complete absence of standards. The pace of change has also speeded up and makes it hard for the people involved to adapt. Things are moving a bit too fast, in the view of the more conservative treasurers. The complexity of IT and ERP systems make it hard to achieve secure interfaces and connectivity, which are nevertheless necessary. The fragmentation of the market is both its strength and also its weakness, with its bewildering profusion of tools and solutions. This makes many people think that standards will become embedded or be imposed. This is also a paradox for this dispersed revolution, perhaps a bit too dispersed in the final analysis.

CHALLENGES FACING INDUSTRY

This brings a number of challenges for industry as a whole. Absolutely anyone can become a competitor, that is the very principle of the digital revolution. It will be →

(E)Payment Value Chain Transformation

Clients and Suppliers are changing with tech's...
...and with them new payment tools are required to replaced old-style ones and programmed end of cash...
B2B
B2C
C2B
C2C
Devices are different and mobile is emerging...
...New connections must be set-up with non-financial institutions or even via P2P solutions...
P2P
New payment methods are created...
... and traditional channes are challenged imposing strong reactions...
...PSD2 has opened wide the IT bank doors...
API
Application Programming Interface
Authentication are also completely new and better secured...
...and robotics as well as Artificial Intelligence are emerging...
...the key is not the payment, but the data behind!
BIG DATA
Technologies are also changing extremely fast...
... and new (crypto-)currencies are created...
... a brand new generation of the so-called "e-payments" is growing...
E-PAYMENT

→ necessary to redefine payment methods and reach a better decision on where we want to go, rather than suffer technological chaos and the breakneck competition that we are seeing now. New entrants are achieving disruption and changing users' habits. AMAZON and UBER, to mention but two, have changed the payments environment by the new business generated and the means of making payment. The world is changing and even SWIFT is forging ahead at great speed with the GPI "Global Payment Innovation" initiative and with SWIFT instant. It is obvious that everything is bustling, and that trains are leaving in all directions, threatening to leave behind on the platform those who have not seen the danger coming. Moreover, the ecosystem abounds with players coming out of nowhere and setting themselves up as best they can. It is a real jungle, and very difficult to find your way around. We should also note that the EU has seen fit to add its tuppence-worth by issuing the PSD2, a sort of absolute revolution, an Open Sesame for penetrating the banks' systems and opening them up to everyone. You may perhaps wonder if they might not have gone a bit too far! A bridge too far that fans the flames of the digital revolution in the world of payments. One thing is absolutely clear, this will involve a complete reshuffle of the deck and at the end of the day perhaps completely change the payments environment. The FANGs seem to be insatiable and ready to do

> **PAYMENTS WERE THE BASIS AND THE PRIVATE PRESERVE OF THE BANKS. IF THEY WERE TO LOSE THEM OR SEE THEM WITHER AWAY, THEIR VERY ROLE ITSELF WOULD BE CHANGED, IMPAIRED AND DIMINISHED, REDUCING THEM TO VAST BACK OFFICES.**
> François Masquelier, Chairman, ATEL

whatever it takes to grab the holy grail of payments. Payments were the basis and the private preserve of the banks. If they were to lose them or see them wither away, their very role itself would be changed, impaired and diminished, reducing them to vast back offices. The profitability of banks, already harmed by digitalisation and fewer retail banking branches,

> **WHEN IT COMES TO PAYMENTS, IT WOULD SEEM THAT THE IN-WORD "GLOBALISATION" DOES NOT COUNT FOR AS MUCH AS IT DOES IN OTHER THINGS. PEOPLE TALK ABOUT A GLOBAL WORLD WITHOUT BOUNDARIES, BUT WITH PAYMENTS IT WOULD SEEM THAT REGIONAL CULTURE AND SPECIFICS CAN ACT AS A BRAKE TO STANDARDISATION.**
> François Masquelier, Chairman, ATEL

could once again suffer from this loss of income. Because payments are a customer point of entry. Without payments, customers no longer have any reason to deal with banks and the close bond that binds them together will gradually disappear. This will do nothing for the banks' business. In this environment, certain fintechs have managed to rise. They are succeeding in changing user behaviour and user expectations. The speed and pace of innovation and the direction in which they are going are beginning to become clearer. Sadly, others fail. The wish on the part of users to change their behaviour has been overestimated, and they strive to create a new infrastructure and new financial services in a reshaped ecosystem. They might potentially generate a disruption, but sometimes they do not succeed. There are many failures. A great many are called, but very few are chosen. In the future, these technologies will have an impact on cash management, with artificial intelligence and machine learning, and will reduce costs and increase efficiency. More than payments, it is the data (the big data) behind them that interest the fintechs. That is where the challenge and the long-term value lies. Derivatives of blockchain technology will improve transparency, cost, efficiency and data analysis. Having everything mobile and portable will be everyone's watchword. Finally, biometrics and its derivatives will put the finishing touches to it, making it yet more secure and rendering fraud almost impossible. So we can see that there are radical changes afoot.

PAYMENTS ARE STILL THE CULTURAL EXCEPTION

The paradox of the local cultural exception. When it comes to payments, it would seem that the in-word "globalisation" does not count for as much as it does in other things. People talk about a global world without boundaries, but with payments it would seem that regional culture and specifics can act as a brake to standardisation. It is a matter of adapting to your environment. If you want to sell online in China, ALIPAY looks to be indispensable in the same way as PAYPAL is in the USA. In North America, cheques are still favoured, even though they may seem old-fashioned and obsolete. Whether we like it or not, we have to take local specifics into account, because nothing is global in terms of payment practices between regions and continents. This exception is all the more surprising since the number of small payments is rising continuously – up 20% over the last three years. The new market entrants and sales over the internet (of which Amazon, Ali Baba, Uber, AirB&B, etc. are examples) have changed buyers' behaviour and habits. →

Fig.1

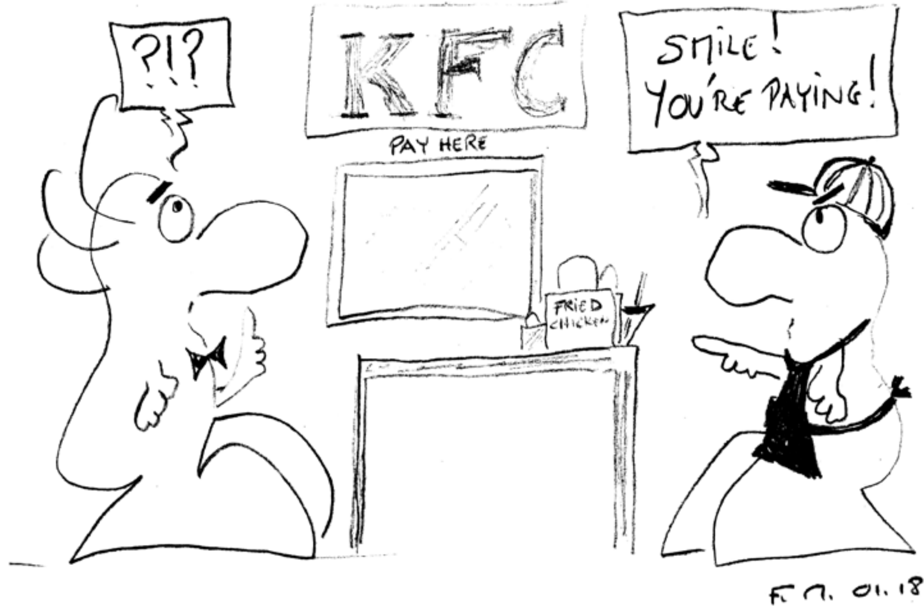
Potential role of banks as INTEGRATOR of payment methods in
B2C
Bank as an INTEGRATOR
B.
Secured payment system enabling multi payment methods
Multichannels
C.
Multi payment methods
i.E. Alias-based payments, blockchain, crypto-possessing, hybrid solutions and cards (D+C)

Fig.2

Potential role of banks as INTEGRATOR of payment methods in
C2B
Bank as an INTEGRATOR
C.
Multi technology convergence : method of payment at discretion of the customer
COLLECTION
B.
Multi payment methods
Including alias-based payments (i.e. Digital wallet) + blockchain crypto-processing + hybrid solutions + cards

→ **AN EXAMPLE OF AN INNOVATIVE SOLUTION THAT COULD REVOLUTIONISE PAYMENTS WHILE STILL SAFEGUARDING THE ROLE OF THE BANKS**

Bank of America Merrill Lynch announced the launch of "Enhanced Virtual Payables" in the USA at the start of 2018. The bank has launched a system of virtual cards able to use APIs (Application Programming Interfaces) to allow customers to make purchases or commercial transactions easily by connecting directly to their own system. This "BofA Virtual Payables" solution also enhances their ability to set up single use accounts in real time. By using an API, the customer can initiate a payment by delivering a "batch file" from its ERP. This solution will simplify and streamline the payment process for both buyers and sellers. Each transaction bears a unique card number linked to it, to be used for easier reconciliation by both parties. There is no need to store the card number, since the card and payment details information is supplied by e-mail and secure URL. Security and control must go hand-in-hand with ease of use and automation. We risk seeing an "API-zation" at industry level and even the advent of new techniques such as facial recognition, digital fingerprinting (even though it is out of date), or biometrics to verify a person's identity and authorise payment. One example is KFC in China, where you can pay simply by facial scanning.



EVERYTHING TO LOSE!

The area where the banks have everything to lose is in B2B transactions where they dominate parts of the market and benefit in terms of income volumes. By contrast, C2C and B2C or even C2B are slipping through their fingers inexorably. The banks face many challenges, revolving around (1) costs that need to be lowered, (2) new sales channels whose requirements need to be met, (3) instantaneous payments, a real revolution; (4) standardisation of formats and processes, (5) interoperability, often difficult to achieve and deliver, (6) the advent of new entrants – NFIs and fintechs, (7) too many national clearing platforms and systems, (8) market fragmentation as a result of these new entrants and new solutions, and finally (9) the phenomenal increase in the rate of change makes everything happen more quickly and needs greater agility than ever before. You can see that the life of Cash Management bankers no longer looks like a winding, lazy river, but more like an out-of-control geyser. The challenge may be summarised into the difficulty of reconciling with each other (A) the need to keep a step ahead of what consumers want and expect, and to stay innovative and competitive; (B) the need to be compliant and maintain security in a world in which IT fraud has never been as fierce or rampant, and (C) the determination to improve operational procedures at the same time as applying international standards. The challenge also hinges on SWIFT, which some months ago launched a number of initiatives including SWIFT GPI for cross-border payments and perhaps even for domestic payments in time, and SCT Instant for instantaneous payments (initiated by the "EPC's SCT inst", its latest SEPA Instant Credit Transfer). Everyone needs to keep their own house in order just to stay where they are in an environment where everything is called into question, including your very existence itself. A millennial will not be bothered about seeing an Italian bank of incredible antiquity possibly disappear.

The new users do not think the same way as older generations, and it is here that the break point is gathering pace. We may therefore fear or hope, depending on our views, for a consolidation in the banking industry, in market infrastructure services, and in the fintech companies themselves in the future.

E-PAY ME!

Banks therefore have a splendid role to play as the perfect focal point for bringing together the various payment methods and applications, using their technology, their good standing and the trust that their customers place in them. Perhaps they could allow their corporate customers to pay their "C" type suppliers via different channels and receive payments from customers who can each choose their preferred channel when making payment (for example Alipay, card, Ripple, Payconiq, prepaid credit card, etc.). The idea would be to become the single gateway for incoming and outgoing transactions. The connection/interface with the payment method would be simplified because it would be done by the bank and made secure by sending encrypted files. And in the outgoing direction, the bank would make available to its customers a simple bank-branded app to pay by the channel of their choice. Banks that offer solutions of this type will there and then find they have the means to win the loyalty of their customers and hold on to their customers' transactions and business.

In the final analysis, nobody can say what the payments environment and e-payments hold in store for us in the short term. But it is certain that the ecosystem will undergo yet another radical change for the better and perhaps also for the worse for those who have been unable to adapt. Doing nothing is no longer an option. However, it is difficult to find the right countermeasure. It is obvious that everyone involved is on a mission and that everything is buzzing. In my view, the upshot will initially be a proliferation of new payment methods provided by a whole host of operators, not necessarily banks. That is why I think that the banks that provide a platform hosting several payment and collection methods will be the winners in this internecine conflict. Banks can offer trust and good standing. They are regulated by a market authority and supervisors, and comply with many regulations, which guarantee their survival. Who better to provide access to multiple solutions? The ideal would seem to be the ability to use your smartphone to choose your payment method or to adapt to your supplier's payment method. Being able to receive your payments by different methods into the same bank account is the perfect solution. Obviously, methods that do not use bank accounts will emerge, or methods involving alternative currencies. The problem facing treasurers is that of dovetailing their automation and security requirements with the new payment methods, thus satisfying their operational colleagues.

François Masquelier,
Chairman of ATEL

WHAT IS AN E-PAYMENT SYSTEM?

An e-payment system is a way of making transactions or paying for goods and services through an electronic medium, without the use of checks or cash. It's also called an electronic payment system or online payment system.

1. CREDIT CARD: a form of e-payment system which requires the use of the card issued by a financial institution to the cardholder for making payments online or through an electronic device, without the use of cash. They are still one of the most popular e-payment methods.

2. E-WALLET: a form of prepaid account that stores user's financial data, like debit and credit card information to make on-line transaction easier.

3. SMART CARD: a plastic card with a microprocessor that can be loaded with funds to make transactions, also known as a chip card.

4. DIRECT DEBIT: a financial transaction in which the account holder instructs the bank to collect a specific amount of money from his account electronically to pay for goods or services.

5. E-CHECK: a digital version of an old paper check. It is an electronic transfer of money from a bank account, usually checking account, without the use of the paper check.

6. E-CASH: is a form of an electronic payment system, where a certain amount of money is stored on a client's device and made accessible for online transactions.

7. STORED-VALUE CARD: a card with a certain amount of money that can be used to perform the transaction in the issuer store. A typical example of the stored-value cards are gift cards.

E-payment systems are made to facilitate the acceptance of electronic payments for online transactions. With the growing popularity of online shopping, e-payment systems became a must for online consumers — to make shopping and banking more convenient. It comes with many benefits, such as: (1) Reaching more clients from all over the world, which results in more sales; (2) More effective and efficient transactions — It's because transactions are made in seconds (with one-click), without wasting customer's time. It comes with speed and simplicity. (3) Convenience. Customers can pay for items on an e-commerce website at anytime and anywhere. They just need an internet connected device. As simple as that! (4) Lower transaction cost and decreased technology costs. (5) Expenses control for customers, as they can always check their virtual account where they can find the transaction history. (6) Today it's easy to add payments to a website, so even a non-technical person may implement it in minutes and start processing online payments. (7) Payment gateways and payment providers offer highly effective security and anti-fraud tools to make transactions reliable.

Some drawbacks: E-commerce fraud is growing at 30% per year. If you follow the security rules, there shouldn't be such problems, but when a merchant chooses a payment system which is not highly secure, there is a risk of sensitive data breach which may cause identity theft. The lack of anonymity — for most, it's not a problem at all, but you need to remember that some of your personal data is stored in the database of the payment system. Eventually the need for internet access — as you may guess, if the internet connection fails, it's impossible to complete a transaction, get to your online account, etc.

SWIFT GPI ON GOOD TRACKS!

As you all probably know SWIFT GPI addresses some of the major pain points corporates currently experience when they initiate cross-border payments. For treasurers it is difficult to get visibility on what happens to their cross-border payment instructions, not knowing when and if payments have been credited or what sort of fees have been deducted. They don't know why a payment has been rejected and every investigation can be time-consuming and costly. This can cause lots of problems with suppliers and counterparties as well as increasing financial risks resulting from payment delays or more and more frequently fraudulent actions.

For the first time SWIT bank users and corporate users met in London in end of November 2017. This ambitious project seems to be on good tracks. 125 banks have joined the initiative as of November 21017. There are 4 millions of messages exchanged. More than 200 countries are covered representing 75% cross-border payments. End of 2017, 40 banks roughly were "live". There are more than 3 million payments executed at that moment and it keeps growing every day. Corporates and EACT remain convinced GPI will become soon the new norm of cross-border payments. The adoption curve will be exponential. Although they started with FIN messages on bank side (i.e. MT 101) later on they will cover FileAct (XML).

There are even domestic payments on GPI. Who can do more can also do less, isn't it? As 55 countries support GPI, they could cover domestic payments too. The next steps are to launch a pilot phase in order to standardize GPI flows between banks and corps, to provide a single GPI experience and to demonstrate efficiency of the GPI. One of the issue for IT vendors and corps will be to generate UETR (i.e. Unique End-To-End Transaction Reference) in order to track payments and to reconcile operations when confirmed and executed. The UETR (i.e. UUID) will be based on 36 characters (e.g. {111:001} {121; eb6305c9-1f7f-49de-aed0-16487c27b42d}. The key question will be: would vendors be prepared and ready on time? Better to initiate discussions with them earlier than later.
The test phasing has started and SWIFT hopes to be ready and live with corps by October 2018 for SIBOS in Sydney. As mentioned, there are still issues to be sorted out regarding standards, types of formats to be used depending on types of operations (i.e. treasury or commercial). The cost element still has to be defined but highly depends on solutions applied. Corps will soon start talking to TMS vendors to check feasibility of UETR generation.
As all cops already expressed, we want a bank agnostic solution for the tracker and hope SWIFT will propose a multi-channel solution. We guess corps will invoke the exceptional character of tracking tools and the by exception management to check where payments stand. The idea is to avoid the overloading of data and information coming back from banks. The speed of GPI should be an asset. According to first results

GPI AT A GLANCE

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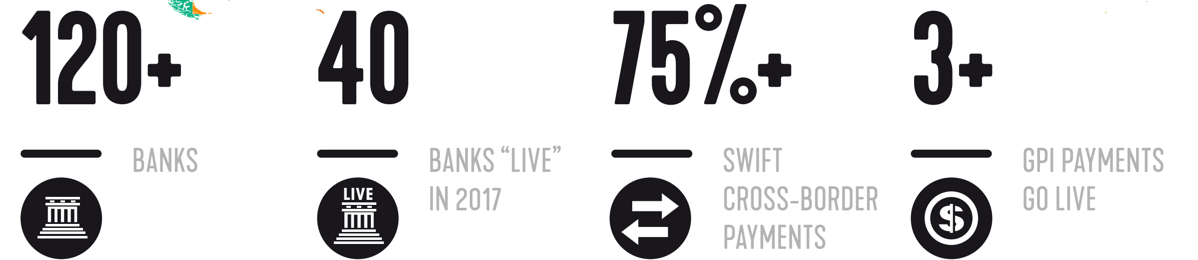
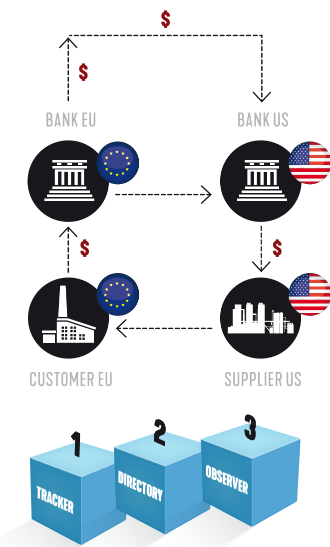


and performances measured, it seems that one third is faster than half an hour, and 43% faster than two hours. The costs should be reduced as at the end of the day it also reduces costs for banks with tracking and corrections of errors. The consequent amount of time spent by back-offices to track payments would be easily compensated in our view. The corporates would like to know where a payment stands and if it is confirmed, rejected, on progress, on hold or delivered (when delivered to a non-GPI bank). This piece of information will be "pushed" by banks to corps.
Although there are still some key elements to be decided and defined, the group has progressed a lot. We are convinced that the excellent spirit around the bank-corps pilot project and dedication from teams involved will be key for achieving objectives on time. EACT fully supports this excellent and promising SWIFT project. We will keep you updated in the next months of progresses achieved.
We wanted to thank the pilots (i.e. bankers and corporates) who accepted to test and help finalizing this new product until "go-live".

François Masquelier,
Chairman of ATEL

GPI CROSS BORDER PAYMENT



BENEFITS
- Faster
- More efficient
- Secure & compliant
- End-to-end tracking
- Unaltered remittance information
- Open and inclusive, offering global reach

THE SECOND PAYMENTS SERVICES DIRECTIVE: A CATALYST FOR INNOVATION

© DR

The Second Payments Services Directive sets a framework for redefining the European payments ecosystem—driving the evolution towards an enhanced customer-centric experience by catalyzing innovation across payments services and client distribution channels.

To achieve the maximum benefits of this transformation, investment in technology across a bank's Merchant Services and Treasury Services capabilities is essential.

EVOLVING PAYMENT MODELS FOR CONSUMERS AND BUSINESSES

The Second Payments Services Directive (PSD2) enables consumers to make payments directly to merchants using new payment methods enabled by third-party providers. Parallel to these new payment models being facilitated by PSD2, is the advancement of real-time or "instant" payments, which provide a 24/7 settlement infrastructure for near-immediate settlement of proceeds. These new models facilitate payments in full and quicker settlement of proceeds without batch-processing or time delays. Removing friction points from payments will accelerate the consumer purchase cycle integral to the growing on-demand economy.

This new, dynamic landscape can become the catalyst for organizations to transform their online sales model, and reduce supply chain risk by attaining assuredness of proceeds credited before goods are dispatched. Increasing the certainty of value and timing of funds processed yields enhanced working capital management opportunities for businesses, as well as the opportunity to improve supplier and customer relationships.

PSD2 WILL SPARK PAYMENTS INNOVATION, GIVE CUSTOMERS MORE CONTROL, AND ALLOW MERCHANTS AND BANKS TO TURN IT INTO THEIR COMPETITIVE ADVANTAGE. PSD2 WILL ALSO OPEN THE MARKET TO NEW PAYMENT ENTRANTS AND EXTEND THE SCOPE OF SERVICES, THUS INCREASING COMPETITION WITH THE AIM OF MAKING PAYMENTS MORE INNOVATIVE, EFFICIENT, SWIFT AND SECURE FOR CUSTOMERS.

Brian Gaynor, European Head of Product for Merchant Services at J.P. Morgan

PSD2 SETS A FRAMEWORK FOR REDEFINING THE EUROPEAN PAYMENTS ECOSYSTEM. THE DIRECTIVE AIMS TO:

- Encourage innovation and competition by facilitating new market entrants (e.g., third-party providers of account information and payment initiation services).
- Enhance the transparency and security of payment services.
- Enable consumers and businesses to view and execute their banking and transaction activity in a unified manner across the European Economic Area.

The framework promotes Open Banking, advancing customer centricity and inspiring further innovation in banking.

WE SEE AN ACCELERATED PATH TO ADOPTION OF APIS, REAL-TIME PAYMENTS, AND BLOCKCHAIN-BASED SERVICES WITH AN END GOAL OF DELIVERING NEW LEVELS OF SECURITY, AUTOMATION, EFFICIENCY AND ACTIONABLE INTELLIGENCE TO OUR CLIENTS.

Jason Tiede, Head of Innovation for Treasury Services at J.P. Morgan

BUILDING BLOCKS OF AN EXPANDED PAYMENTS ECOSYSTEM

At the heart of PSD2 is connectivity to all European banks through Application Programming Interfaces (APIs). PSD2 provides a directive for banks to open up their APIs to enable the integration of third-party providers into payment networks to foster increased competition and innovation. Through APIs, payment initiation from bank accounts of consumers and organizations in the European Economic Area (EEA) is expected to be available to merchants seeking to collect the proceeds of sale through a simple, secured gateway to each bank's online payments infrastructure.

Beyond ecommerce applications of PSD2, traditional corporate transaction banking will benefit from adopting APIs in a mature marketplace where Enterprise Resource Planning (ERP) and Treasury Management Systems (TMS) are the foundation of treasury technology. With growing adoption of cloud-based ERP and TMS software, IT development is shifting to leverage APIs as a building block of greater efficiency and effectiveness.

FROM HEIGHTENED CONNECTIVITY TO NEW SERVICES AND BROADER TRANSFORMATIONS

The heightened connectivity and flexibility afforded by APIs should enable banks to allow merchants and other corporate clients to access vast troves of data in increasingly faster, simpler and standardized ways. Therefore, not only are APIs the building blocks of a redefined payments ecosystem, but they also help unleash even greater value from the payments experience.

Within the corporate treasury realm, everything from forecasting and risk assessment to liquidity management needs actionable insights. These insights are enabled by technology innovations in data configuration, processing power and communication speed. APIs will play a vital role as a connective glue in this – with change becoming easier and faster as companies gain control of the right data exactly when and where needed.

BANKING ON INNOVATION

As organizations take advantage of PSD2, it is important to collaborate with a bank that invests in innovation with the vision and practical application in solving real-world challenges. Key to this is working with a banking partner that has the experience, expertise, and scale to deepen and optimize interconnectivity across the needs of merchants and corporate treasuries.

Brian Gaynor,
European Head of Product for Merchant Services at J.P. Morgan

CASH MARKET PROSPECTS IN 2018

Q&A WITH SSGA CASH PORTFOLIO MANAGERS

As 2018 gets under way, we took the opportunity to quiz two of SSGA's prime fund portfolio managers about the year ahead.

SEAN LUSSIER,
MANAGER, US DOLLAR FUND

Sean, what are you focusing on as 2018 begins?
"The Federal Reserve's path of administered rates is definitely a primary focus. Decent economic growth, strong asset appreciation, steady employment gains, and increasing confidence – both consumers and businesses – has allowed the bank's Federal Open Market Committee (FOMC) to remove some of the extraordinary accommodation of recent years; it raised interest rates three times in 2017. Positive economic growth data has also allowed the FOMC to view lower core inflation as transitory while still anticipating it will reach their 2% target."

So what action will the Fed take in 2018?
"The FOMC's summary of economic projections indicates continuing rate normalization, with three more hikes in 2018 – which matches the forecast of our in-house economists. But history cautions that 'events' and data can derail plans, and the FOMC stresses it is not on a predetermined path. Indeed, not all futures markets are pricing in three hikes; market makers seem hesitant to fully price them in with core inflation still around 1.5%.
The Fed governors recognize that core inflation needs to be higher, which is challenging given the already-low unemployment level, and economic data trends will remain key to rate action. In our US dollar funds, we continue to focus on liquidity and duration management against this evolving rate backdrop."

What are your credit concerns?
"We are focused on bank regulatory changes, US yield curve flattening and geopolitical risks. Increased bank regulation, in terms of higher retained capital levels and liquidity ratios, has bolstered bank balance sheets and improved credit-worthiness. However, some rules restrict banks' capacity to lend and drive economic growth, and elections have brought pledges to loosen regulations. If this is done prudently, and banks retain adequate capital buffers, then credit should remain strong. But we will watch for material changes to credit-worthiness.
Amid increased short-term funding costs, resultant yield curve flattening means a lower spread or net interest margin for long-term investors. With US short-term rates to rise further, profits and economic growth may be pressured, impacting spreads and economic fundamentals.
Geopolitical risks lie with ongoing Brexit negotiations, while pockets of populist sentiment in the EU persist despite election disappointment in 2017. China's territorial claims and sanctions against North Korea are risk factors, with the potential to affect credit flows throughout the Asia-Pacific region. Asia-Pacific banks have a large presence in the US and are significant borrowers of US dollars.
Generally, our conservative credit approach has avoided headline risk and is focused on the most well-capitalized and highly-liquid institutions within specific regions."

How has liquidity been?
"Liquidity has been good. In the first half of 2017, credit spreads tightened – recovering nicely from spread-widening triggered by US money market reform in late 2016. Dealers have continued to inventory paper at reasonable bid-ask spreads, but the depth of the balance sheet is below that prior to increased regulation. We anticipate a healthy supply of treasury bills in Q1 and hopefully through 2018. This benefits cash investors as it should push security yields higher relative to Libor and the Federal Funds rate, as well as increase the amount of repurchase agreement collateral within the system."

MIHALY DOMJAN,
MANAGER, EURO AND STERLING FUNDS

Mihaly, what does 2018 hold for Europe?
"A key narrative is the ECB's scaling back of its asset purchase program from €60bn to €30bn per month until September. This was well-telegraphed and we don't anticipate any near-term impact on cash markets. However, we remain cautious about sovereign rates and the risk of a 'taper tantrum' in the latter half of 2018. Back when the Fed began tapering its asset purchases, that was also well publicized but there was still a significant back-up in yields.
Markets expect the ECB will announce – in May or June – either the elimination of its program or another reduction in purchases. We will be focused on the ECB's language given the potential for volatility.

And how do you see euro and sterling markets in 2018?
"The cash market in Europe should be similar to 2017. The deposit rate is -0.40%; repo rates tend to trade below that and the term yield curve is still flat. While the curve has steepened of late, with longer forward rates moving higher, we don't see rate hikes on the horizon. Banks continue to be well funded and significant excess liquidity remains in the system. There is over €1.8 trillion of excess deposits at the ECB and this has grown alongside the bank's portfolio of purchased assets. Credit spreads are at historically tight levels and demand for newly-issued debt has been robust.
Clearly, the UK situation is different. The Bank of England raised rates in November and the forward curve has priced in additional hikes. However, I suspect the market will tread carefully. There is much at stake with Brexit negotiations and many outcomes are possible. We continue to manage the sterling fund cautiously; supply has been ok, so investing the UK portfolio has not proven overly-challenging."

Supply is something we hear a lot about.
"The supply of short-term debt has shrunk considerably amid reduced risk appetite or opportunity cost and regulatory reform. Regulators made the system safer, but safety comes at a price. So while banks have better funding, and risk assets have been greatly reduced, the cost of high-quality liquid assets is high.
The spread between prime and government money market funds is 20-30 basis points, in both Europe and the US. Prior to 2008, this spread dipped below 10 basis points. The investments are available but yields are now lower, and sometimes significantly negative.
Lastly, many dealers stop issuing debt around quarter-end to reduce the overall size of their balance sheet for accounting purposes, often causing yields to drop below their intra-quarter ranges. The Fed resolved some of these market dislocations with their Reverse Repurchase Program, whereby the Fed borrows money from investors in return for treasury collateral. The ECB has considered this and alternative programs to alleviate such challenges, but nothing thus far has been implemented.

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TREASURY IT IS ALL ABOUT FUNDAMENTALS

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A martial art teacher said one day that "fundamentals are fundamental". For The one who had not the chance to practice martial art but who probably played the "Jenga tower", know that when pulling out building blocks at the bottom of the tower, the whole tower becomes flaky.

Back to treasury and considering conferences themes, articles and publications around the evolving role of treasury, Fintech, strategic treasury and so on, we feel a need to return to the more fundamental topic of the role of treasury within organisations and the level of sophistication of the function.

We all know that the essence of treasury management is all about the being the custodian of cash flows and (financial risks). But what does that mean for day to day practice? What treasury operating model best fits business needs and how to manage the treasury within a multinational environment?

Understanding these fundamental issues will allow the organization to set-up and implement robust and versatile treasury policies as well as processes, resulting in efficient revenue allocation between jurisdictions involved and optimal taxation on treasury operations.

TREASURY TARGET OPERATING MODEL ("T-TOM" OR "TOM")

Figure 1 illustrates the relationships amongst all aspects of Treasury. Irrespective of the complexity and sophistication of an organisation, Management has to decide treasury's role within the elements included, which entails considerations on the internal operations and structure of the treasury functions (e.g. service provider vs. entrepreneur vs.

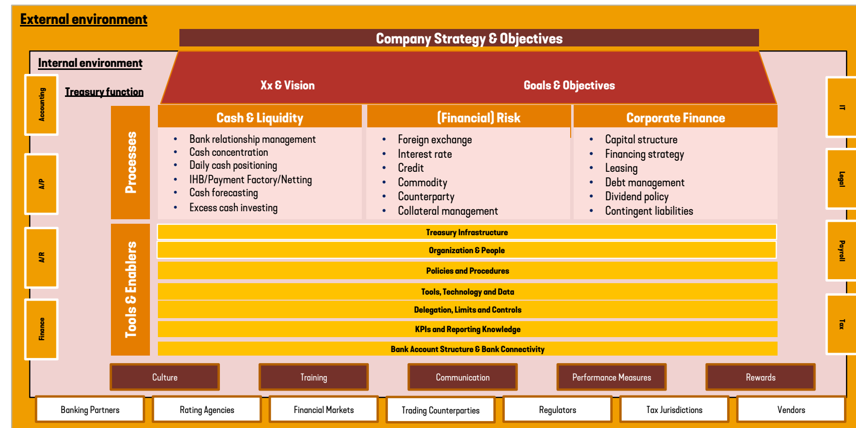
→ hybrid model), and related transfer pricing and tax consequences. The decision may be that an element is not applicable or has no priority (yet). The Treasury Operating Model (TOM) tailored to an organisation for today and the (near) future) hints at the maturity or sophistication of its treasury. It defines the overall objective (mission) and scope of treasury which in turn will be the main driver of its underlying cost and corollary budget.

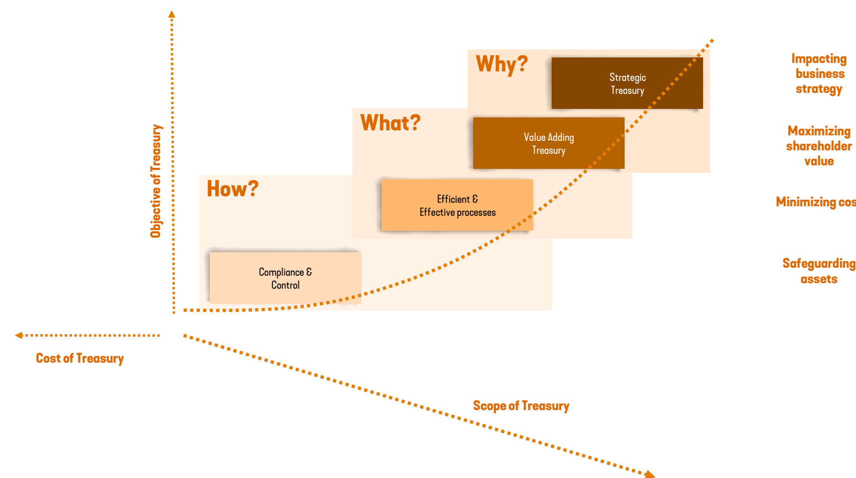
TREASURY MATURITY MODEL

While the objective and scope set the tone of the contribution of treasury to the organisation, the budget defines the cost to incur in order to materialize these benefits. In order to facilitate a discussion around the costs/benefits and choice of optimal TOM, PwC has developed the maturity model as per figure. The aim of the game is to find the appropriate point on the benefit curve and make sure TOM includes all applicable elements at the right level of sophistication.

TARGET OPERATING MODEL: TREASURY ELEMENTS

MULTIPLE ELEMENTS NEED TO BE CONSIDERED IN CONSTRUCTING A GLOBAL OPTIMAL OPERATING MODEL





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TOM corresponding to a "Safeguarding assets" strategy typically revolve around setting up processes from scratch and with the objective avoiding losses, regulatory mistakes, penalties and fines. Typical projects at this stage include documenting processes, configuring key treasury applications, such as basic cash exposure and reporting, with limited or no tax/transfer pricing considerations providing an easy port of entry for Tax administrations to challenge pricing on intercompany transactions. Furthermore, more often than not processes are spreadsheet based and highly manual.

TOM focused on "Cost Minimization" involve a higher degree of standardization, centralization of core treasury processes and pruning bank infrastructures with the objective to become more effective. At this stage treasury typically selects treasury technology for the first time, explores basic forms of in-house banking and central finance structures. It is then all the more critical, that at this stage the understanding of margins and transaction flows, as well as the alignment of expenses and revenue from a transfer pricing perspective be considered and explicitly embedded in the Treasury policy.

Treasury centers evolving along the third stage of the maturity model will develop TOMs striving for leading edge holistic solutions covering technology and tax/transfer pricing to extract the maximum benefits out of treasury centers. At this stage, companies will often engage in the re-engineering of treasury processes (e.g. integration of cash pooling, external and intercompany cash flows) within an in-house bank type of model to optimize operations and related tax burden.

In-house bank operations for treasuries at this maturity level are often still run by corporate treasury.

Those first three stage treasuries in this model are therefore best characterized by a focus on perfecting the execution of treasury transactions. They tend to focus on "how and what to do?" type of business questions which often implies further centralization.

At the fourth and strategic stage treasury operates as a true custodian of cash flows and financial risk. It coordinates enterprise wide processes and is no longer manager of a corporate department. The treasurer has become the trusted advisor and subject matter expert to the business operations and executive management regarding the cash flows and financial risk of the business. At this stage Treasury is involved in structuring business initiatives caring for cash flows, financial risk aspects and fairly recently, in discussions with tax departments centered around tax planning activities. The combination of changing market conditions (i.e., low interest rates and thinner spreads) along with the recent OECD Transfer Pricing developments challenge the appropriateness of existing TOMs and fundamentally alter the interactions between treasury and tax departments. Indeed, not so long ago, from a tax perspective, substance was meant to be understood as capital management which is clearly a treasury center prerogative. In this post Base Erosion Profit Shifting ("BEPS") environment, substance not only covers capital but also topics ranging from the strategic support functions needed to ensure the sustainability of TOMs, the alignment of personnel with the location of funding vehicles and the proper management of financing risks. Adding to this list the Master File financing documentation requirements under Action 13 of BEPS, it is clear that a treasury policy framework to be sustainable needs to be the brainchild of treasury and tax departments. More than ever, close communications between these two stakeholders will determine the fate of the survival of selected TOMs.

In a mature setting, Treasury's involvement upfront allows for pro-active detection and resolution of cash flows, financial and tax risk issues and the implementation of best practice process engineering. Transaction processing is highly standardized and automated and may already have been outsourced to a shared services organization that generates the reporting to manage (future) liquidity and exposures adequately. In summary the focus of a Strategic Treasury is on interacting with stakeholders discussing why entering into treasury transactions.

The evolution into a Strategic Treasury is more radical and transformational. A strategic treasury's role is beyond the management of delineated responsibilities. It assumes a pro-active and collaborative engagement with senior management, business and tax functions aimed at advancing the strategic value of the organization.

Whilst it is undoubtedly true that certain of the profession have reached a strategic position within their organization, the evidence for a wholesale shift is perhaps more patchy and to a certain extent aspirational. It begs for the question whether treasury should inevitably move into the far right upper box in figure 2. Having said that, each level of sophistication feeds off the prior stage in the maturity model. The prior level acts as foundation for the next. If the requirements linked to the prior stage are not satisfied solidly, treasury may not be able to deliver on its promises effectively.

Depending on where Treasury is, its environment and allowed budget, it may want either to reinforce its current stage or add the next level but in any case, Organisations should keep in mind that "fundamentals are ... fundamental"!

BIO

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MONEY MARKET PERSPECTIVE

COULD, ONE DAY, SHORT TERM RATES BECOME POSITIVE?

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ACCOMMODATIVE MONETARY POLICY

For many years now, the European Central Bank (ECB) has been conducting a very accommodative monetary policy. By combining different non-conventional measures, namely the Asset Purchase Program (€30Bn per month), the Very Long Term refinancing Operations, the negative Deposit Rate (-0.40%) and the forward guidance on interest rates, the ECB has been able to anchor short term rates in negative territory and to ensure very favorable financing conditions for both firms and households in the euro area. While this very supportive environment has been a key contributor to the firming of the economic recovery in Europe, it has raised questions about the sustainability of the money market industry.

SUSTAINABILITY OF THE MONEY MARKET INDUSTRY?

Admittedly, with money market rates fixing at very negative levels (Eonia around -0.36%, 3-month Euribor at -0.33%) and with the full investment universe offering negative yields, euro denominated money market funds have delivered negative performances (in the -0.20% / -0.30% area for 2017). It is fair to say that 2017 has been the worst interest rate environment ever for euro denominated money market funds. Nevertheless, as counterintuitive as it may seem, these funds recorded an increase in assets under management last year. Amazingly, this upward trend started at the end of 2014, the year when the Eonia fixing turned structurally nega- tive ! Despite negative returns, investors have not been deterred from investing in money market funds. Performance is definitely not the only element at stake when investors decide where to place their cash. If banks, thanks to their status, have access to the ECB Deposit Facility at -0.40%, this is not the case for other investors. They need to find a way to "park" their cash, be it via short term bills, reverse-repo operations, bank deposits, commercial papers or money market funds. Thus, for most institutional investors, the rate offered by the Deposit facility is not a floor and money market funds still represent for them the best cash management solution. Not only do they offer a rather competitive return (at least in relative terms), but also a high level of liquidity and risk reduction through portfolio diversification, while allowing for same-day cash settlement.

> **MONEY MARKET FUNDS STILL REPRESENT THE BEST CASH MANAGEMENT SOLUTION.**
> Mikaël Pacot, Head of Money Markets at AXA Investment Managers

WHAT'S NEXT?

We do not expect the money market context to change dramatically in the first part of 2018 but things could start to improve soon. The latest data suggest that the economic activity has gathered momentum in the euro area. Growth is becoming increasingly self-sustaining thanks to solid job creations, favorable financing conditions, declining political uncertainty and an increasingly synchronized global recovery. So far inflation pressures have remained subdued and have yet to show convincing signs of a sustained upward trend. However, the ECB is becoming increasingly confident that the stronger than expected economic expansion will contribute to a gradual convergence of inflation to levels below, but close to, 2% over the medium term. As such, the ECB communication will have to evolve gradually and, with QE approaching its end (September or December 2018), the focus will progressively shift to the rates level. We expect the ECB to tweak the current forward guidance in March, at the earliest, and to clarify the end date of QE in June. A first rate hike could happen around Q2 2019. While the very short end of the money market curve should stay anchored in negative territory for most of 2018, the longer end could begin to steepen. This move would come as a great relief to most of us !

Mikaël Pacot,
Head of Money Markets at AXA Investment Managers

Evaluate the challenge, think, analyze the facts, find the right strategy. And act.

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TIME TO REVIEW MISCONCEPTIONS IN DERIVATIVES AND COUNTERPARTY RISK

Ultimately, the 2008 crisis brought about an extraordinarily stark revelation of the structural weaknesses of the financial system, as it enabled everyone, including regulators, not only to become aware of the lack of control of financial markets, but, above all, of the imperfections, not to say the inaccuracies, of the valuation models of financial assets, in particular of credit products and derivatives.

An over-the-counter derivative is basically a credit product and its valuation must effectively integrate counterparty risk. This translates into a credit charge, known as the Credit Valuation Adjustment (CVA), which reflects the bank's loss expectation in the event of a default by its counterparty. In fact, several value adjustments are added to the price of derivatives, in particular those relating to financing costs (Fund Valuation Adjustment: FVA) and banks cost of capital (Capital Valuation Adjustment: KVA). The sum of these adjustments is called xVA and it is easy to imagine the confusion and frustration of corporate treasurers facing their pricing softwares which have become obsolete, as well as the complexity of the models and the financial expertise required for the valuation of a derivative nowadays.

The economics at stake are real for many companies in industries such as telecommunications, aerospace, the automotive industry, energy or project finance, and can easily represent several tens of millions of euros in certain types of transactions, or even a significant part of a company's net profit.

CREDIT CHARGES ONLY APPEARED IN 2008/2009 AND CONCERN BUT LARGE COMPANIES

In reality, the CVA concept was introduced in the late 1990s, mainly by US investment banks, and the consequence was that their swap quotes were often off-market, although they were modelled correctly.

Today, the vast majority of banks have fully integrated counterparty risk using modern quantitative models, with the resulting credit charges applying to all customers: large and small, corporates, pension funds, etc.

BANKS LEVY CREDIT CHARGES BUT NEVER PAY THEM BACK TO THEIR CLIENTS

This is nowadays less and less true: the trend is reversing at the instigation of a few large investment banks that have fully integrated a bilateral approach to credit and financing charges.

Imagine the astonishment of this corporate treasurer, when the bank that he has just asked for a quote for the unwind of an interest rate swap tells him that the required payment is not 10 million euros as his treasury software predicted, but only 6 million, or a 40% discount! For the bank, it was financially more advantageous to pay the company an extra 4 million euros, representing all the value adjustments, rather than keeping the transaction on its balance sheet and retaining the associated credit risk. These cases are quite common today when it comes to interest rate hedges →

NEVERTHELESS, CORPORATES OR THEIR ADVISERS WILL INEVITABLY HAVE TO UPDATE THEIR DERIVATIVE VALUATION SYSTEMS AND WILL HAVE TO FULLY INTEGRATE COUNTERPARTY RISK IN ORDER TO MEET IFRS 9 REQUIREMENTS.

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→ contracted at much higher levels than current levels and banks are increasingly willing to release credit provisions to companies, at least in part.

CONVERSELY, COMPANIES ARE NOT REMUNERATED FOR THE CREDIT RISK THEY INCUR TOWARDS THEIR BANKS

There remains a debate regarding the Debit Value Adjustment, or DVA, the symmetric quantity of CVA, which represents the expected loss of the company in case of a default of its bank counterpart. Many banks argue that their default risk is already included in the calculation of FVA through the cost of financing. In reality, these banks do not wish to integrate DVA in their prices because monetising DVA amounts to trading in their own credit default swap, which they cannot do.

There again, some investment banks are ahead and pay a significant part of DVA through a clever replication of their own credit risk. For a corporate treasurer, the corollary of this is that there remains a great diversity of methodologies and it is therefore essential to know which one is employed by his bank before executing any transaction, especially if it can be restructured or unwound, as future quotes will greatly depend on the method employed.

COMPETITIVE BIDDING RESULTS IN THE BEST MARKET PRICE

While competitive bidding used to always be simple and effective in obtaining the best market price, this is no longer the case. This may sound shocking but we are dealing with a market where the price not only depends on the seller but primarily on the buyer and what he already has in his shopping trolley.

The explanation for this lies mainly in the fact that the risk generated by any new transaction is more or less correlated with the risk of the portfolio already in place with the bank counterparty in question and this has very different effects on the pricing of any new transaction.

In practice, it is common to see a bank systematically aligning itself to the best price when quoting or even proposing to execute at mid. This almost always indicates that the new transaction generates a significant credit or financing gain for the bank in question, which can amount to dozens of basis points, in particular for currency hedges or unwinds of positions. In such cases, it is better not to go ahead with the transaction but rather analyse in detail the xVA parameters with the best-quoting bank.

THE ECONOMIC IMPACT OF A NOVATION FROM ONE BANK TO ANOTHER IS RELATIVELY LIMITED

This is the least obvious misconception as a novation (transferring an existing position from one bank to another) does not have any impact on the market. There again, the credit and portfolio effects are such that the relative difference in value of a novation can reach half the market value of a position, or even more.
It should be pointed out that any change in documentation may have a significant economic value, even for credit support annexes, the purpose of which is precisely to eliminate any credit risk. This year, a large corporate has greatly improved its net profit following a renegotiation of this type.

WHAT ARE THE SOLUTIONS FOR TREASURERS?

Collateralisation is the first response that regulators have attempted to impose on large firms through clearing and NFC+ classification but with limited success given the liquidity risk that it induces and also the potential impact on debt ratios. This is an inaccessible solution for many companies and we should mention totally abstruse situations such as where the hedge of a private placement of 150 million euros generates a financing requirement of 100 million euros. However, this is a solution that has the advantage of eliminating a significant part of the value adjustments, provided that high thresholds are not required.

The introduction of the new Markets in Financial Instruments Directive (MiFID II) from 2018 onwards ought to encourage banks to provide much better information to their clients and ensure greater transparency on the pricing of transactions.

Nevertheless, corporates or their advisers will inevitably have to update their derivative valuation systems and will have to fully integrate counterparty risk in order to meet IFRS 9 requirements. Current treasury softwares are not designed to handle the complexity of xVA adjustments, however, there are specific solutions that provide easy access to expertise equivalent to that of the banks.

Finally, a modern banking relationship on a level playing field remains the best way to embrace these evolutions without suffering from them. Some large corporates have successfully carried out a thorough review of the credit and xVA methodologies of their bank counterparties enabling them today to anticipate credit issues and optimise the management of their derivative portfolios.

BIO

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Guy has over 20 years of Investment Banking experience in Capital Markets and Risk Management Solutions at Barclays, Goldman Sachs, Lehman Brothers.

Since 2014, Guy runs Leemax' risk advisory practice, targeted at large corporations, public sector entities as well as pension funds, providing financial expertise with a particular focus on fixed income derivatives risk management and regulatory capital optimisation.

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Michael also provides consulting and expert services to law firms, corporates, public sector entities across different jurisdictions in Europe

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Guy Seknadje, Leemax Advisory

Michael Weiss, Leemax Advisory

A SERIOUS FUTURE...

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The number 100 deserves obviously some retrospective. The finance industry has considerably evolved over the last 10 years and 2018 happens also to be the year of the 20th anniversary of FinMetrics. Life is made of cycles and evolutions are not coincidental...so was the creation of our firm when «risk management» exploded with Value-at-Risk (VaR) as the trendy measure at that time.

The 80s saw the development of evolving generations of derivatives, with the first swap originating in 1981, swapping DEM for CHF, between IBM and the World Bank. The 90s saw interest rates going down, thus interest margins shrinking for banks, encouraging them to invest directly, swapping their pure intermediary role with a hybrid one where their business model became much more sensitive to the direction of markets. Finance had benefited a lot from economics and statistics in the past. But now mathematicians and physicists entered the game, building up on the need to master mathematics for the pricing of ever more complex and less tangible underlyings or exposures. What a fabulous ground to implement their techniques! The first ever-recorded collateralized debt obligation (CDO) appears in 1987, credit default swaps (CDS) in 1994, double-barrier options around the end of the 90s, and so forth.

> **FINANCE HAD BENEFITED A LOT FROM ECONOMICS AND STATISTICS IN THE PAST. BUT NOW MATHEMATICIANS AND PHYSICISTS ENTERED THE GAME.**
>
> Hugues Pirotte, Professor of Finance, Solvay BS, ULB

Technology had been evolving in parallel, allowing calculations that were simply unimaginable some years before. TCP/IP and Telnet come to light between 1969 and 1973, and Netscape, the first web browser, arrives only in 1994. Google is founded in 1998. Nvidia, founded in 1993 as a graphics chips company, unveils in 2006 the capacity to use GPUs for grid computing. And today, your iPad runs probably as fast as a Cray 2 of 1985 (CPU-wise)... without the need of pressurized liquid cooling and a heat exchanger the size of a car.

In parallel, crises make their own appearance: the banking crisis in 1973 in UK, the Latin American debt crisis (early 80s), the failure of almost 1/3 of savings & loans in US in the period 1986-95, the Black Monday in 1987, the Swedish and Finnish banking crisis (90s), the Mexican crisis (1994), the Asian crisis (1997), the Russian financial crisis (1998) with the collapse of LTCM, a major hedge-fund founded by some Nobel-prize winners among others and representing a systemic threat, the Argentinian economic crisis (1999-2000), the so-called IT-bubble (2001-2002), the 2007-2009 financial crisis with repercussions until 2011 with a banking liquidity crisis, and cases of rogue trading and rigging, among the main ones.

Surprising is how much some actors were "surprised" by those events. First, risk "management" means that there is some form of action/decision based on awareness, i.e. the identification and quantification of exposures. But, de facto, over the last 20 years, a lot of emphasis has been made on risk reporting. That means pushing reports to all stakeholders on a defined regular basis. Even though some of us have been advocating for more "monitoring" than just reporting, i.e. pulling dynamically information when needed or being averted, we had to wait somehow for the "digitization wave" to hear more about dashboarding, agile programming and ergonomic apps. Still, this is about being aware.

Secondly, decision and action need to rely on a strong body of values, a fluent organization, and known processes. Many of those problems faced by the industry were rooted not in products, nor on bad models, but simply, on bad governance. Not to say the least. Without governance, inertia, overconfidence, greed (not just about money but other types of reward as well) might take the lead. If we couple this with (1) incompetence, and (2) the opacity due to the (desired) complexity of products and strategies, we can obtain a dangerous cocktail. Since the Brady Commission of 1988, many academics have come forward to globally say "don't blame the knife for the murder". Derivatives were used by some to take more risks, to disguise them, to create confusion between cash and exposure, to leverage positions. Others used them to mitigate exposures to be allowed to hold bigger positions, too confident on liquidity and forgetting that their model did not integrate human behavior. In front of them, we had naïve managers, who wished "someone knew", who didn't remember that there are no free lunches. Huge profits might not come without big risks. And risk not materializing into losses in the past are not a guarantee of no losses in the future, nor a proof that the person actually knows what he is doing. Or worse, it might be a proof he knows it too well. Many bank CEOs had to admit they were ignorant, not to admit they were just hoping to fool others a little bit longer. We had cases of insider trading, "smoothing of performance" between fund classes, structured products with maturities of 14 years sold to 90-year old grandfathers, client portfolios containing bonds and stocks of the same bank that manages them as major positions, bank mergers to cover astronomic derivative losses, agents growing their business certifying CDO^2 highly-rated based on the existence of a temporarily highly-rated credit enhancer and managers believing those certifications without examining the tangibility of the structures, bank selling products conditional on getting retrocessions on them...what else?

> **SURPRISING IS HOW MUCH SOME ACTORS WERE "SURPRISED" BY CRISIS IN THE PAST 60 YEARS.**
>
> Hugues Pirotte, Professor of Finance, Solvay BS, ULB

The result is today a financial profession which has suffered a lot, creativity in derivative structures that went down the drain, clients who do not want to pay for services now they are seen as a commodity, and a substantial amount of regulation that is "form over substance", which should have probably been designed by banks a long time ago but the latter didn't move until it was a "must have" imposed by the authorities.

The good news now. Technology, lessons learned, realizing that many financial tasks are actually administrative and can be automated, standardization of protocols and rules will bring a lot of transparency, efficiency and accountability. Of course, flexibility in creativity has suffered. On the other side, financial institutions are maybe now seen for the first time, as any other corporate firm. Let's hope regulators will also evolve, with smart regulations and smart contracts, where any issuer won't be allowed to issue prospectuses or new rules, without a public API that allows to value them. Let's be serious in our profession.

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REGULATION NEWS

MiFID 2

The reform of MiFID 1 resulted in major changes to investor protection regulations. With MiFID 2, this one is even reinforced and this, thanks to new rules of conduct more pointed. Banks that provide services are required to serve the interests of the client. For example, they should provide more information about the cost of an investment service, the independence of their investment advice, and the risks and strategy of their investment products. Investment services must be tailored to specific client groups based on their needs.

EACT GCA

EACT (European Association of Corporate Treasurers) has decided to join the GCA (Global Cyber Alliance). GCA is an international non-profit organization collectively confronting cyber risks and improving our connected world. GCA's mission is to identify systemic cyber risks where significant progress can be made on risk reduction and bring together the people and resources to identify and implement a solution, to take action and to measure the effect.

EMIR REFIT

EACT has proposed to exclude from reporting obligation all intragroup transactions where at least one counterparty involved is a non-financial counterparty (NFC). The proposal following the Commission's recognition that intragroup transactions involving NFC's do not contribute to the famous systemic risk, they initially pointed out. Conversely, central treasury and centrally managed intragroup transactions and hedging improve companies risk management.
The idea is to mirror internal transactions to external ones and/or to net total exposures to reduce the total volumes to hedge.

IFRIC 22

The IFRIC 22 has been published in order to clarify the transaction date to determine the exchange rate. It intends to interpret the paragraph 21 of IAS 21. It has been interpreted end of 2016 (published on 8th December 2016 "Foreign Currency transactions and Advance Consideration). However, it seems that it is worth coming back on this interesting interpretation issued by IASB (re. IAS 21)

SWIFT GPI

As you all probably know SWIFT GPI addresses some of the major pain points corporates currently experience when they initiate cross-border payments. For the first time, SWIFT bank users and corporate users met in London in end of November 2017. This ambitious project seems to be on good tracks. 125 banks have joined the initiative as of November 2017. There are 4 million of messages exchanged. More than 200 countries are covered representing 75% cross-border payments. The adoption curve will be exponential.

TAX NEWS

DIRECT AND INDIRECT TAX

Direct Tax
The Luxembourg tax authorities have released a new administrative Circular providing details on the issuance of certificates of residence for Luxembourg undertakings for collective investment (UCIs). The new Circular now covers Reserved Alternative Investment Funds (RAIFs) set-up in accordance with the provisions of the law of 23 July 2016. It also updates the list of double taxation treaties accessible to UCIs.

Indirect Tax
The draft law on the VAT treatment of vouchers distinguishes two types of vouchers: single-purpose vouchers, for which the supply of goods or services occurs upon each transfer of the voucher, and multi-purpose vouchers, for which the supply is deemed to take place upon the actual handing-over of goods or provision of services on voucher redemption.

NEW RTS FOR EUROPEAN AND INTERNATIONAL PAYMENTS

RTS impacts the business model and IT security strategy of the financial institutions in Europe as well as most activities in the risk, compliance, legal and operations departments. The standards apply to payment accounts accessible online, in accordance with the scope of PSD2. Therefore, the ASPSPs which provide online access to their clients' accounts need to offer at least one secured interface dedicated only to the communication exchange on their clients' payment accounts' data, in accordance with the SCA and communication requirements of the RTS no later than September 2019.

IFRS NEWS

IFRS 9 IS THERE

No one could contest that IASB in amending IAS 39 corrected numerous mistakes and difficulties created by the former financial instrument standard. IFRS 9 has corrected few imperfections of the former standard but has also tried to simplify some of the provisions (at least part of them) and to better align accounting rules and risk management strategies. With IAS 39, treasurers thought accounting principles were prioritized vis-à-vis financial ones. IASB has somehow intentionally (or not) helped putting the cart in front of the horses. Accounting consequences were often driving financial decisions. Isn't it peculiar?

TAX CUTS AND JOBS ACT

The Tax Cuts and Jobs Act (the Act), which President Donald Trump signed into law on 22 December 2017, aims to encourage economic growth and bring back jobs and profits from overseas by reducing US corporate income tax rates, creating a territorial tax system, allowing for immediate expensing of certain qualified property and providing other incentives. The article addresses the accounting implications of the Act for entities reporting under International Financial Reporting Standards (IFRS) and provides additional discussion on other accounting effects arising from the Act.

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