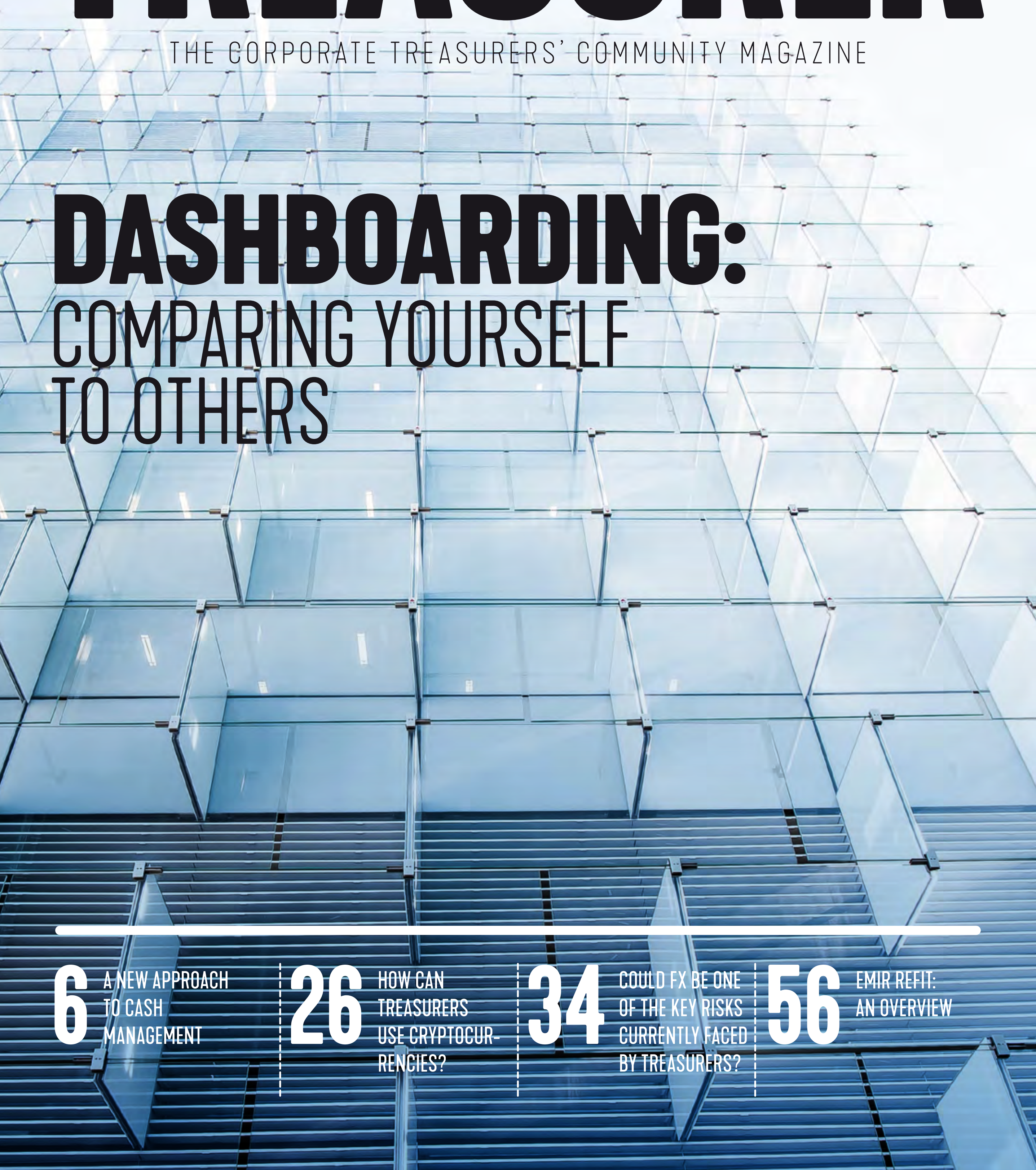
ATEL
Luxembourg Association
of Corporate Treasurers

MAGAZINE #101

# TREASURER

THE CORPORATE TREASURERS' COMMUNITY MAGAZINE



## DASHBOARDING:
## COMPARING YOURSELF TO OTHERS

**TREASURER**
**The Corporate Treasurers' Community Magazine**

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**#101**

# WHAT IF TREASURERS WERE NOT ROBOTIZED AS FAST **AS SOME FINANCIAL VISIONARIES PREDICT IT?**

At last conferences, the buzz word was the "robotization" of the treasury function. But can we realistically think that we will be replaced so quickly by treasury robots? I allow myself to doubt it. Before thinking for a moment to replace the man, i.e. the treasurer, by the machine, i.e. a robot, would it not be appropriate to standardize the formats and rules used? I think that in 2020-2022, the first taxis without drivers will circulate in urban cities. Some taxis may even fly. On the other hand, if the taxi will circulate without driver, I can guarantee you that the treasury department will work with a real (physical) treasurer. The time of automation and robotization will come, but after the standardization will have fully operated. It seems unlikely that a robot can work without more consistency, well-defined universally applied and rigor. So, why not? But not right now.

If I take the example of payment formats and information transfer related to these, we have the famous "XML – ISO 20022", which has as much sub-versions as banks on earth, and even within the same banking group it can be declined differently. In the USA or Australia, you will be told that nothing beats the "BAI2" format (better to use it if you want to recuperate payment details) and in Europe some banks only swear by the "EBICS" format, or even some more local ones as "ISABEL". It is to lose his Latin.

Which app to use to pay if you retail customers or to get pay? If you want to get a competitive advantage you need to offer a maximum payment method (up to a certain level). There is a multitude of applications and in this jungle, to make a path (i.e. way of the cross) seems to become a nightmare. Nothing is simple in this financial world; everything becomes more and more complicated, day after day. But is it not the simple, the repetitive, the formatted and the standard that can be automated? With the new IFRS 9 and changes to IFRS 7, for example, I challenge you to automate new additional reporting and disclosures required into your TMS.

No, definitely, the world of treasury and corporate finance becomes too complex and too diverse at this point to talk about robotics. Financial thought leaders mention that word while we are fighting every day to produce new reports and to get processes compliant. The machine has a time delay and when the harmonization will be in place, mechanization or robotics will then be possible on a large scale. Do not be (too) worried because somewhere this complexity and diversity is the best line of defense against the treasury machine and robots. These machines can beat Kasparov or the best Go players and even learn how to play at best in a few hours. On the other hand, the machine to replace the treasurers must still be invented.

I hope that we will be able to carry out our function for a long(er) time, even if I hear it coming. The profession of corporate treasury continues to evolve fast. It's up to us to adapt our role, our way of working and processes in order to stay as "employable" as possible without stressing unnecessarily.

**François Masquelier,**
Chairman of ATEL

# NATHALIE COFFRE (AMUNDI): A NEW APPROACH TO CASH MANAGEMENT

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**Ultra-low interest rates that have turned money market fund returns negative have prompted institutions and corporates to consider alternatives such as bond-based enhanced treasury solutions, says Nathalie Coffre, head of short-term fund solutions management at Amundi.**

**What factors have lied behind the development of enhanced treasury solutions?**

Investors who in the past parked mainly in pure money market funds have been looking for alternative solutions capable of delivering 0% or above since the funds' returns turned negative. This approach requires visibility on cash needs, since even in the MMF sector, there is no such thing as a free lunch – in order to obtain higher returns, clients have to accept higher volatility or higher risk. That's why we believe that splitting the cash bucket into three categories can provide clients with the best answer to their particular needs. There's cash to support daily operations, with an investment horizon of less than three months; operating cash allocated to M&A activity or to provide a backstop for daily cash, with an investment horizon of between three months and a year; and strategic cash for long-term funding, a very stable and often permanent bucket. We recommend different solutions for the three buckets: daily cash should be invested in pure MMFs, while for operating cash, asset managers can provide clients with ultra-short-term bond funds, so-called enhanced treasury solutions. The strategic cash bucket may be invested in absolute return funds or short-dated benchmark bond funds.

**Which major changes took place recently in liquidity management?**

Negative MMF returns have prompted growing interest among clients for enhanced treasury solution. In 2012, pure MMFs amounted to a total AUM of €595 billion in assets, compared with €18 billion for bond-enhanced solutions, while by March 2018 MMF assets had fallen 6.5% to €556 billion, while bond solution assets had grown to €45 billion. These figures indicate that clients worldwide continue to hold a substantial volume of assets in MMFs, even if returns are negative. This could be partly due to the fact that banks are charging some clients for balances in cash accounts. We also see that investors are extending the maturity of a small portion of their investments, accepting more volatility to achieve higher return. And since the beginning of this year we have noticed that in response to increasing volatility in financial markets, clients are taking profits and reducing their global risk exposure while investing in liquidity solutions.

> **ONE NOTABLE CHANGE IS THAT LIQUIDITY SOLUTIONS AND INVESTMENTS HAS BECOME MORE ATTRACTIVE AS AN ASSET CLASS FOR INSTITUTIONAL AND CORPORATE INVESTORS.**
> Nathalie Coffre, head of short-term fund solutions management, Amundi

**What other significant developments are taking place in the treasury field?**

One notable change is that liquidity solutions and investments has become more attractive as an asset class for institutional and corporate investors, having been largely overlooked in the past. Meanwhile, the EU's European Money Market Fund Regulation will become applicable to existing MMFs from January 21, 2019: the legislation, prompted by the 2008 liquidity crisis, will marginally impact variable NAV funds, whereas constant NAV MMFs will have to be changed either in ST Government C-NAV or in ST Low Volatility NAV (LV-NAV). In addition, central banks worldwide are working on reform of money market interest rate benchmarks, due by January 2020, in response to the Euribor rate manipulation scandal. The proposed replacement of the euro overnight index average (EONIA) by the euro short-term rate (ESTER) under the EU Benchmarks Regulation will have an enormous impact.

**Nathalie Coffre,**
head of short-term fund solutions management, Amundi

DASHBOARDING

# COMPARING YOURSELF TO OTHERS OR SELF-COMPARISON TO ENHANCE YOUR DEVELOPMENT, A GOOD FINANCIAL MANAGEMENT STRATEGY


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**In this article, the author explains why the concept of key performance indicators remains more a theoretical and virtual notion rather than a reality in most financial management departments of international companies. There are many reasons behind the frequent absence of dynamic dashboards… a plethora of software tools and sources, diverse and incompatible formats, variable schedules and availability, together with a lack of more palatable aggregators for the reader. He shares his perspective on the topic and provides ideas on what indicators to consider.**

### TO MEASURE YOURSELF IS TO MAKE PROGRESS

Measuring yourself through KPIs (or "key performance indicators") is a sound and recommended way to manage a financial management department. Though they are the subject of much discussion, ultimately very few take them on board and utilise them effectively. Ask any treasurer which KPIs s/he uses and you will be surprised by the terse and disappointing answer. Even worse, if you ask to see these indicators, you will draw a blank in many cases. This is because they either do not exist or are not systematised and generated automatically using the same format and the same tool. Or else, it is because the treasurer enjoys producing a lot of figures and reports, but forgets that simplicity and brevity are essential qualities when creating documents for the CFO or Audit Committee. We should not produce reports merely for the sake of reporting but rather to be heard and read. "What gets measured, gets managed" according to the well-known financial management adage. The KPI is a metrical indicator designed to measure management performance; it is a business indicator and ratio determining whether or not companies are making progress. It enables goals to be set for the treasury team and should be viewed as a useful indicator. If you are overweight but never weigh yourself, you cannot expect to lose weight. Only a mirror will tell you if you are on the right track. And if you do weigh yourself, surely you set a weight loss goal. How will you know if you are running faster if you don't time yourself over a set distance using a stopwatch? This seems so obvious and yet…

> **A "FIXED" AND CONSTANT MEASUREMENT TOOL WILL ALLOW YOU TO EVALUATE CHANGES, POSITIVE OR OTHERWISE.**
> François Masquelier, Chairman of ATEL

### THE TYRANNY OF KPIS

Be careful not to be dictatorial or produce an excess of KPIs, or fall into the trap of working alone. There is a kind of "measure mania" which can be counterproductive and which some companies have implemented based on Anglo-Saxon models. This is a self-assessment tool but also a potential way to compare yourself to your peers.

You need to shape your comparative data and keep it static or consolidate it over time in order to make a comparison with the past and view the changes. Even then, it is imperative to remember that you can only compare like with like. Therefore, a "fixed" and constant measurement tool will allow you to evaluate changes, positive or otherwise.
The choice of KPIs is also dependent on the company's strategy and financial culture. To each their own approach, according to their own specific criteria. What is important to me might not be so to a competitor. It is crucial to determine measures for improvement and be able to show this progress to management. This is also, therefore, a tool for self-promotion, something that I feel many people overlook. Without clear results, how will you demonstrate your contribution or added value? Knowing how to sell yourself in-house requires quantified KPI-type data.

### ASSESSMENT WITHOUT ADEQUATE COMMUNICATION MAKES NO SENSE

Calculating performance indicators without communicating them or determining actions based on them would serve →

no purpose and would be purely theoretical and an utter waste of time. Obviously, they will need to be revised and re-evaluated from time to time to see if they are still relevant. Measurement enables transparency. Why not communicate your results if they are good and share them with pride? While exposing yourself poses a risk, it offers an undeniable opportunity to give yourself an edge for once. The treasurer's focus is on producing figures and reports, but there is no synoptic reflection of their ability to perform effectively. To communicate well requires a contemporary tool, accessible to everyone from a smartphone and/or a PC, operating in real time to provide the most updated information possible. To be successful, you need a KPI strategy based around a limited number of KPIs, using light graphics, which are often more striking, and keeping key messages and recommendations succinct.

### SELECTION OF DASHBOARD INDICATORS

Once KPIs have been carefully selected, the most difficult challenge will be to deliver them in a semi- or fully-automated way. This is a different ball game entirely. The treasurer is frequently tasked with collating information and data and aggregating the results into a spreadsheet. Without access to an appropriate dashboard tool, nothing is simple. If no such resource is available, different documents have to be compiled in paper format or excerpts cut and pasted, proving difficult to read and without the option to rework them. It would be boastful to claim to have a complete "dashboarding" tool without an ad hoc ETF type tool, for example. A real dashboard can be consulted from your PC in real time, with the option to extract a specific figure or piece of information and in this way tailor a document to the reader's requirements. This is the hallmark of a proper dashboard, which allows us to work, analyse and make decisions. Anything else is nothing more than a set of useless aggregators without any practical application. And here I am speaking from experience accrued over a lifetime.

**"WHAT GETS MEASURED, GETS MANAGED" ACCORDING TO THE WELL-KNOWN FINANCIAL MANAGEMENT ADAGE.**

François Masquelier, Chairman of ATEL

### A DASHBOARD AS AN INTEGRAL PART OF FINANCIAL MANAGEMENT REPORTING

In the final analysis, the dashboard is an integral part of reporting operations. While we are constantly being reminded that we live in an increasingly digital age, surely it would be unthinkable not to have a KPI summary report available at any time. The response seems self-evident. The much talked-about and often mystifying "BI" (Business Intelligence) should be limited to automated, concise real-time production of custom-made dashboards. If a report is dynamic, and therefore non-static, it will take on its full significance and be a decision-making, forecasting tool.
You would be shocked at the incredible number of reports still being published by companies in paper or PDF format. Such formats prevent interaction between the producer of the report and its recipient. It is advisable to set the tool to include the option to raise "queries" so that the reader can achieve the degree of accuracy s/he is looking for. This very short information transmission time coupled with the option to view a document at any time will make a real difference and enable sufficiently prompt responses. Automation is also the best way to avoid mistakes and typos, incorrect imports and other mistaken overwriting of data. The perfect tool will ultimately allow simulation and extrapolation, which are the main purpose and function to be fulfilled.
A treasurer, at this point, will effortlessly become a financial wizard because no one will be able to generate summary tables as fast as they can. Time is a key factor as is versatility, which will enable unlimited work on the report. The small icon in the corner of your PC screen will make a difference if you can claim to provide access to it. Solutions do exist, as I can attest first-hand. What's more, they work. The tool must remain simple in order to be usable and understandable for a non-geek financial management novice. This cannot be like SAP, at the risk of giving the CFO a case of indigestion.
I am astonished by the number of treasurers who ask me what my KPIs are and what I would recommend. Surely this proves that if they don't yet know which KPIs to adopt, they are even less likely to know how to produce them. The key challenge is to first define what you want, how best to produce it, and lastly, where and how to store the underlying data for processing purposes (if additional processing is required). At the end of the day, with a good old Excel import, anyone can crunch numbers albeit with risk, sweat and significant effort. The reliability of the system and sources is crucial. Without this, the numbers can become counterproductive. It is a question of managing tools and interfaces efficiently. The ideal tool is flexible and adaptable; it is not necessarily a custom-made product but it is certainly not a "turnkey" solution. It is a flexible toolbox that will enable this aggregation in a single location and a single data form, static or variable, multiple or diverse, in different formats and from different sources. A real challenge that few tools can handle, at a decent price. If you really want to make a difference, you can achieve it with this type of tool.

### THE SPREADSHEET, STILL THE MOST FREQUENTLY USED TECHNOLOGY

We have to acknowledge this paradox, which I have mentioned several times: despite our talk about technological advances, "Business Intelligence," "cloud solutions" or other robotic processes, the spreadsheet is nevertheless used more than ever before. Doesn't this represent a paradox of sophistication? Excel is the solution to everything, the treasurer's Swiss army knife, the tool used consistently to consolidate dashboard data, either manually or semi-automatically where required. Nowadays anything can be exported from any tool in XLS format. Could the treasurer survive without Excel? One might well doubt this, and although it is a wonderful tool, it is unfortunately a dangerous weapon because it is not very reliable. Ask certain big banking institutions what they think. Underlying the practices of the London Whale, there were also calculation errors committed in Excel. All too often, columns are hidden rather than deleted and an absence of documentation makes them inaccessible. Excel's strength is also its greatest weakness and there is a high price to pay for this flexibility. Would it not be better to ask an IT specialist to help create a dashboard rather than an XLS specialist who can turn their hand to anything until things get too technical…? It resembles, to some extent, a cancer within financial management departments when a dashboard is inadequately designed or where there is a failure to apply discipline when using it.

**THERE ARE MANY DIFFERENT TYPES OF KPIS. IT IS UP TO YOU TO DETERMINE WHAT IS OF MOST INTEREST TO YOU DEPENDING ON YOUR BUSINESS CONTEXT AND CULTURE.**

François Masquelier, Chairman of ATEL

### WHAT DO WE MEAN BY "KPI"?

There are many different types of KPIs. It is up to you to determine what is of most interest to you depending on your business context and culture. The attached list is a guide that I often recommend to anyone unsure of how best to tackle this type of project.
I hope that at the very least, it will give you an idea about useful indicators. Take the test to find out if you can produce indicators with ease (though certain data or ratios are relatively static for accounting reasons). If you cannot do so, you need to rethink your dashboard. Also, don't forget that visuals are essential. Something that's pretty and appeals to the eye will interest the reader. Don't forget that "form" (though purists may find it unfortunate) is as important as "substance". Since reports and financial management tables or those taken directly from TMS are unpalatable, cumbersome and not very readable, a "sexy" and attractive report will keep the full attention of top management. Emerging from the ranks is a way to raise your profile within the Finance Department. Generally speaking, treasurers are not known for producing attractive reports, even though this would earn the respect and interest of intended recipients. I would strongly encourage you to review your dashboard strategy and take your skills to the next level by judiciously carving out a specialism for yourself within the company's finance department. This is a challenge within the capabilities of every ambitious treasurer.

**François Masquelier,**
Chairman of ATEL


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# REAL-TIME AND INSTANT PAYMENTS

### "INSTANT" THE BUZZ WORD

All those who were at last SYBOS in Sydney told us that the buzz word was centered around the real-time payments. It is crucial in a world where Treasurers must manage liquidities more efficiently and in real-time too (ideally). It is a perfect way to create and optimize value.

In an environment where domestic payments and even now cross-border payments (with the new SWIFT gpi), together with new technologies and API's (i.e. Application Programming Interfaces) became prevailing, we, treasurers have with our bank partners opportunities to enhance business processes and to operate in a more real-time mode.

### ALL DRIVERS ARE IN PLACE

The regulatory environment (including PSD2 and open banking) has never been so favorable for developing the instant payment. There are already numerous schemes launched in Europe and even live now. Others are coming soon. SWIFT gpi is there (at least for FIN messages) and therefore treasurers are expecting more speed in payments in general. Businesses are evolving often towards B2C

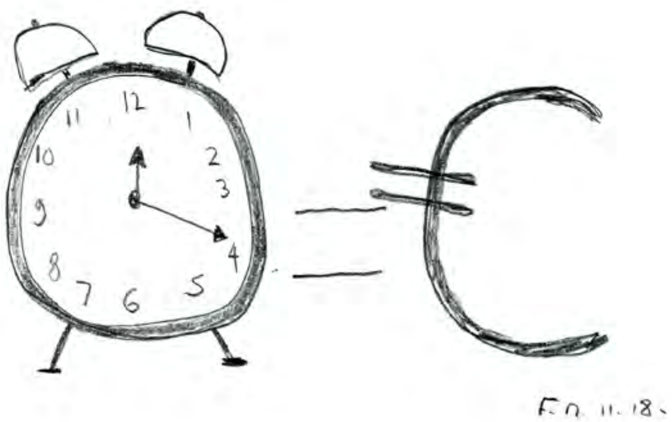

models. The young generations and the "Z" are coming urging for faster and easier methods of payments. The technical infrastructure with high speed internet and smart phones were also a pre-condition for a large adoption by →

**SUCH SOLUTIONS COULD GIVE A COMPETITIVE ADVANTAGE TO BUSINESSES.**
François Masquelier, Chairman of ATEL

end- users. There is an objective for cashless in medium term from some States. There is also from young users side a real aversion for cash and a clear preference for virtual or electronic currencies. The cash could be easily replaced by instant payments. With Alibaba and Amazon, among others, customers are expecting deliver at point of sales. Eventually, API's are emerging with numerous FinTech's trying to partner with banks.

### INSTANT LIQUIDITY MANAGEMENT

Liquidity management remains key for all our treasury peers. The immediate access to liquidities and cash is becoming important. The velocity of liquidities became over years a major focus for treasurers. They are keen to cooperate with their banks to find optimized solutions, if any, to better and faster access their liquidities. At the same time, API's are now offering fantastic occasion to give customers as well as treasurers customized solutions fitting to their specific needs (customers want faster and secure means of payments and new methods, where treasurers want to access cash more quickly and ease reconciliation processes).
More customized added-value to customer should be the motto of all banks. Unfortunately, not all are doing so and proposing these expected solutions. The market infrastructures will have to move too towards more "real-time" scalable solutions. Isn't it a joint journey we should make together with our bank partners? The way we have worked on SWIFT gpi for example, could be duplicated for other solutions and API's developments. Let's try to standardize instant payment solutions, like in the USA with the ZELLE initiative, which seems to be successful.



### INSTANT PAYMENTS ARE TAKING OFF

There is a momentum towards faster payments. We of course need interoperability between operators, platforms and gateways. We all dream about a 24/7/365 payment solution. Such solutions could give a competitive advantage to businesses. The liquidities will have to be managed differently and interests calculated on intraday basis rather than on daily basis. The current systems and tools are not set up for such multiple interest calculations on during the day.
We can remain optimistic. The current ecosystem and context are perfect. All drivers are there to enable immediate payments to become a European reality. It will give a fantastic opportunity to corporate treasurers to better serve operations and businesses". With payment on delivery, immediate receivables and payment at point of sales, we remove the cut-off times constraints and enable instant liquidity management, even if it requires systems and bank interest calculation.

Immediate payments will enable reduction of credit risk, accelerate freeing of customer's credit limits of customers, improve client satisfaction, facilitate trade, allow clients to pay against delivery without penalizing sellers. It will be useful for customers having no access to credit cards. It mitigates credit risks. It removes risk of refunds, as on cards. The company will receive an immediate confirmation without need for MT 103 messages. Instant payments are the way to further optimize working capital by enabling sellers to immediately reuse funds within 10 seconds. The velocity of liquidities becomes the major focus for treasurers.
However, good news, the treasurers are keen to cooperate with their banks to find optimized solutions. API's are offering fantastic opportunities to offer customers and treasurers customized solutions fitting to their specific needs.
We are entering a new era of liquidity management, the next generation. Of course, it is interesting for treasurers having lots of volumes of collections from retail activities. Interesting to introduce payments at point of sales. The current cap can be an issue but should increase over time (the limit of EUR 15k should be reviewed in future).
As said by Benjamin Franklin: "Time is money", therefore the faster the payments are collected the better for businesses and treasurers.

**François Masquelier,**
Chairman of ATEL

FINTECH

# HOW WILL DIGITAL DEVELOPMENT IMPACT **THE RECRUITMENT PROCESSES?**


**Brice Kempf, Head of Marketing, Skeeled says digitization is re-shifting human resources in Luxembourg, facilitating recruitment processes and increasing employee retention. Interview.**

**Do you think the digital revolution will radically change the recruitment industry?**
Yes, I think so. We are only at the beginning of a new era, and this revolution will deeply change all industries including human resources and recruitment processes. Historically, HR departments are a bit late in terms of digitalization, but things are moving forward especially in the recruitment processes.

**What is the current situation of human resources departments in Luxembourg?**
Well, the situation in Luxembourg is not ideal regarding the digitalization of processes in HR. You cannot imagine how creative some people are to avoid using dedicated tools. During our journey, we have met professionals from well established companies, who were still working with excel files and paper sheets! But we have also met conscious professionals aware of their lack of efficiency willing to change. It's an encouraging indicator for us but also for Luxembourg. If recruiters are adopting best practices and better solutions to attract more talents, it's the whole country that will benefit from that. There is still a lot of room for improvement but for now it's moving in the right direction.

**How do you convince them to invest in digital solutions?**
Savings! Of course, that would be the best argument, because digitalization will lead to automation of processes which means savings in time and money. But it's a bit limited. We could also talk about the increase of productivity and efficiency leading to better results in terms of recruitment and employee retention. But the best argument would probably be that using a digital solution will bring new processes deeply improving candidate and employee experience and finally impacting employer and corporate branding. Human resources professionals must keep in mind that their recruitment platform will be the first point of interaction between their brands and their future employees. Neglecting this would strongly affect their talent acquisition strategies.

**Concerning AI, do you have any use cases in mind that could illustrate the future of recruitment?**
Recruitment processes will be automated a lot more in the next few years with the arrival of artificial intelligence based software. These kinds of tools allow HR departments to identify the best candidates out of hundreds of CVs in one click. CV screening will be history as much as classical interviews. Video interview tools are already strongly changing the way we interact with applicants. Instead of organizing costly and time consuming onsite interviews, recruiters will be able to digitalize interviews meaning that a lot more candidates will be allowed to access this sensitive step of the recruitment process. And finally, software will once again screen and analyze the videos to get the best candidates out of the mass pushing them to the next steps. All these digitalized steps will deeply improve the quality of the recruitment process leading to more qualified candidates and better understanding of their soft skills for recruiters.

**What about personal data and GDPR compliancy? Will it impact the way companies deal with recruitment processes?**
GDPR is a very positive signal sent to European citizens. With this law, Europe has proven that it can still act as a world leader in a major societal issue. HR departments have to deal with very sensitive personal data and it is clearly an important question when moving from one process to another especially if it involves digital solutions. Major software providers for the HR industry (including skeeled) have largely anticipated this regulatory change. European lawmakers had announced the upcoming law a long time ago giving them enough time to adapt and comply. For HR departments using a digital solution already, this change will be easy to face as most of the adaptations will be assumed by software providers directly. In fact, we could almost say that HR professionals working with digital processes will be the first and the most GDPR ready.

> **FOR RECRUITERS, DIGITALIZED STEPS WILL IMPROVE THE QUALITY OF THE RECRUITMENT PROCESS LEADING TO MORE QUALIFIED CANDIDATES AND BETTER UNDERSTANDING OF THEIR SOFT SKILLS.**
> Brice Kempf, Head of Marketing, Skeeled

**What advice could you give jobseekers?**
Stay humble but challenge your recruiter. We know that the younger generations are looking for jobs where they will be able to unleash their full potential. It means that they want to decide where, when and how they will work. Of course, only few companies are providing such working conditions, but employers have understood that they have to change in that direction and it will have a positive impact for all generations. Another advice would be to get regular trainings to adapt to evolutions in the market, especially when it comes to soft skills. These skills are probably the last that will be replaced by artificial intelligence!

**Brice Kempf,**
Brice Kempf, Head of Marketing, Skeeled

FINTECH

# FRANK ROESSIG (TELINDUS): THE HISTORY OF BLOCKCHAIN

**Frank Roessig, Head of Digital Solutions for Finance at Telindus, provides a comprehensive explanation of blockchain evolution, its applications and the outlook of this developing technology. Interview.**

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**What is blockchain?**
Blockchain is a technology that was developed to allow data and values to be transferred in a secured and authenticated manner. It consists of three components: an immutable chain of information that cannot be altered over time, which means the history of a chain is permanently recorded; a consensus mechanism that defines how we get from n to n+1; that is, a set of guidelines which determines the contributions made and agreed upon by all the participants in the chain; and a distributed record or "ledger" on which all of that information is stored and shared.

**Is blockchain new technology?**
No, blockchain has already been with us for over a decade now and is founded on technological components that date back to the 90s. In fact, we are already at the third generation of blockchain. The first generation was Bitcoin. The Bitcoin blockchain was very important because it solved the "double-spending" problem – that is, it made sure that you can spend 1 euro only once not twice. The second generation was Ethereum blockchain and its smart contracts. This introduced the notion of conditionality for the transfer of values.

**BLOCKCHAIN IS ONLY IN ITS INFANCY. TIME WILL TELL JUST EXACTLY HOW IT WILL REVOLUTIONIZE THE WORLD.**
Frank Roessig, Head of Digital Solutions for Finance at Telindus

Smart contracts allow for complex transactions, such as the transfer of money or assets, letter of credit, etc., in a transparent way without involving an agent or go-between (lawyer, broker, etc.). Third generation blockchain, like Stellar and Hyperledger for example, enable tailorable trust and scalability. Confidentiality and speed are especially important in business and these blockchains permit one to choose who can approve transactions. They allow for a permissioned blockchain environment with only authorized people. Other new blockchain such as EOS and Steem are working on making the blockchain network more interconnected like the World Wide Web. They believe that this increased communication between different blockchain networks will lead to better function and operation of the whole.

**What do we use blockchain for today?**
Today blockchain is used predominantly for payments. But increasingly, it's being used for the transfer of complex assets bilaterally or via exchanges. Blockchain also makes it possible for multiple signatories, like a board of directors, to sign an electronic document simultaneously instead of having to transfer the document to each person and record the signatures in sequence. Other examples encompass the operation of shared plus mutually endorsed KYC, shared Power of Signatures, the traceability of nutrition, art or mechanical pieces and document notarization. All these examples are driven by cost reductions, swifter execution and transparent plus collaborative processes. The successful development of blockchain use-cases is based on the agile partnerships between the actors of a value chain. They advance together step-by-step in building new solutions that entail benefits for all participants.

**What future potential do you see for blockchain technology?**
The possibilities of blockchain are limitless across many sectors like financial services, governments, logistics, transport, manufacturing, media, telecoms, etc.
Users will have to ensure that solutions founded on this technology are secure, scalable and valuable. Secure, in terms of data integrity as well as operational resilience. Scalability entails the capacity to process huge quantities of transactions, do so instantly and with large data blocks. Valuable, in the sense that blockchain will significantly improve operational efficiency. But those solutions will also open the opportunity to launch innovative business models, based on micropayments, collaborative work and shared traceability.
Here, the only limit is our creativity...

**Frank Roessig,**
Head of Digital Solutions for Finance at Telindus

FINTECH

# VIRTUAL ACCOUNT:

## A FURTHER OPERATING MODEL FOR CASH MANAGEMENT

**In the era of just-in-time global supply chain operations and a shorter time-to-market, corporates are under increasing pressure to be more efficient and their expectations from banks are changing as a result. Increasingly real-time data on the global cash positions and the capability of moving monies intraday is the requirement that corporates raise to treasurers to support this changing business environment.**


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On their side, corporate treasurers need to improve efficiencies through automation of accounting, reconciliation and cash management processes, as they are always expected to do more with less budget, less resources and so on.
In particular two are the central challenges corporate treasurers face today:

- Obtaining real-time consolidated information of group multi-currency cash position in order to optimize the financing mix and duration of funding against expected and actual cash flows
- Optimizing the automation of order-to-cash and purchase-to-pay cycles, reducing the administrative workload through a straight-through-reconciliation of cash to accounting around 100%.

Traditional global cash management solutions are based on pooling structures and sweeping techniques to physically consolidate cash in a layer of concentration accounts. At a basic level, such services are not available in all markets due to national currency control: regulation is driving the need for smart, innovative solutions, yet 80% of bank IT budget on average is tied up with legacy system changes, which makes no obvious contribution towards customer value. Instead of using sophisticated pooling techniques that physically move money end-of-day in order to adapt to a corporate's fractured account landscape, under the Virtual Account Management (VAM) model corporate cash remains naturally concentrated in a small set of corporate current accounts but without sacrificing transactional operating functions of the subsidiaries. Virtual account is not a new concept, since virtual accounts have been in the market for around 20 years serving specific purposes for corporate and SME customers, although many of the ways in which it is being used are new. It is under continual development, and as such its uses will extend and expand. End-users are more self-sufficient as they can design and structure their virtual accounts in real-time outside the traditional banking environment and processes.

**TRADITIONAL GLOBAL CASH MANAGEMENT SOLUTIONS ARE BASED ON POOLING STRUCTURES AND SWEEPING TECHNIQUES TO PHYSICALLY CONSOLIDATE CASH IN A LAYER OF CONCENTRATION ACCOUNTS.**

Luca Grisot, Cash & Liquidity Manager

### DEFINITION

Virtual accounts are a series of off balance transaction accounts which can be incorporated into various forms of hierarchical structures. A group of shadow account in the top of the virtual account structure is linked to and mirrors the physical accounts per currency. Using shadows accounting techniques, VAM maintains synchronization of transaction allocation and balance control between header and virtual accounts, as well as between the header and mirrored demand deposit accounting. In other words, virtual accounts are a series of accounts linked to a physical account and incorporated into various forms of hierarchical structures enabling aggregation and segregation of transactional data. Virtual accounts are mechanism to improve straight through reconciliation of receivables for corporate clients. Under such an offering a bank →

would open a series of dummy IBANs for its client. Underlying each of these virtual ibans is a real physical account to which the payments made to these virtual accounts are routed. With this arrangement in place, the client then has the flexibility to assign these ibans to its individual suppliers, so that when a supplier makes an electronic payment it would automatically go into the relevant virtual account.

### APPLICATIONS OF VIRTUAL ACCOUNTS

Virtual accounts can have a wide range of application, such as:

- Payment and collections can be executed on-behalf of in a virtual account set up. In particular corporates could open a virtual account per entity managed centrally for which collections are booked by
- Virtual Account Management can be used to set up virtual accounts on payer level (or even invoice level), enabling a fully automated reconciliation process, with enhanced reporting to ERP solutions (e.g. telecommunication or energy companies assign one virtual account to every customer in order to make better and easier the reconciliation process. As a result, the company could have millions of virtual accounts depending on the number of direct customers)
- Multi-entity liquidity management avoiding cash pooling structures
- Optimization of multi-entity funds
- Inter-company lending
- Interest apportionment
- Assignment of one virtual account per supplier, geography, using the receivables information from the account statements to help them achieve improved working capital efficiencies.

### PLUS/BENEFITS

Many are the advantages that a virtual account can help to achieve:

- Increase revenue - Deploy working capital effectively manage risk better and improve organizational resilience
- Cost cut - by reducing banking and account management fees and staff time spent on payment related admin. Virtual accounts eliminate the cost of opening and closing physical accounts by theoretically reducing the number of accounts to few centralized ones. This helps corporates in the reconciliation management and improved credit control due to availability of timely and accurate reconciliation of collection information
- Improve business - Improve reporting, decision-making, productivity/efficiency and automate repetitive tasks
- Rationalization of accounts and banking relationship – VA simplify overall cash management in the customer's organization by reducing number of bank relationship and help centralize multi-entity cash
- Substitute for cash management offering - Virtual account offers a great value proposition for large corporates which do not have an in-house bank/treasury center, as virtual accounts offer a far cheaper alternative option. In particular VA are a viable alternative to notional pooling products as no balance set-off by the bank is needed as cash is only located on the current account
- Centralization of treasury functions – Virtual accounts eliminates the need to maintain an extensive network of physical accounts, while at the same time providing transparency to the working capital positions.

**TRADITIONAL GLOBAL CASH MANAGEMENT SOLUTIONS ARE BASED ON POOLING STRUCTURES AND SWEEPING TECHNIQUES TO PHYSICALLY CONSOLIDATE CASH IN A LAYER OF CONCENTRATION ACCOUNTS.**
Luca Grisot, Cash & Liquidity Manager


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**TO IMPROVE RECONCILIATION EVEN FURTHER, ACCOUNTS CAN BE CREATED AT A PAYER OR EVEN INVOICE LEVEL WITHIN A VIRTUAL ACCOUNT STRUCTURE.**
Luca Grisot, Cash & Liquidity Manager

To improve reconciliation even further, accounts can be created at a payer or even invoice level within a virtual account structure. The payer will then use this account number when the invoice is paid. The account number itself will function as a reference in such set-up, improving the reconciliation to new levels of accuracy. If the system is self-learning, it can match payments automatically to outstanding invoices. It can also propose allocations based on previous payments and recurring actions, if the payer does not provide full remittance information. This helps automate repetitive tasks.

### VIRTUAL ACCOUNT STRUCTURE: AN IMPORTANT DECISION

Virtual accounts are one of the hot topic in the current cash management bank offer. The structure of accounts can vary significantly between banks, countries and the choice depends on the needs of the corporate subscribing the service. Some bank can open the master account in one country and virtual accounts in other countries and this virtual account could be in the name of a third company. This model fits the needs of corporates wishing a centralized management of customer collections through a collection factory, without impacting the "customer experience" (the customer would pay in one account of the supplier and in the same country, but the cash would be directly managed by the collection factory, with big advantages in term of real-time management of information). Some other bank can open a master account and virtual accounts in the same country, but the virtual account can be open in name a third company, like a subsidiary of the group. Same as above, the advantage is an unchanged "customer experience" in term of supplier name, but the account could be located in a different country to that of the customer. Finally, banks propose a certain customization in the account number definition, allowing the allocation and the opening of millions of accounts for one corporate, very useful especially when the virtual account is intended to manage collections for public utility corporations: in this case a virtual account is allocated to one specific customer and this improve the straight-through-reconciliation process.

**Luca Grisot,**
Cash & Liquidity Manager

BRUNO MELLADO AND CHRISTINE GUILLAUMET (BNP PARIBAS):

# THE INSTANT "REVOLUTION"

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**Christine Guillaumet and Bruno Mellado from BNP Paribas believe that instant payment will revolutionise corporate treasurers' daily lives. Interview.**

**How would you assess recent developments in the payment field?**
With the creation of the new instant payment standard in Europe, we have for the first time a payment instrument with immediate execution. Corporate treasurers can now carry out payments at any time of day or night, all year long, without any cut-off time. They can now manage payments and ensure money is exactly where it needs to be, at the precise time required. At the same time, they can also become beneficiaries of instant payment at any moment, including during weekends, which will require them to adapt their processes in order to meet clients' expectations, enhance their treasury performance, and overall take advantage of all the opportunities that this new standard unlocks.

> **CORPORATE TREASURERS CAN NOW CARRY OUT PAYMENTS AT ANY TIME OF DAY OR NIGHT, ALL YEAR LONG, WITHOUT ANY CUT-OFF TIME.**

**What risks and opportunities do you identify?**
Let's start with opportunities. These can be divided into two main categories. First, treasury today is empowered to act as a business enabler with new means of payment. The possibilities are endless: getting paid faster, benefiting from the certainty of the transaction, reducing delivery delays and friction throughout the entire value chain. More importantly, it can radically enhance clients' experience and increase one's differentiation from competitors. Secondly, instant payment requires treasury to redefine its processes to optimise liquidity and internal processes, while coping with the challenges of dealing with payments around the clock. Finally, on the risk side, I see three main issues. The first relates to the speed at which players across Europe embrace this new standard. Reaching critical mass is essential for treasurers and their clients to use instant payment as their newly preferred means of payment. The second aspect concerns potential abuse, which require real-time defense mechanisms and a fast learning curve. Lastly, convergence around a few standard tools to equip business and consumers is necessary to lock in wide acceptance throughout Europe.

**What case studies would you put forward?**
We have three main cases in mind. First, an e-commerce player can now ship goods and services a few seconds after receiving the payment, with the certainty that the money will stay in its account. These transactions are accessible to clients without credit cards and outside card limits. Secondly, I think of a corporate treasurer in an insurance company. Not only can they empower their colleagues to instruct immediate payment while the client is still on the phone, but they can also arrange for all salaries to be paid at the date and time of their choice. Accuracy will be within 10 seconds, even on January 1. Finally, a restaurant owner who needs to pay on delivery for fresh food for the weekend can do so with one click, just in the same way as when booking a hotel room online. This solution is particularly relevant in cases where counterparty risk is an issue.

**DOWNLOAD**
THE WHITE PAPER

**Bruno Mellado,**
Global Head of Payments and Receivables, BNP Paribas

**Christine Guillaumet,**
Deputy Head of Payment offer, BNP Paribas


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# HOW CAN TREASURERS USE CRYPTOCURRENCIES?

**Bitcoins and other cryptocurrencies are increasingly accepted in the mainstream. This article focuses on how they are perceived and their potential translation into the treasury field.**

> **THERE IS A "FASHIONABLE" EFFECT, WHICH SOMEHOW DISTORT THE PERCEPTION AND REAL POTENTIAL OF CRYPTOCURRENCIES.**
> François Masquelier, Chairman of ATEL

### ARE CRYPTO-CURRENCIES "CURRENCIES"?

With crypto-currencies, we treasurers have a first hurdle to cross: are crypto-currencies "currencies", like real ones issued by central banks and regulated (e.g. EUR, USD, GBP, JPY, ...)? That's a first question we need to answer. I am afraid no one so far has succeeded in answering this key question. A currency must be fungible and exchangeable. Here, with crypto-currencies the high volatility and risk of illiquidity are so high that no one could claim he/she will recuperate all the value (at the instant "T", whatever the exchange rate). However, no one could pretend it is not exciting and something to be further contemplated and explored. For once since the EUR, we have potentially a new currency to manage and therefore new risks too. Of course, it could be time to reconsider bitcoins and other similar currencies as they are increasingly accepted in the mainstream. It can


offer opportunities (but risks too) to open new business to new customers and to give the company a competitive advantage on peers. The meteoric evolution of bitcoin value in the last months and volatility were not factors to encourage the usually conservative treasurers to consider (i.e. volatility reached 15 the one of USD/EUR currency pair). Even if the move from the realm of the dark web into the light they remain a peculiar currency to manage. I don't think it could be used for large transactions but rather for small deals and tiny payments. As for lots of services, the new "Z" generation may change the future and shape the recourse and development of these new currencies. I do believe there is a "fashionable" effect, which somehow distort the perception and real potential. This is also a new paradigm and we treasurers are leaving our comfort zones. But in case a customer asks for paying in Etherium, we need to be able to answer to our commercial officers. I am not sure we are all prepared to answer positively. We all see some of the benefits of such currencies but are skeptical about the effective generalized use of them we could face soon. It may come but maybe later or more gradually. Now we are all looking for transparency, we have heavy KYC's and should demonstrate how clean we are, we plan to use currencies with anonymity, which makes them complicate to understand. Nevertheless, behind the currency there is the technology of so-called block chain which is fascinating. Have you noticed that Santander, a bank, used it for investor's vote? They used online ledger to produce shadow register. Was it a digital coup? They were the first to use block chain to make it easier for investors to vote at an annual meeting. Well done! The alternative uses of such a smart technology offer an incredible potential and infinite possibilities. I believe more in the technology than in the crypto-currencies, at this stage.

### STABILITY FOR BEING SUCCESSFUL

To be successful it needs to be more stable, demand should grow overtime, the anonymity should not be used by fraudsters and criminals, hidden behind to this →


potential laundering machine. Regulations must have to be adjusted and these currencies will need a more solid framework to be more largely used. It is a paradox isn't it? A currency created by Libertarian which will require more regulation to frame it. Where is the famous Libertarian aim of Nakamoto when he created the Bitcoin? Furthermore, the legal status of these currencies and more specifically Bitcoins have been treated differently in some countries (e.g. China). As legal framework varies from country to country and as it is still evolving and undefined, it creates an additional hurdle for treasurers. Ideally a currency must be accepted by all (of course again depending on the exchange rate when it is used to pay). Some countries authorize the use and trade of these currencies when some other restrict or prohibit them. Therefore, treasurers must put forward the case for using blockchain in the day-to-day operations and weight the benefits and potential drawbacks. Obviously, the cost can be a key element. Banks could be reluctant to these changes given the impact on their P&L statements. One of the question, will remain the hedging of such currencies. Would it be possible to hedge them and how? It is maybe too early to consider these hedges. However, the question will come and be raised sooner or later. No one can pre-estimate over time the degree of acceptance of crypto-currencies as a (new) form of payment. It is particularly complexified by the current payment (e-payment) revolution we are facing and the enforcement of PSD2 which open the Pandora box of banks to all players. Corporates want more transparency, more efficiency, less costs and faster payments (especially for cross-border ones). Even SWIFT is moving on cross-border payments with GPI. The well-known economist Milton Friedman said: "People accept these pieces of paper because they are confident that other will". If not, no one will use the currency. A green note in USD has value because many people think they have the value the market is given them and furthermore, over time everybody's experience these notes have had value. It is a question of faith and trust.

**NO ONE CAN PRE-ESTIMATE OVER TIME THE DEGREE OF ACCEPTANCE OF CRYPTO-CURRENCIES AS A NEW FORM OF PAYMENT.**
François Masquelier, Chairman of ATEL

### TIME TO START CONSIDERING CRYPTO-CURRENCIES?

We keep thinking it is at least time to consider paying some suppliers using crypto-currencies. Of course, the list is long with the RIPPLE, BTCCash, Bitcoin, Etherium, Litecoin, Dash, Dogecoin, Monero, etc… but some of them could/will survive. A consolidation of some of these virtual currencies will come sooner or later. There is a sort of infatuation around virtual currencies or maybe the fear of missing out which can explain the appetite for them. The secret hope of making easy money too, I must confess. However, we should not completely reject them for our B2C businesses. We know advantages they offer in countries where we have exchange controls, extra-costs or charges and long time before being paid. It is not the starting point as there are enough reasons making hard to move them up on our treasury agendas. Furthermore, the current underlying volatility makes it even more complicate to initiate. CFO's hate volatility, as we all know. Eventually our IT systems are not yet fit to handle and book such currencies. We need time to stabilize and consolidate the market before having a real case for all of us. It is a question of time, I guess. With instant payments, the notion of speed comes back. In a future cashless world, everything will change and with new generations having appetite for all what is safe, cheap and fast will push suppliers to offer crypto-currencies, whatever their views on these currencies. In my views, the distributed ledger will paradoxically offer lots of solutions we do not even thought about yet. The technology, as for post-it will be developed and reused but for other purposes than a virtual currency. It will be the perfect example of a new use of an old(er) invention (e.g. Post-it, dynamite, Teflon, Sarin gas, etc…). At least it has a lot of attention from treasurers. Some countries are already working with them to move cash. Estonia could be the first out of the gate with digital token backed by the euro. Maduro in Venezuela issued Petro not as a gimmick but a way to circumvent some sanctions. Therefore, no one could contest the benefits this crazy idea and currency will have on our life's. The excitement of banks for block chain derived technologies is not the same as the one shown by corporates. The pressure on banks is also much higher to define their future services and they way to deliver these services to customers potentially through new technologies. Solutions have already emerged and are emerging in trade finance, payments, KYC, reconciliations, loans, etc… No one would dare to claim it is the panacea for remedying to all our problems. It may solve at least some of them in future. Regarding crypto-currencies, they potentially may not survive. Nevertheless, smart contracts and distributed ledgers will have in the meanwhile revolutionized the financial world and beyond. In the payment area, nobody could contest the success of RIPPLE, for example. There are many others. Costs and real-time execution are the 2 key assets in terms of payments. Even banks, market infrastructures and SWIFT use this technology, which is gaining traction. Bitcoin was the (unvolunteered) trigger of an undeniable and historic technological revolution. It will be remembered for a long time that Bitcoin (which will have disappeared likely meanwhile) has brought to the modern financial world. The "fourth wave" or the "new industrial and digital revolution" were probably launched in 2008 with the creation of this currency. Technology will survive the virtual currencies to the point that we will probably forget them despite everything that Bitcoin has brought us collaterally / indirectly. It will have launched a digital revolution its creators did imagine at that time. Nakamoto will have more influence on modern economy than Adam Smith or Milton Friedman. The future is uncertain but bright with such a technology and we are far from having seen all its potential. The best is to come.

**THERE IS A SORT OF INFATUATION AROUND VIRTUAL CURRENCIES OR MAYBE THE FEAR OF MISSING OUT WHICH CAN EXPLAIN THE APPETITE FOR THEM.**
François Masquelier, Chairman of ATEL

**François Masquelier,**
Chairman of ATEL

SEBASTIAN ROJAS (SWIFT):

# PAYMENTS WITHOUT BORDERS

**Sebastian Rojas, Head of SWIFT gpi for Corporates, says the gpi brings a dramatic transformation of crossborder payments processes for corporate treasury.**

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> **CURRENTLY MORE THAN 300+ BANKS HAVE JOINED GPI AND 100+ OF THESE, WHICH HAVE ALREADY INTEGRATED IT INTO THEIR SYSTEMS, CAN PROVIDE SAME-DAY PAYMENTS AND IMMEDIATE RESPONSES TO QUERIES.**
> Sebastian Rojas, Head of SWIFT gpi for Corporates

**Why did SWIFT create a payment tracking solution for its network?**

Change is coming to cross-border payments with local markets going real-time and regulators advocating for transparency with initiatives like the EU's PSD2 making open banking a reality. Why should international payments take three, four or more days compared with seconds for everyday retail transactions; and why are the payments made by corporations across the world so hard to trace? We initiated discussions with the community to analyse the obstacles that corporates faced in their cross-border payments business and decided how to best tackle them by minimising friction and improving payment processes. We needed to take in consideration the business processes in different countries and regions to ensure same-day payment services. It is not replacing one technology with another, but addressing the key problems with a pragmatic and scalable approach.

**In concrete terms, how can corporates use gpi?**

Currently more than 300+ banks have joined gpi and 100+ of these, which have already integrated it into their systems, can provide same-day payments and immediate responses to queries. Furthermore, leading cash management banks are starting to integrate gpi into their e-banking portals, enabling corporates to track and trace payments, including details such as routing and transaction cost. Fifteen banks now provide this functionality to their customers, passing on the transparency directly to their users.

**What impact will gpi have on corporates that use multiple banks?**

SWIFT is working with corporates, banks and treasury vendors to define gpi multi-bank standards supporting FIN and ISO messages. The big change for corporates is the ability to generate a gpi tracking number (unique end-to-end tracking reference – UETR) at payment initiation and the possibility of receiving harmonised gpi tracking statuses from all their banking partners directly in their treasury systems. This will also ensure a consistent experience regarding fees and payment routing from their gpi banks. SWIFT is currently testing this new standard through a pilot programme with ten multinationals including Airbus, Booking.com, Borealis, General Electric, IATA, LVMH Moët Hennessy Louis Vuitton, Microsoft, Ping An Group, Roche & RTL Group as well as 12 leading transaction banks. The pilot group aims to bring this standard into production in the coming weeks. In the meantime, we are looking to open this new service to more gpi banks and corporates before the end of the year.

**How is SWIFT ensuring that treasury vendors are ready?**

SWIFT is working with leading cash management and treasury providers to support the integration of gpi standards in their applications. As part of the gpi for corporates pilot, several providers such as FIS, SAP, Kyriba and Calypso are already supporting gpi implementation for their pilot customers. We are also in contact with additional providers ensuring that all information is available for them to start their gpi integration. In addition, corporate demand for the gpi service is helping to encourage vendors and providers to enable their gpi capabilities.

**How are corporates contributing to the building of the gpi roadmap?**

Corporates have a fundamental role to play as banks start to enable services on top of gpi. Not only by asking their banks about gpi capabilities but also by becoming early adopters of new solutions or services. Such an approach will help to ensure that future solutions meet their evolving requirements and priorities. For instance, in the context of gpi for corporates, SWIFT has designed the standards through a series of SWIFT-led co-creation workshops with pilot banks and corporates. At SWIFT we are always listening to the feedback from corporates, identifying business requirements and developing new solutions based on the community feedback.

**What's next after payments tracking?**

SWIFT extended the use of the gpi tracking number (UETR) to all cross-border payments. This has enabled extended traceability of all payments in the network. By Early 2019 we will also launch Stop & Recall, a new service allowing banks to stop payments after initiation. This service looks at optimising a very complex and slow process requiring multiple bank interactions and phone calls to perform a simple but time-critical task. Stop & Recall will enable gpi banks and corporates to stop a payment in the network by using its tracking number. This new service will enable corporates to address manual mistakes such as double-payments or even in some cases quickly act on any fraud concerns.

**Sebastian Rojas,**
Head of SWIFT gpi
for Corporates

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# THE LIFT-OFF

**Yves Germeaux, Head of Aviation Finance at ATOZ Luxembourg, says aircraft financing requires focused expertise to optimize costs. Interview.**



**Why does aircraft financing require such specific expertise?**

Aircraft are high-value assets as purchase prices are very often above USD 150 million. Optimizing the financing cost is therefore of key importance, a few basis points more or less in the overall interest rate having a significant impact on the company's bottom-line result.

This explains why aircraft financings often consist in a series of different debt tranches. Some of them make use of the capital markets and may even reach out to small, private investors. Structures may include tax optimization elements that are available for certain types of investments in a number of countries. And, most importantly, one has to connect the right investor category to a given asset.

Not only does aircraft financing relate to new or used aircraft, it also covers engines and even advance payments to manufacturers. The security package offered to lenders usually plays a major role in a financing negotiation. By the way, aircraft are, together with ships, the only movable assets which can be mortgaged. An international treaty, the Cape Town Convention, ratified by Luxembourg in 2008, has created global standards for registering security interests in aircraft and facilitates the repossession in case of a default. Luxembourg ratified the Convention in 2008.

However, regardless of what financing structure is used, having the financing in place when the asset gets delivered is absolutely crucial as any delay in delivery due to the financing would generate a high cost to the airline.

**What is the role of ATOZ?**

Some airlines have quite a strong expertise when it comes to aircraft financing and they have specific teams in charge of it. But even those airlines are always in search of new ideas. Others have decided to outsource this activity or they simply do not have the experience in this matter while having ordered a large number of new aircraft. ATOZ helps them take care of reaching out to the right parties, making recommendations for structures, performing the modeling and analysis work, comparing leasing versus ownership alternatives, negotiating term sheets and the documentation, and proposing alternatives in case of bottlenecks.

The role of ATOZ though is not limited to the financing. We also advise clients on aircraft purchases, on strategic projects such as M&A transactions or business planning activities, as well as on risk management strategies in order to mitigate the client's foreign exchange, interest rate or fuel price exposures. One of our strengths is to have a team with a strong airline background and which understands well what an airline requires.

Currently 25,000 commercial aircraft are in service, 17,000 additional ones are on order. In 2018, Airbus and Boeing will deliver aircraft for a total value of about USD 150 billion. This means that there is quite a lot of demand for financing in our sector.

**What are key aspects one has to focus on in aircraft financing?**

Often people only think about the price, i.e. the margin, when comparing financing structures. But there is much more to it. As already mentioned earlier, one question an airline needs to ask itself is: what are the chances that the financing will actually be available when the aircraft gets delivered? Some financing structures indeed present quite high closing risks that either one needs to be aware of or one should maybe not accept.

Other key questions when it comes to financing high-value assets such as aircraft are:

- How much cash is the airline willing or able to put into the investment? If cash is an issue, an operating lease structure may be the preferred solution.
- What about the term and the payment profile? Should it be a 5-year or a 12-year financing?
- Does the airline want to reduce or eliminate the residual value risk of the aircraft? There again, an operating lease takes care of this risk although it generally comes at a price. As an alternative, the airline may also purchase residual value guarantees in the market.
- What level of transaction costs is one to expect? Some structures may generate the lowest margin but they may be so complex to document, that legal fees and other structuring fees may skyrocket.
- In the presence of a tax structure, are there any risks that the tax advantage may be challenged over time by tax authorities?

The above questions illustrate well, I believe, that the best financing is not necessarily the one showing the cheapest margin.

**Why do you do this activity out of Luxembourg?**

The aviation market being a worldwide market, the location of an advisory team is not very important. The key reason for us being established here is that the current team members are originally from Luxembourg. But Luxembourg does also have a number of very positive features for our business.

It is very centrally located in Europe, and European banks and investors still play a key role in aviation financing, despite the fact that there is an increasing number of Asian banks and lessors active in this business. There is a potential to develop certain aviation products and investment vehicles in Luxembourg, as some of these products already exist but have never or very rarely been set up in the context of an aircraft financing structure. Finally, one should not forget the local players, and there are a number of them beside the traditional commercial airlines, Cargolux and Luxair.

# COULD FX BE ONE OF THE KEY RISKS **CURRENTLY FACED BY TREASURERS?**

**The FX markets have been highly volatile these last months for different reasons. The political situation in some regions and the trade tariff war launched by some big countries can even exacerbate this volatility. The cost of hedging is increasing over year while the hedging has never been so necessary.**



No one can deny that the risk associated with exchange rates (i.e. FX risk) have grown in recent months, for various reasons that we won't examine in depth right now. We can, however, outline a few of the principal reasons behind this resurgence of FX risk, namely increased volatility on financial markets, serious geopolitical problems (with a resulting trade tariffs war) and considerable fluctuation in raw material prices (including that of petrol, which has doubled in a year). Not only has the risk increased, but hedging costs have also soared due to factors such as the inclusion of the counterparty risk over time (i.e. DVA/CVA) and the greater impact of the cross-currency basis swap. Having foreign exchange credit lines is not as straightforward as it was in the past, when it was generally sufficient to just ask your bank manager for your FX credit lines to be increased. These days, however, a bank might well refuse, as many take the view that this "commodities business" is costly and that it would be preferable to charge the business by volume, limit it or collateralise it (i.e. apply collateral when the "mark-to-market" value is negative). In other words, even though the EMIR has not imposed it on NFCs, there is a growing trend for demanding or recommending bilateral collateral agreements (i.e. of the "CSA" type). We live in a multi-speed economic world, which explains why monetary policies and interest rates vary from one country to another. The widening of interest rate differentials increases hedging costs, sometimes making them off-putting and even prohibitive in certain scenarios. Consequently, it is vital to understand the risk, to gauge it and to adopt strategies on an ad hoc basis for possible hedging requirements. Not hedging a risk due to the high expense moving forward is a dangerous strategy but nonetheless one which many managers are examining closely, as there's no actual obligation to always hedge everything. Sometimes, not hedging and instead "monitoring" can prove to be the best choice in terms of foreign exchange strategy. That's certainly the case for the more exotic currencies and recently, we've also seen the base rates of Argentina and Turkey explode, creating an effect akin to an earthquake on the markets. The example of the US dollar versus the euro is interesting in terms of swap points, with nearly 3% offset per year. This gives you an idea of the hedging costs for the dollar seller. This is creating heavy weather in terms of exchange for sellers of German cars or of European airplanes. It would seem that, more than ever, a case-by-case analysis is required in order to negotiate a path through this disrupted






**WE CAN OUTLINE A FEW OF THE PRINCIPAL REASONS BEHIND THE RESURGENCE OF FX RISK, NAMELY INCREASED VOLATILITY ON FINANCIAL MARKETS, SERIOUS GEOPOLITICAL PROBLEMS AND CONSIDERABLE FLUCTUATION IN RAW MATERIAL PRICES.**

François Masquelier, Chairman of ATEL

climate, as each individual needs to fine-tune their strategy in response to the different and fluctuating current context. Having said that, your strategy should not be tailored to the market's possible volatility, nor should it be reviewed whenever the slightest change occurs on the market, because it is stability and consistency that allow a good exchange strategy to be effective and the results to be maintained over time.

Judging by the number of enquiries and discussions between companies, it would seem that some have suffered exchange rate losses over the past two years. And in a world marked by growing political protectionism, tax rage, customs tariff war and fierce competition between players from the same sector, they are keener than ever to limit the damage and protect their profits. All industries, without exception, are at the same time undergoing a root-and-branch digital transformation (sometimes even a fully-fledged revolution). This factor is in no way facilitating optimised fund management, but is encouraging greater efficiency in order to protect the evolving economic model.

Also worthy of mention are the new accounting standards, with IFRS 9 (the replacement for IAS 39) in particular opening the door to more sophisticated or more "derivative" products, most notably via the treatment of the time value of options. The accounting aspect will perhaps permit hedging that is more efficient and lower-cost, or potentially with a higher contribution, if things go smoothly (i.e. the up-side). But it's also clear that companies are tending to resort to this type of optional product more often than in the past, given the current exchange rate differentials on certain currency pairs.

The other driving force is market volatility, which is real and significant but, at the end of the day, confined to a certain range. This makes it possible to use satisfactory protective barriers. Being able to use optional derivatives with limited or zero cost, while at the same time guaranteeing accounting treatment as hedge accounting, is an incentive that is aiding the review of exchange rate strategies.

Conversely, the uncertainty regarding the direction of the EUR/USD pairing, for instance, is illustrative of the general uncertainty and the desire for greater and more effective hedging, amid the prevailing doubt.

Exchange hedging is therefore taking up more and more of fund managers' time and energy.

It would also appear that fund managers are hedging for longer periods than in the past, despite the wider rate differentials. It is clear then that the time seems to have come to review the strategies and approaches applied to exchange rate risk management.

In my humble opinion, this is going to be one of the major challenges of the coming months.

The approach to exchange risk management also seems to be becoming more strategic in order to more effectively mitigate risks.

Many CFOs are even considering investing more cash resources and increasing their current staff numbers. Lastly, the technological aspect cannot be neglected. The digitisation of the tools is aiding greater understanding, as well as making the management of the risks involved more specific and above all more dynamic. So while you might think that the management of this highly specific exchange rate risk is not among fund managers' top priorities, it's undoubtedly worth taking advantage of this specific context to review exchange rate policies and the best strategies to adopt.

**François Masquelier,**
Chairman of ATEL

# RISK MEASURES: THE HEDGING OBJECTIVE

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**"You can easily beat the market…if you have the wrong measure". This statement is issued from a PhD thesis at the end of the 90s, when the market started to get worried about model risk, i.e. the propensity to be galvanized by numbers whilst having the wrong measure, by construction or through its implementation.**

In IAS39/IFRS9, one of the methods devised to test for the hedge effectiveness and largely used is the dollar-offset method. It implies looking at variations on both (A) the underlying (to be hedged) position, and (B) the derivative used to hedge the first one, and to divide both to see if the ratio is close enough to 1. If it is the case, it means they seem to compensate each other well.

$$\text{Dollar-offset ratio} = -\frac{\Delta \textit{ in fair value of the hedging instrument}}{\Delta \textit{ in fair value of the hedged item}}$$

It is a method easy to understand and seems simple to implement; yet, it has flaws. Being far from 1 and close to 1 doesn't imply necessarily that the hedge is bad (false negatives) or good (false positives), respectively. For example, when variations are very small compared to the notional over a certain time period, the ratio could give strange values even though it wouldn't mean the hedge is actually bad. Adjusted versions have been proposed, but they seem more like "cooking the formula" than trying to find the right approach. Pedagogically, even if simple, this method bears the problem to treat both positions separately which encourages the management to focus on the P&L of the hedging instrument instead on the result as a whole.

Let's revert to what hedging actually means. To hedge means to reduce our sensitivity to the impact of a given phenomenon. In finance, this translates into reducing the variability of a position, a budget, a cash flow forecast, etc…, thus reducing the impact of uncertainty on our firm. Based on this, any measure involving a notion of volatility would be more semantically adequate.

Various types of implementations exist. Regressing the variations of B over A and looking at the $R^2$ would tell us of much of the variance of B is explained by A (1). Computing the volatility of changes of the combination of A+B compared to A alone, would be another one (2). Their limitations are this time more linked to their statistical properties, rather than to their meaning. For (1), if there would be a trend in the variations, we might just capture some spurious correlation. For (2), some derivative could be showing its true reality in extreme cases, not in standard ones. If the volatility is computed historically, and over a period of "normal" changes, that might remain unnoticed until it actually happens. You might then use some form of expected shortfall to highlight what happens in the "tails" of the distribution. Globally, blindly believing about the result of a measure without confirming it with additional insights would be insane.

One of these insights could be just the true understanding of the derivative being used, and accepting to look more at its critical terms. Auditors tend to like measures even though a linear derivative such as a forward on exactly the same underlying with similar date and amount is used. But very few control if the quantitative implementation does interpret well the instrument. They are satisfied with the result because they know what the result should be for that type of instrument.



**TO HEDGE MEANS TO REDUCE OUR SENSITIVITY TO THE IMPACT OF A GIVEN PHENOMENON.**

Hugues Pirotte, Professor of Finance, Solvay BS, ULB

Thus, most of the time, it is an exercise of getting the implementation right for a result we already know. And if a strange result is obtained, the natural thinking is that there is a flaw in the calculation. But, the adequacy of the measure and its limitations can play a big role. Finally, few analysts check that all the features (you know, the footnotes in the contracts) are actually represented in the calculations.

Back to the volatility measure ($\sigma$), much has been said and developed around it. First appearing in a text of Karl Pearson of 1894, the same that developed the concept of correlation, it was already proposed by Gauss earlier under the name of "mean error". Its main form is the well know "average distance to the mean", where distances are squared to avoid compensation of positive and negative values (a version has been proposed with "absolute" values but offers less tractability in mathematical derivations):

$$\text{standard deviation (sample } i) = \sqrt{\frac{1}{n_i - 1}\left(r_{i,t} - \bar{r}_i\right)^2}$$

**THE IDEA IS TO MODEL THE FUTURE, NOT THE PAST, STILL USING DATA FROM THE PAST TO INFER THE FUTURE.**

Hugues Pirotte, Professor of Finance, Solvay BS, ULB

where $r_i$ are the returns of the underlying $i$ over past regular periods, $n_i$ the number of them, and $\bar{r}_i$, their mean. We tend to use the volatility as a measure that is kept constant during a period. At the beginning of the 80s, Engle and Bollerslev devised a form of "stochastic volatility", a volatility that can vary through time and proposed a modeling known today as GARCH in its more generalized form. In that respect, the volatility is modelled as varying but with the possibility to allow to (a) revert to some long-term value, (b) be close to that of the period before, (c) be more or less impacted by the more recent data. It can be noted that that traditional form gives the same weight to each observation while the GARCH can allow for a decaying weight as the data becomes older. This interest in trying to better model the volatility is due to its unavoidable presence in anything related with probabilities in finance: optional contracts, potential future outcomes of a project or a firm, etc… And of course, the idea is to model the future, not the past, still using data from the past to infer the future. In that respect, it can be shown that it is easier to approach, to avoid saying "predict", the future volatility (the "behavior") rather than the actual level of a variable. In that quest, "quants" would also use the implied volatility, obtained from watching option prices and deducting the volatility to be used in Black-Scholes option pricing models to get those prices, but it might be sometimes "too" proactive. It can be indeed strongly impacted by temporary offer and demand imbalances, not reflecting really the true underlying uncertainty in that case. As always, no measure is the "one"; each one has its limitations and you might want to have more than one to corroborate your analysis.

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# DRM, "DYNAMIC RISK MANAGEMENT", WHAT DOES IT MEAN?

**WHAT IS A "DYNAMIC RISK MANAGEMENT" APPROACH? IT IS A CONTINUOUS PROCESS BECAUSE THE RISKS THE PREPARERS FACE EVOLVE OVERTIME.**

François Masquelier, Vice Chairman of EACT

**It looks like a new "Risk Management" technique for treasurers. DRM stands for Dynamic Risk Management". It is the acronym used by the IASB (IFRS body in London) to address the netting issue.**

If you remember IFRS 9 has aligned Hedge Accounting rules closer to risk management approaches. It has also established a more principle-based approach to Hedge Accounting and have eventually addressed inconsistencies and weaknesses in the Hedge Accounting model of IAS 39. They have decided to address the "macro hedging" in a separate document. IASB has recently published a DP (i.e. Discussion Paper) exploring a new approach to better reflect the companies' "Dynamic Risk Management" activities in the financial statements, otherwise known as "macro hedging". Many companies manage risks, such as Interest Rates, with a dynamic manner, on a portfolio basis rather than on an individual contract basis.

What is a "Dynamic Risk Management" approach? It is a continuous process because the risks the preparers face evolve overtime. Under current IAS 39, it is generally considered to be difficult to apply when accounting as for such type of transactions, which would require a more dynamic approach. After the crisis, IASB has decided to replace IAS39 by IFRS9 (new standard applicable since 1st of January 2018). It was a very long-awaited standard in its final stage of completion. However, we can admit that it corrected lots of issues raised by IAS 39 and all-in is a clear and real enhancement of former standard. Nevertheless, the macro-hedging piece was still missing. They have started to work on it. It won't be an easy journey for the Board. As said, it was decided at the early stages that the IASB will treat the macro-hedging component as a separate project, to avoid an even broader range of constituents.

This DP represented a first step of the project and was aimed at collecting comments from users and preparers on the possible approach to accounting for an entity's dynamic risk management activities, so called "Portfolio Revaluation Approach" (PRA). The Board plans to develop an accounting model for interest rates which could be extended to other asset classes. The idea is to address the situation when the risk position being hedged experiences frequent changes. All improvements of IFRS 9 have been designed with a static risk management strategy approach in mind. The Board intended to pursue the aim by developing accounting requirements for hedging within the context of open portfolios, which are more closely aligned with an entity's risk management activity and by reducing operational complexities. The PRA to macro-hedging consists of a new accounting model. In this model the company will adjust the exposures that are dynamically risk managed to reflect the effect of changes in value that arise from the risks that are being managed. One of the main issues is the fact that it is open and dedicated as it is to banks.

**THE IDEA IS TO ADDRESS THE SITUATION WHEN THE RISK POSITION BEING HEDGED EXPERIENCES FREQUENT CHANGES.**

François Masquelier, Vice Chairman of EACT

The corporates should certainly try to express their views too. Although the status quo seems not to be acceptable for the Board, moving this project forward will be challenging and very complicate given implications. The objectives of banks are certainly different and maybe opposite to those of corporates. As always in such situations, the most vocal will potentially obtain some results. If you do not express your views, be sure you will be forgotten. It is certainly a topic on which treasurers should focus in the coming months if they want to have a slight chance to get something useable and practicable. It will be a very challenging issue that can last for months and even years I'm afraid. Let's be ready to face some difficulties.

**François Masquelier,**
Vice Chairman of EACT

# THE NEWS


THE IDEA OF TAXING INCOME THAT WAS NOT DISTRIBUTED TO LUXEMBOURG IS SOMETHING NEW IN A JURISDICTION ASSOCIATED WITH STRAIGHTFORWARD, ACCOUNTING BASED TAX RULES.

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**On 20 June 2018, the Luxembourg Council of Government officially released the draft law (Draft Law) implementing the European Union (EU) Anti-Tax Avoidance Directive[1] (ATAD) into Luxembourg tax law. This article focuses on the Controlled Foreign Company (CFC) rules covered by the Draft Law.**

### What is it about?

All EU Member States are requested to adopt CFC legislation in their national laws in accordance with the ATAD. It will become applicable as of January 1, 2019. As a result, Luxembourg parent companies with controlled[2] low-taxed subsidiaries or permanent establishments may, be taxed on income realized by the CFC even if such income has not been distributed. Conditions that are further described below will have to be met before such CFC taxation takes place.

### Which options existed?

The ATAD granted Member States two implementation options. In short, under option "A", non-distributed passive income of a CFC would be included in the tax base of the parent company unless a verifiable substantive economic activity was carried out by the CFC. Under option "B", CFC rules would be triggered whenever the CFC derives income arising from non-genuine arrangements that are put in place for the essential purpose of obtaining a tax advantage. In this option, the allocation of non-distributed income of a CFC to the parent company would be based on the arm's length principle and would require an analysis of the significant people functions.

### Why is option "B" the most consistent rule for Luxembourg?

By choosing option "B", the Government demonstrated continuity in its tax policy. Indeed,

AS WITH ANY OTHER ANTI-AVOIDANCE MEASURE, CFC RULES ARE OBVIOUSLY NOT FREE FROM COMPLEXITY IN PRACTICE.

contrary to a rather mechanical ("all-or-nothing") approach, option "B" includes a proportionate test which limits CFC income inclusion to income attributable to significant people functions carried out in Luxembourg, in relation to the assets owned and the risks undertaken by the CFC. By relying on transfer pricing principles, this is ultimately an option that is consistent with the rules that Luxembourg introduced since 2015. Last but not least, option "B" should also decrease the risk of double or multiple taxation created by CFC rules in chains of holding companies when CFC income is not distributed. In our view, this approach is consistent with the EU law limitations on CFC rules as set forth in case law from the Court of Justice of the EU[3]. As with any other anti-avoidance measure, CFC rules are obviously not free from complexity in practice.

The Draft Law provides for a de minimis threshold[4] that excludes CFC income that could otherwise become taxable in Luxembourg.

### Why is this useful for treasurers?

The idea of taxing income that was not distributed to Luxembourg is something new in a jurisdiction associated with straightforward, accounting based tax rules. All in all, surprises are surely not a good companion for anyone within a financial oversight role. In this respect, the new CFC rules and the option taken by the Luxembourg Government ensure that taxation will be conditioned to and aligned with the functional profile of Luxembourg entities. Treasurers will be able to rely on transfer pricing analyses that should depict the key people functions carried out in Luxembourg regarding assets not formally owned or risks not legally borne by the Luxembourg controlling entity. The timely collaboration between treasurers and tax departments to assess the impacts of CFC rules in Luxembourg (and abroad) will allow multinationals to identify and avoid situations where parent companies would face a cash shortage to pay taxes on revenues that they have not yet received.

1. Council Directive (EU) 2016/1164 of 12 July 2016 laying down rules against tax avoidance practices that directly affect the functioning of the internal market.
2. An entity or a permanent establishment is treated as a CFC if: (a) the controlling entity holds or holds together with its associated enterprises a direct or indirect participation of more than 50% in the controlled entity (either voting rights, share capital or rights over profits), and (b) the actual corporate tax paid by the controlled entity on its profits is lower than half the corporate income tax (municipal business tax not included) that would have been paid in Luxembourg. The tested rate in 2019 would therefore be 9% if the corporate income tax rate remains at 18%.
3. Judgment in case C-196/04, Cadbury Schweppes plc, Cadbury Schweppes Overseas Ltd v Commissioners of Inland Revenue (2006).
4. CFCs with accounting profits of no more than EUR 750,000, or of which the accounting profits amount to no more than 10% of its operating costs, are excluded from the CFC rules.

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# THE EMERGENCE OF TAX-RELATED RISK

**Tax risk is certainly not new, but it has begun to loom much larger over the last few years. The onset of BEPS, which the various countries are gradually transposing into their national legal systems will, paradoxically, only complicate tax management, rather than making it simpler. Simplification, however, was one of its original goals. This is undoubtedly a tax revolution rather than a tax evolution, and will bring pluses and minuses with it. But one thing is certain, the greater complexity of tax management will crystallise this risk while at the same time increasing it. Treasurers will also be involved and severely impacted.**

### GREATER COMPLEXITY

The art of managing tax risk has become more complex than ever before. Keeping control over the risks that come with taxes of all types, both direct and indirect, is indisputably a greater challenge than anyone imagined when the OECD and Mr Saint-Amant published the famous fifteen BEPS (Base Erosion Profit Shifting) Actions. An incredible paradox! They were trying to simplify tax rules that were thought to be too complex and to have too many loopholes, and they end up with the risk of a situation that is even complex than it was before. The old saying "don't over-egg the pudding" would seem to apply to tax, too. The BEPS recommendations have fundamentally changed the approach to tax, which now becomes all-embracing and global, and which advocates total transparency and full and comprehensive reporting. Non-compliance and its consequences, including the possible impact on reputation, make the blood of tax managers and C-level officers in every multinational corporation (MNC) run cold. This development in taxes became necessary as a result of the worldwide financial crisis, bottomless government deficits and the excesses of overly aggressive and creative tax advisers. The digital revolution was the icing on the cake, making it essential to review the historical models to enable taxes to be collected when confronted with the new intangible assets being created.

### SEEING TAX SLIP THROUGH THEIR FINGERS

Governments were confronted with the risk of seeing taxes slip through their fingers. The approach to tax now needs to pass through the prism of absolute transparency. If everything is transparent, as if by magic, there will no longer be any artificial structures (or at least fewer of them) set up to evade taxes or mitigate them. This tax risk is still a no-go area, and seeing it come out into the light of day now reminds us of how crucial and complex tax strategy is becoming. The public relations message about it has to be handled with kid gloves, with the overarching aim being not to be held up as an example of malpractice. Reputations are affected, even if no tax fraud is established. And the various cases that the European Commission has singled out reminds us that, when it comes to taxes, for a quiet life you need to keep your head below the parapet, or even better stay completely below the radar. BEPS was intended to simplify taxes (amongst other things) by heaping opprobrium on double non-taxation structures and other hybrid instruments. With transparency, many more companies risk being seen as CFCs (Controlled Foreign Corporations) and of being faced with tax demands from various tax authorities. Each one wants to go right back to the ultimate source, to ensure that tax has indeed been received by the others. In

> **THE BEPS RECOMMENDATIONS HAVE FUNDAMENTALLY CHANGED THE APPROACH TO TAX.**
> François Masquelier, Chairman of ATEL






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a world of BEPS, corporate tax also becomes a key criterion in choosing the location of treasury management centres, and there is a danger of a "tax war" breaking out between countries, within the European Union itself. Taxes are becoming a maze, an inextricable labyrinth of twists and turns, because everyone wants their fair share and proper slice of the cake.

### NOTHING WILL STILL BE AS IT WAS BEFORE

Transparency, consistency and substance are the watchwords under BEPS. Brexit and the reaction that may be expected from the UK, which will wish to reduce its corporate tax in response, and Trump's tax reforms in the US, will add an additional degree of complexity to the situation, without any doubt. Some companies will be tempted to relocate in an attempt to give more substance to whatever place they claim to operate in. On the other hand, the pseudo-holding companies and "non-permanent establishments" will disappear, as will structures artificially contrived to mitigate taxes. No, it is a certainty that nothing will be the same as it was before. In a digital world, in the throes of change, dematerialisation needs to be addressed to avoid losing control over the taxation of revenues generated in a country (e.g. 2017 VAT changes to intangible rights). BEPS is therefore much more than just a tax issue. It goes far beyond that.

### ENSURING THAT PEOPLE DON'T START TALKING ABOUT YOU

Companies have found, in this world of wolves ravening for taxes to plug their deficits, that naming and shaming can do a great deal of harm. The cases that the media have latched onto, such as Google, FIAT, Starbuck, Apple, etc., still leave their mark, even if the companies are not found guilty. Being named in the press for breaking tax rules is very much frowned upon. Stakeholders are putting more pressure than ever on companies to force them to be tax compliant. These days, people take a dim view of those who stray from the straight and narrow. Seeking ways of mitigating taxes has now become dangerous. The tax authorities in every country have become scrupulous, meticulous and meaner. You have to be squeaky clean and explain everything, or at least be able to do so. Transfer pricing, making decisions on the permanent establishment concept, restricting the deductibility of interest, restricting the use of losses carried forward and the prescribed comprehensive documentation, amongst other things, make tax risk a major risk. There is also a feeling that jurisdictional risk is shifting back to the developed countries. This is due to the adoption by these countries (particularly the G20 countries) of the OECD rules on taxes, and by the requirement for greater budgetary responsibility, which involves additional types of tax and better collection of existing taxes. However, Trump's →

> **THE APPROACH TO TAX NOW NEEDS TO PASS THROUGH THE PRISM OF ABSOLUTE TRANSPARENCY.**
> François Masquelier, Chairman of ATEL

tax reforms could also have serious consequences given the influence of the USA on the world economy. At this stage, this proposed gargantuan reform gives rise to a barrel-full of uncertainties as to what turmoil it may eventually produce. Treasurers need to keep a very close watch on this matter. The debate on what a fair share of tax might be is continuing to attract a lot of attention and some stakeholders are encouraging MNCs to publish as much information and tax data as possible, country by country and business by business, to be as clear, as transparent and as honest as possible. With a subject that is as off-limits as tax, it really hurts to bring everything out into the light of day, and culturally it is no easy thing for management to deal with this subject in its annual report.

### OVER-EGGING THE PUDDING IS SELF-DEFEATING

As always, trying to achieve too much is self-defeating and the backlash could be dangerous. Moving from a certain degree of opaqueness to absolute transparency is a tricky exercise. The way the public relations message is presented becomes very important. With BEPS, interest will no longer be fully deductible because it will be capped. To achieve the best tax situation for the group, it will be necessary to schedule cash flows and to capitalise subsidiaries appropriately. The number of tax disputes will certainly increase. To avoid or avert them, APAs (Advance Pricing Agreements) will have to be negotiated to keep down future transfer pricing risks. Unfortunately, it takes time to negotiate them and renew them as time goes by. With BEPS, it is also important to build up a greater amount of mutual trust between companies and the tax authorities. The best behaved pupils will be identified quickly and looked after. Virtue in tax and total transparency will benefit those the companies that practice them. But it is reasonable to suppose that we will be paying more tax overall in the future. The mass of documents and sets of forms to be produced will increase disproportionately – for example, the famous country-by-country reporting, or comparative transfer pricing documentation for intercompany loans. Information systems will have to be adapted in response to this so as to produce, easily, the required reports and substantiating documentation supporting and justifying your transfer pricing strategy and intra-group operating margin.

### BEPS CONTAINS POSITIVE POINTS AND OTHER LESS BENEFICIAL FEATURES


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**PREVENTATIVE TAX MEASURES WILL TAKE OVER FROM THE FORMER APPROACH OF SIMPLY REACTING AFTER AN INVESTIGATION.**
François Masquelier, Chairman of ATEL

| BEPS, THE TAX (R)EVOLUTION IN "PLUSES" AND "MINUSES"... | |
|---|---|
| + | 15 actions aimed at simplifying and clarifying taxes across the world |
| – | But... ending up in COMPLEXIFICATION of taxes and increased related tax risks, as a consequence |
| + | Significant increase of DOCUMENTATION and TRANSPARENCY (e.g. CbCR; benchmarking for TP transactions, etc...) |
| – | Less taxes niches, structured hybrid products or double non-taxation solutions, less rulings (as a consequence of "name and share", EU court cases), less disguised State aids |
| + | Cash-flow planification and properly sized capitalisation of affiliates to prevent impacts of interest deduction limitations |
| – | Corporate taxes (in general) brought down... although compennsated by more tax controls, scrutiny and fraud searches (however, manouevre margin for States is in general limited given huge state deficits) |
| + | Tax related risks and uncertainties, as well as (indirect) reputation risks |
| – | Tax "tourism" with empty shells/structures is over |
| + | More work for Heads of Taxes and tax advisors |
| – | Less sophistication in tax structuring |
| + | New TP developments required to comply and report and eventually more resources and concentration of experts to bring more "susbstance" |
| – | Less room for lowering taxes paid/to be paid |
| + | All-in increase of taxes paid by MNC's and jurisdictional risk shifting back to developed economies |

### GRADUAL APPROACH

If I had to give advice about a gradual approach, I would suggest starting with: (1) **clearly defining the strategy and approach** to managing taxes. How are we to prepare ourselves for "more aggressive" and more numerous demands from the tax authorities? What is the reputational risk appetite as regards taxation? This is usually defined as being zero. How are we to oversee and monitor it, and also to produce the data required by the tax authorities? How are we to handle the potential tax disputes that will inevitably arise, and anticipate and mitigate the risks deriving from tax audits and investigations. The tax authorities are themselves also becoming more sophisticated everywhere, and equipping themselves with tools to collect taxes better. We have to adapt and take on staff, particularly treasury staff, and give them adequate training to meet the growing needs. It is vital to keep the **C-level properly informed**, together with the Board of Directors, to give it the reassurance it looks for (3). The **public relations message** will be crucial (4) both in content and in form. Politicians and the general public have started to pay very close attention to taxes, showing zero tolerance. There is no longer room for DIY and amateurism. I take the view that we need to adopt a global and coordinated policy on how to handle tax controversies. In a globalised world in which all information is accessible to everyone, even the tax authorities, and spreads like wildfire, it is a good idea to be very cautious and opt for a coordinated approach by a specialist team to prevent any risk. There will be regular tax audits, particularly into financing and treasury management, to identify areas of possible danger. Preventative tax measures will take over from the former approach of simply reacting after an investigation. We can no longer wait and see what happens, we have to be proactive and maintain a continuous watch. After that, the computerised tax authorities and the greater sophistication of tax inspectors will increase the need for appropriate IT tools. These IT applications will be able to compile information, process it, and analyse its potential impact. It will be useful to be able to trace transactions and manage databases of historical data. Then come (5) the **Alternative Dispute Resolutions** to estimate and evaluate the risks connected with agreements such as APAs, rulings, etc., and how potentially to reduce the risks for the business in the future. It is important to have a strategy on anticipating tax risks and on how to address them during tax investigations. Similarly, it is a good idea to build up mutual trust based on a track record of good relations with the tax authorities. Using mediation might be advisable, for example with MAPs (Mutual Agreement Procedures). Preparing the required reports properly should reduce future risks. And finally (6), it involves deploying **people, resources (internal and external), processes and technology.** BEPS requires greater staffing to meet the demands. You would be well advised to design regular reports and performance indicators for management and the audit committee to keep them informed of the status of tax matters.

**IT IS THEREFORE CLEAR THAT BEPS IS MUCH MORE THAN JUST A SIMPLE TAX ISSUE.**
François Masquelier, Chairman of ATEL

### BEPS, MORE THAN JUST A TAX ISSUE...

It is therefore clear that BEPS is much more than just a simple tax issue. As regards the financing aspect and in-house bank transactions, it is the responsibility of the CFO, of tax department and treasury department to ensure they are able to produce the material required to substantiate their tax strategy and their transfer prices. Surely BEPS is just a catalyst, the spark that puts the spotlight back on tax risk? This risk is intensified and returns to centre stage for the CRO (Chief Risk Officer). Over to you to be meticulously prepared. No, in tax matters, it is absolutely certain that nothing will ever again be the same as it used to be. The word "taxes" will cause tax managers and treasurers to lose sleep for a long time to come.

**François Masquelier,**
Chairman of ATEL

LOUIS THOMAS & AGATA JANKOWIAK (KPMG LUXEMBOURG):

# LIMIT TO TAX DEDUCTIBILITY OF INTEREST CHARGES


**Introduction of the 30% EBITDA limit to interest deductibility and its impact on treasury activities of Luxembourg companies as of 1 January 2019.**

### FOREWORD

On 19 June 2018, the Luxembourg government issued a bill of law (hereafter 'Draft Bill') for the transposition of the EU Anti-Tax Avoidance Directive[1] (ATAD) into the Luxembourg domestic tax law.
One of the changes of the Draft Bill that should be particularly observed is the interest limitation rule.
The introduction of this rule is expected to reshape the landscape of the EU and Luxembourg corporate taxation of financing activities as it significantly restricts deduction of the payments linked to borrowing, either intra-group or external.
The Draft Bill incorporates the mandatory provisions of the ATAD and includes several options and exemptions offered by the directive. Unfortunately, the proposed text includes a number of terms and provisions that lack precision or remain unclear and vague.

### TARGETED TAXPAYERS AND MAIN EXEMPTIONS

The interest limitation rule encompass all of Luxembourg's tax resident companies as well as Luxembourg's permanent establishments of foreign tax resident companies.
Therefore, from the point of view of the interest limitation rule it should be irrelevant whether a group chooses to run its treasury business in Luxembourg in the form of a corporation or through a branch.
In accordance with the spirit of the ATAD, the Draft Bill implements certain exemptions from the rule. The first one concerns the threshold of EUR 3 million. All taxpayers subject to the interest limitation rule will be able to deduct their exceeding borrowing cost up to that amount notwithstanding the remaining rules governing the interest barrier rule.
The second exemption (grandfathering clause) covers the deduction of the expenses incurred in relation with loans concluded prior to 17 June 2016. Unrestricted deductions on such loans will be permitted until their termination. However, for this rule to apply, there can be no subsequent modifications to the terms and conditions of the loan agreement. Taking the specific circumstances of the treasury business into account, it remains to be analyzed on a case-by-case basis whether the cash pool agreements concluded prior to the cut-off date of 17 June 2016 can benefit from the grandfathering proviso. These agreements are not long-term loans, and one could argue that the objective of the ATAD is not to tackle cash pooling (as long as they do not include factually long-term loans).
There is also the so-called exemption for financial undertakings. This notion encompasses several financial institutions such as banks and insurance undertakings that operate based on the EU regulations precisely enumerated in the Draft Bill. Most of the Luxembourg treasury companies operating as internal, unregulated 'banks' of multinational enterprises will not qualify for this exemption.

### EXCEEDING BORROWING EXPENSE

The interest barrier rule aims to restrict the deduction of the exceeding borrowing expense.
The Draft Bill attempts to define the notion of the borrowing expense. The definition is, however, far from clear. According to the proposed text, the borrowing expenses are to be understood as interest expenses on all forms of debt, other costs economically equivalent to interest and expenses incurred in connection with the raising of finance. Further, the proposed article includes a non-exhaustive list of the items falling within the scope of the definition[2]. The explanations presented by the Luxembourg government suggest that the list is to have only an illustrative character. The problem with such an approach is that the notion of the *interest* and the notion of the *costs economically equivalent to interest* or *expenses incurred in connection with the raising of finance* are not properly defined in the

**ON 19 JUNE 2018, THE LUXEMBOURG GOVERNMENT ISSUED A BILL OF LAW FOR THE TRANSPOSITION OF THE EU ATAD.**

Luxembourg tax law and, therefore, will leave room for discussions in the future.
The interest provision included in the Draft Bill is almost an exact copy of the one proposed by the ATAD, except that the ATAD requires this key concept to be defined in the national law of the Member States. The Draft Bill, however, does not reach beyond the minimum language of the ATAD. In accordance with the traditional rule of the interpretation, where the Luxembourg tax law does not specifically define a given notion, and subject to specific comments in the *exposé des motifs*, the accounting principles of Lux GAAP should be retained as one of the important criteria that can be used for tax purposes. Therefore, it seems that the accounting law and choices in the accounting policy may drive the determination of the borrowing costs.
As for the excess, the Draft Bill dictates that it should be established as a difference between the amount of the interest income and other equivalent income and the amount of the borrowing expense.  Even more surprisingly, the Draft Bill proposes no definition or even an indication how the interest income should be understood. At first sight, it seems that the definition of the interest must be built symmetrically to the one of the borrowing expense. Such was the initial idea presented by the BEPS project. In accordance with this concept, once an accounting item is considered to constitute an 'expense' on 'borrowing' in the hands of a 'debtor', it will need to be automatically qualified as 'interest income' in the hands of a 'creditor'.
Given the fundamental meaning of the exceeding borrowing expense in the concept of the interest limitation rule and its operation in practice, the somewhat light consideration and obscure definition thereof in the Draft Bill may be a difficult point of analysis in the future.
All treasury companies will need to proceed to a careful analysis of their affairs and income/expense accounting posts. At a high level, however, it seems that only those expenses relating to the borrowings (be it interest paid →

**THE INTEREST LIMITATION PROVISIONS OFFERED BY THE DRAFT BILL CLOSELY FOLLOW THE RECOMMENDATIONS OF THE ATAD AND COMPLY WITH ALL ITS MANDATORY ASPECTS.**

on the loans taken or any other associated expenses such as foreign exchange losses, guarantee fees, bank charges, underwriting fees, etc.) that exceed the income on any form of lending, long- or short-term (that the income should include interest and all associated revenues), should be affected by the new rules.

### MECHANISM OF THE FIXED RATIO RULE

The core of the interest limitation rule is the restriction of the tax deductibility of interest expenses incurred by a taxpayer that exceeds 30% of tax-adjusted EBITDA.
The Draft Bill provides for an autonomous definition of tax-adjusted EBITDA that differs from a usual financial or accounting understanding of this term. The notion is explained by reference to the tax figures and requires it to be calculated by adding back to the net income (i.e. taxable basis), the tax-adjusted amounts for exceeding borrowing costs as well as the tax-adjusted amounts for depreciation and amortization.
In terms of timing, the Draft Bill provides for two types of carry-forward rules. First, the unused EBITDA can be carried forward for five years. This means that if the amount equal to 30% of EBITDA of a taxpayer in a given year exceeds the deductible interest expense claimed in that year, the taxpayer will be allowed to increase the permitted deduction in one of the following five years by the unused amount of 30% of EBITDA. Secondly, the taxpayer will be permitted to track the excessive expenses that it could not deduct in a given year due to the insufficient EBITDA ratio and claim its deduction once EBITDA increases to permit the deduction.
Other measures proposed by the Draft Bill, such as CFC provisions or hybrid mismatch rules, may interact with the interest limitation rules. The order of application of those provisions and their interactions will need to be determined. The Draft Bill contains no conflict-of-law rules and potentially those issues may need to be resolved through references to the ideas presented by the OECD in the framework of the BEPS project.

### ESCAPE CLAUSE

The general 30% EBITDA interest limitation rule under the ATAD included a provision for a safe harbor for companies that are part of a consolidated group. The implementation of this exemption is optional for the EU Member States and two alternative worldwide group ratio escape rules are offered: a group equity ratio (that refers to capital structure of the group, its equity-to-assets ratio vs the capital of the company) and a group earnings ratio (based on the group interest-to-earnings ratio vs that of the company).
The Draft Bill opts for the first alternative: under the group equity escape rule, a taxpayer should be allowed to deduct the total of its exceeding borrowing costs if the taxpayer's equity-to-assets ratio is comparable to (or higher than) the equivalent ratio of the consolidated group.

### CONCLUSIONS

At this stage, the interest limitation provisions offered by the Draft Bill closely follow the recommendations of the ATAD and comply with all its mandatory aspects. Yet, the various exemptions chosen by the Luxembourg government that the ATAD laid as optional will enable the Luxembourg financial market to remain attractive and competitive. This approach is clearly a positive sign. There are numerous questions and several uncertainties on the interpretation or practical implications. It will require time, experience, many in-depth analysis and discussions to address them or perhaps even some guidelines from the tax authorities in circular letters.

With regard to the treasury activities, although Luxembourg corporations should be prepared for the Draft Bill and assess the impact of the interest limitation rule, it seems that they should not be significantly affected by the interest limitation provision. Indeed, a lot of income streams and expenses of treasury companies may fall within the definition of interest. To that extent, the exceeding borrowing costs of treasury activities should be rather limited or if not, the limitation of their deduction should have a rather limited impact on the overall tax position of a company on a standalone basis. There may, however, be a significant impact on long-term financing activities, especially in connection with the financing of assets other than receivables or qualifying participations (i.e. intellectual property, shares in non-taxable subsidiaries, plants or machinery, etc.).

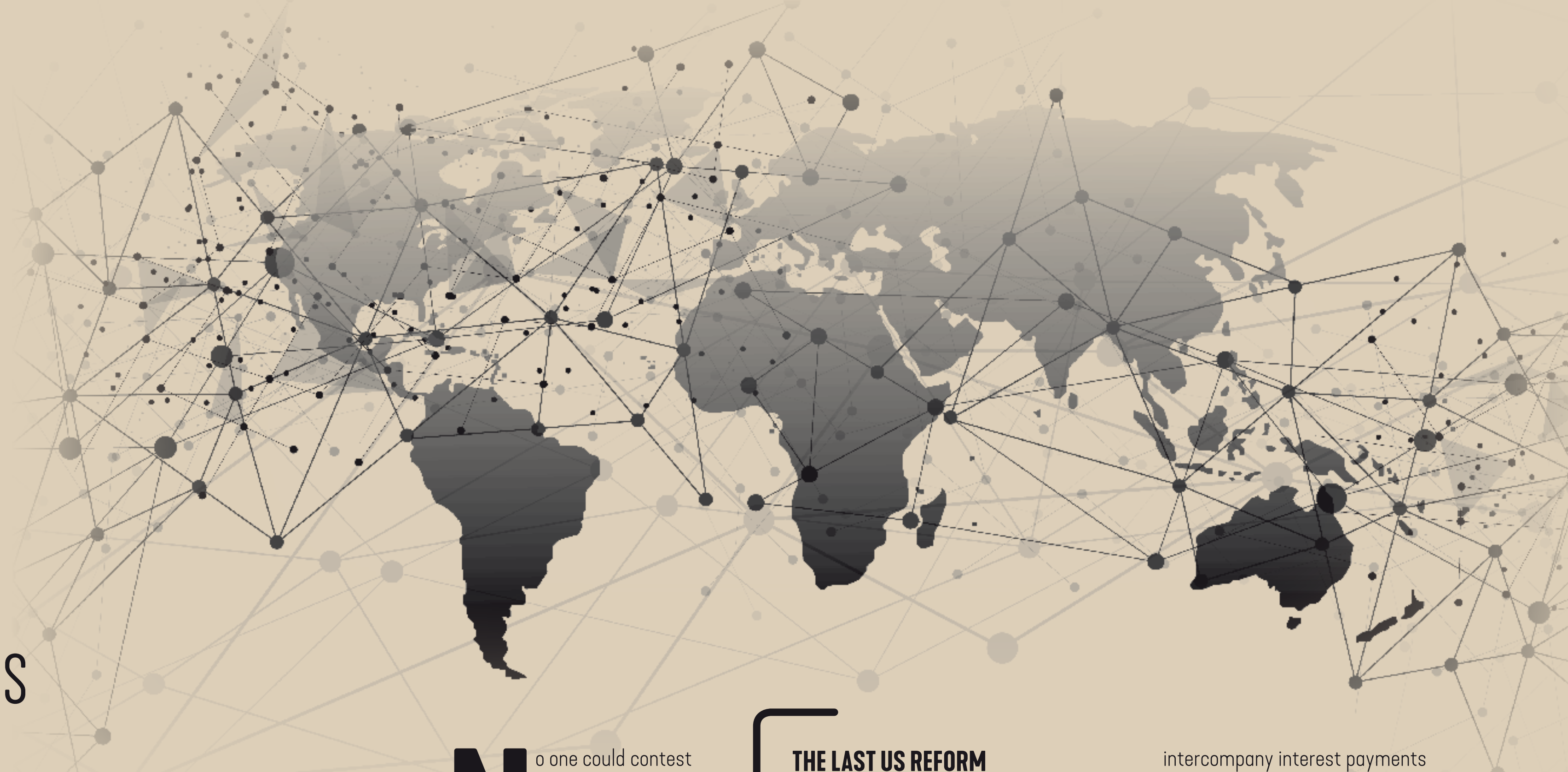
1. Council Directive (EU) 2016/1164 laying down rules against tax avoidance practices that directly affect the functioning of the internal market.
2. The list includes: Payments under profit participating loans, imputed interest on instruments such as convertible bonds and zero coupon bonds, amounts under alternative financing arrangements, such as Islamic finance, the finance cost element of finance lease payments, capitalized interest included in the balance sheet value of a related asset, or the amortization of capitalized interest, amounts measured by reference to a funding return under transfer pricing rules where applicable, notional interest amounts under derivative instruments or hedging arrangements related to an entity's borrowings, certain foreign exchange gains and losses on borrowings and instruments connected with the raising of finance, guarantee fees for financing arrangements, and arrangement fees and similar costs related to the borrowing of funds.

**Louis Thomas,**
KPMG Luxembourg

**Agata Jankowiak,**
KPMG Luxembourg

# US TAX REFORM

## IMPACTS FOR US COMPANIES AND FX IMPACTS ON EUROPEAN COMPANIES WITH US SUBSIDIARIES





**The recent US tax reform is a major change and maybe for American the tax reform of the century. Such a huge reform will have impacts on US and European companies. It could also change the way some MNC's manage their liquidities across the world and transfer part of the delocalized treasury activities. No one can give us at this stage a full picture of these consequences for treasurers in Europe.**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No one could contest that the last US reform was the one of the centuries. The corporate tax reduction is the largest of all OECD countries (i.e. 14% reduction). The US subsidiaries of EU companies will benefit from this interesting reduction. The American also granted immediate expenses of 100% of the cost of capital investment (provides incentive to acquire eligible assets). However, on the other side, they have adopted a limit on Net Interest Expense Deductions (as recommended by OECD BEPS 15 actions). We should also keep in mind that as a drawback, BEAT (i.e. Base Erosion and Anti-Abuse Tax) tax may put foreign subs at some competitive disadvantages to US companies. As consequences (among others), the European companies may have to inject equity into sub's to avoid limit on interest deduction, to borrow locally with parent guarantee and redenominate intercompany transactions in lower yielding currencies. As we all heard, the taxes on accumulated unrepatriated foreign earnings will also encourage MNC's to repatriate funds from abroad at preferred conditions. They propose a one-time tax of 15,5 % on cash and cash equivalents and 8% on illiquid assets. They also instituted an exemption on dividends received by US corporations from eligible subsidiaries exempt. Eventually, they have limited the net interest deductibility to 30% of EBIT (EBITDA until 2022). This last measure could potentially benefit equity injection into US sub's, as alternative to intercompany funding. We need to keep in mind the fact that the BEAT tax will create 2 big issues for US sub's of EU companies: (1) intercompany interest payments will be captured in the BEAT calculation and (2) intercompany derivatives with negative mark to market will also be captured by BEAT. You will also hear about GILTI. Although US has a territorial system, the IRS will look at the offshore sub's of the US sub's (if it has any) and calculate the minimum foreign tax that should be have been paid. If a difference is due, it will have to be paid in the USA. There are on top lots of other new tax provisions (e.g. incentive for funding pension deficit, limit on deductibility of net operating losses, deferred tax liability, ...). Therefore, as we can easily understand this American corporate tax reform is the major one of all Western countries and it will have lots of consequences on European companies and will give competitive advantages to US ones.

**THE LAST US REFORM WAS THE ONE OF THE CENTURIES.**
François Masquelier, Chairman of ATEL



**François Masquelier,**
Chairman of ATEL

REGULATION

# THE REGISTER OF ULTIMATE BENEFICIAL OWNERS: YET ANOTHER CHANGE




**In Luxembourg, a draft law is being drawn up in order to establish a register of ultimate beneficial owners. The purpose of this register is to combat money laundering and the funding of terrorism and would in theory aid all stakeholders concerned.**

Companies would be obliged to transmit the information regarding their beneficial owners. In fact, this law would merely be a transcription into Luxembourg law of EU Directive 2015/849 Article 30 (4th directive on money laundering). This obligation would apply to businesses, foundations, charities, civil society organisations, economic interest groups, limited partnerships, etc… It would not apply to branches of entities based abroad or to companies listed on a regulated market. The head offices of the entities concerned would be required to keep and update the information

> **THIS CONTINUOUS ACCUMULATION IS REGRETTABLE, EVEN IF THE REQUEST IS LEGITIMATE AND HARD TO ARGUE AGAINST IN THE CURRENT CLIMATE.**
> François Masquelier, Chairman of ATEL

relating to these owners. This would involve declaring all natural persons who have direct control via shares or any other means. Direct ownership is defined as 25% or more. In the event of non-compliance, the penalties would range from €1,250 to €1,250,000. In spite of the "GDPR" law, it is not necessary to obtain the owner's prior agreement as it is a case of a lawful and legitimate requirement. This so-called "REBECO" register would have to be correctly supplied with data, with each country having its own register of this type. This amounts to another obligation alongside so many others and doesn't exclude the divulgence of these same beneficial owners to other parties such as banks, within the framework of their KYC checks. Clearly then, it constitutes an additional obligation rather than being information reusable by the banks. This continuous accumulation is regrettable, even if the request is legitimate and hard to argue against in the current climate. We will no doubt be discussing regulations of this type for some time to come, as it's likely that this latest one will not be the last. So prepare yourself and be sure to achieve compliance in good time!

**François Masquelier,**
Chairman of ATEL

REGULATION

# EMIR REFIT: AN OVERVIEW

**Interview of Laurent Laurent Collet, Deloitte, on the implementation of EMIR refit in 2019.**

> **WHILE WE ARE CLEARLY MOVING TO A NEW REFIT REGULATION, THIS DOES NOT MEAN A REFIT IN TERMS OF SUPERVISION AT LEAST IN THE NEXT COMING MONTHS.**
> Laurent Collet, Partner, Deloitte

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**Laurent, EMIR refit was announced and will apparently be approved by EU parliament during 2018 with enforcement in 2019. In your view what will be the major changes for Corporates and NFC's?**
In REFIT, you have the word FIT and consequently FITNESS, it is clear that the new release of the regulation aims to better fit the reality of the derivatives business. Clearly, some actors among with the Non-financial counterparty (NFC) will benefit from some reliefs in the new version of EMIR. Still subject to the final vote but the following adaptations for NFC are currently foreseen in the texts

- The current 30 day rolling average determination of positions of a non-financial counterparty (NFC) against the clearing thresholds should be replaced with an annual determination
- Exemption from reporting for intra-group transactions involving an NFC
- Clearing obligation for NFC+ to be limited to the asset class(es) for which the clearing threshold is exceeded

**Don't you think that the removal of intercompany reporting, which is good news for NFC's, will have an impact on Trade Repositories and banks? We wonder whether TR's will lose a big part of their business without compensation and whether banks will not be required by their customers to report on their behalf, increasing significantly their tasks and risks?**
This is an interesting question and difficult to comment in the name of TR / Banks but in case of TRs, I assume the next coming SFTR reporting obligations will more than expected compensate any potential losses from NFC reporting business.
From the bank point of view (at the least the one which propose the delegated reporting services), we note that they are more and more keen to focus on their core business rather than offering transaction reporting services. EMIR reporting together with MiFIR and next year SFTR is a full business where we see more and more dedicated services providers acting as reporting platform.

**As all NFC's, for example here in Luxembourg, are potentially subject to compliance control by their Supervisor (i.e. CSSF in Luxembourg), what piece of advice could you give them? How to best prepare a possible control?**
On July 13, 2018, CSSF has sent a new press release where the regulator specifies that it will increase its focus of oversight on the review of reported transactions to Trade Repositories and this involves all impacted counterparties. First of counterparties must know that delegation of reporting does not equal delegation of the reporting responsibility towards the competent authority. Counterparty must have a clear and detailed understanding

> **IT IS CLEAR THAT THE NEW RELEASE OF THE REGULATION AIMS TO BETTER FIT THE REALITY OF THE DERIVATIVES BUSINESS.**
> Laurent Collet, Partner, Deloitte

as well as evidence of the reporting obligations done by its counterparty on its behalf. In case the counterparty is doing itself the reporting – regular follow up of the daily transactions sent to the TR as well as analysis of the TR feedback (ACK, NACK) is a must. All these processes must be well documented in policy and procedures.

**Are there any specific areas where Supervisors a focusing on when they review EMIR compliance?**
Not really as far as I know, in theory and in practice, NFC must meet the all EMIR obligations "that are subject to including reporting and risk mitigations techniques. While often these operations are actually done, the counterparty suffer from a lack of documentation on the way they actually manage the EMIR requirements. This is also important from a regulator point of view.

**I have the impression that our NFC members are convinced EMIR remain a highly theoretical regulation and that there is no control at all from National Supervisors. Could you give your views and experience on this perception?**
As mentioned above, I recommend your members to read the latest CSSF Press Release on the topic. While we are clearly moving to a new REFIT regulation, this does not mean a REFIT in terms of supervision at least in the next coming months.

**The major issue for NFC's was the exemption on collateral (at least when below thresholds). It seems that it will be maintain as is. However, do you think that we face a risk of change in the regulation in future or that banks suddenly for business purposes require more and more collateral or leave these derivative businesses, like FX business?**
I do not think so. The spirit of EMIR REFIT is clearly to adapt the exchange of collateral when and where appropriate. Nevertheless, it is important to keep in mind that exemptions does not mean that no collateral can be applied. While exemptions may be applicable for one transaction, counterparty can require the exchange of collateral for specific reasons related to the quality of the other counterparty or potential risks assessed for that particular transaction.

**Laurent Collet,**
Partner, Deloitte

REGULATION

# WHAT WILL BE THE FUTURE OF LIBOR?

**LIBOR has played a role in stabilizing the debt capital markets since 1969. However, the "LIBOR scandal" discovered by supervisors was the stop point and required a revamping of this useful interest rates reference. The new reference rates will impose treasurers to revisit their current loan documentation.**

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### LIBOR MANIPULATIONS CONSEQUENCES

LIBOR (i.e. "London Interbank Offered Rate") has been a great stabilizing influence in the world's debt capital markets. It also facilitated the standardization of financial contracts. No one could contest these facts and positive impacts. It was first used in 1969. It was developed into a uniformed and eventually widely used reference rate for the following decades. However, with the financial crisis of 2007 and 2008, it appears that a significant reform of LIBOR was, as for many other markets, products and practices, necessary. The prudential regulators thought it could be a systemic weakness to have only one single reference rate with no credible alternative or back-up. If market liquidity dries up, we could face the issue of what were the basis on which daily rates are set, fixed and submitted.
At the peak of the crisis interest rates volatility was noticed and we felt lack of creditworthiness within the interbank market. LIBOR rates were signaling that financial markets were about to possibly collapse. Some finance specialists claimed it was like the canary used into the coal mines. It was dying. Did market players realized it? LIBOR acted well during the crisis. However, a lack of real transaction data backing up the submissions for some currencies or maturities became more obvious to Supervisors.
Then, the so-called "Libor scandal" came. It was a series of fraudulent actions connected to the LIBOR. The "Libor" is an average interest rate calculated through submissions of interest rates by the largest banks across the world. This well-known affair arose when it was discovered that some banks were falsely inflating or deflating their interest rates so as to profit from trades, or to give the impression that they were more creditworthy than they actually were. Libor underpins approximately 350 trillion of USD in derivatives. It is currently administered by Intercontinental Exchange, which took over running the Libor in January 2014.
Financial Institutions are supposed to submit the actual interest rates they are paying, or would expect to pay, for borrowing from other banks. Libor is supposed to be the total assessment of the health and shape of the financial system because if the banks being polled feel confident about the state of things, they should report a low number and if the member banks feel a low degree of confidence in the financial system, they should report a higher interest rate number. In 2012, multiple criminal settlements by a large British Bank revealed significant fraud and collusion by some member banks connected to the rate submissions, leading to this enormous scandal.
Because Libor is used in US derivatives markets, an attempt to manipulate Libor is an attempt to manipulate US derivatives markets. Thus it looks like a violation of American law. Since mortgages, student loans, financial derivatives, and other financial products often rely on Libor as a reference rate, the manipulation of submissions used to calculate interest rates could have significant negative effects on consumers and financial markets across the world.
On 27 July 2012, the FT published an article by a former trader which claimed that benchmark rates manipulation had been common since at least 1991. Could you imagine how long these embezzlements have affected our businesses? Other reports on this have since come from different sources, confirming these manipulations. On 28 November 2012, even the Finance Committee of the Bundestag held a public hearing to learn more about the issue. The British Banker's Association (BBA) said in September 2012 that it would transfer oversight of Libor to UK regulators, as predicted by bank analysts, proposed by FSA. The famous "Wheatley's review" recommended that banks submitting rates to Libor must base them on actual inter-bank deposit market transactions and keep records of those transactions, that individual banks' LIBOR submissions be published after three months, and recommended criminal sanctions, specifically for manipulation of benchmark interest rates. Financial institution customers could experience higher and more volatile borrowing and hedging costs after implementation of these recommended reforms. The UK government agreed to accept all of the Wheatley Report's recommendations and press for legislation implementing them.


### FIX AND REFORM WHAT YOU HAVE MESSED UP!

Significant reforms, in line with the Wheatley Review, came into effect in 2013 and a new administrator will take over in early 2014. The UK controls Libor through laws made in the UK Parliament. This report recommended reform rather than replacement of LIBOR, called for strict processes to verify submissions with transaction data and suggested that market participants should play a significant role in LIBOR production and oversight.
The transition away from LIBOR benchmarks is important. The deadline has been fixed for end of 2021. The preparation must begin now to be ready on time with an alternative solution that flies. According to regulators, solution must be market-led and would strongly encourage market participants to become involved in shaping the future of alternatives. We should not underestimate the transition which is a huge task that will impact numerous contracts and affect multiple product areas and business lines.

> **THEN, THE SO-CALLED "LIBOR SCANDAL" CAME. IT WAS A SERIES OF FRAUDULENT ACTIONS CONNECTED TO THE LIBOR.**
> François Masquelier, Chairman of ATEL

### LIBOR OR NOT LIBOR? THAT'S THE QUESTION

Since February 2014, ICE Benchmark Administration ltd (IBA, a London subsidiary if the Intercontinental Exchange) has taken over administration of LIBOR. It produced a review of implementation of IOSCO's principles for financial benchmarks. The idea was to make LIBOR fixing more rigorous, compared to the way it was formerly calculated. One of the main objectives was to reduce the judgmental part in the rate that LIBOR banks submitted in the past. The bank submission →


should be based on the transactions actually carried out. In case they don't have the data, the alternative is to explain their judgments. IBA has now moved towards tests since September last year. Banks should use the so-called "waterfall three level methodology" to evolve LIBOR in order to provide an indication of the average rate at which a group of banks could obtain unsecured wholesale funding. IBA has published the "roadmap for ICE LIBOR" about 2 years ago. It is the result of a consultation process which provides us with a uniform submission methodology, based on a clear common definition and eventually fully transaction-based wherever possible. IBA plans to centralize calculation process using a robust algorithm to determine LIBOR level, in different market circumstances. IBA also believes that an increase of number of banks submitting rates would help and enhance the robustness of the benchmark. The aim is also to better supervised rate fixing and to avoid conflicts of interest. They wanted to strengthen existing IBOR's by anchoring into the transaction and by developing nearly Risk-Free Reference rates (the so-called RFR's). Unfortunately with reforms and as always with major changes, the transition is not a small task and will impact a large number of existing contracts and multiple products. It is essential to understand and engage with key issues. On its side, the European Money Markets Institute (EMMI) published similar proposals for EURIBOR. We progress with the reform but it will have taken a rather long process before going live.

### IS LIBOR USED BY CORPORATES AND IF SO FOR WHAT SORT OF PURPOSES?

LIBOR rates are used for debt financing and derivatives, to price intercompany loans, for bilateral or syndicated loans, for letters of credit, private placements in the US, securitizations or floating rate notes, for example. It is also used in many derivatives like forwards, swaps or options and even cross-currency swaps to determine payment obligation and for pricing purposes. It is also used in the context of corporate's portfolio management. It is referred to for commercial contracts e.g. late payment clauses in contracts, gross-up provisions, price adjustment mechanisms, to define investment return hurdle in some context. It can also be used for fair valuing derivative contracts for accounting purposes, to determine hedge effectiveness and to calculate financial disclosures under IFRS 9. In some industries, it is also used by insurers, for risk-free rates used for pension liabilities calculation which are based on LIBOR swap curve. Eventually it is used for regulatory cost of capital reasons. With such a long and not fully comprehensive list, you can easily understand LIBOR is highly referred to for many operations and for years. Having the fairest LIBOR rate is therefore key for corporates. Isn't it? The LIBOR serves seven different maturities, over-night, one week and 1,2,3,6 and 12 months. There are 35 different Libor rates each business day with the most commonly used being the 3M USD rate (i.e. USD, EUR, GBP, JPY and CHF).

### WHAT DOES IT MEAN IN PRACTICE?

In practice, all market participants will have to address the issue and to review loan or financial instrument documentation in order to get it updated. It is sound to start discussion now with counterparties in order to get all documents amended before dead-line fixed. We have entered into a transition period of a few years. There is room for negotiation between borrowers and lenders. We should not underestimate these negotiations.

In Europe, many working groups have worked on alternatives to LIBOR and on selecting the RFR (i.e. Risk-Free rate which is the rate of return of a hypothetical investment with no risk of financial loss over a given period of time. In GBP, we named it SONIA (i.e. Sterling Overnight Index Average), in USD SOFR (i.e. Secured Overnight Funding Rate), in Switzerland SARON (i.e. Swiss Average Rate Overnight) or in Japan TONAR (i.e. Tokyo Overnight Average Rate)

**MANY WORKING GROUPS HAVE WORKED ON ALTERNATIVES TO LIBOR AND ON SELECTING THE RFR.**
François Masquelier, Chairman of ATEL

The LIBOR is forward-looking where RFR is backward-looking overnight rates. Libor includes the premium paid on longer-dated funds where RFR will not include a premium for term. In case you want to get more details about this issue, please consult the ACT website. Please also note that EACT has been in talks with European Central Bank and all stakeholders to express the corporate treasurers' view and defend their position. It is again a strong and painful adjustment aimed at correcting past abuses and frauds made by some banks. It is interesting to note that our Regulators and Supervisors are still fixing some errors of the past. Let's hope as always with new regulation that it will be for operating in a better financial world. This is a long path and certainly not the last miles. I'm always tempted to remain optimistic and to think that the best is ahead in corporate finance and that a cleaner financial ecosystem is good for all of us and virtuous. Hope it is not wrong impression.

**François Masquelier,**
Chairman of ATEL

# GESTION D'ACTIFS : LES ENJEUX DE L'ADMINISTRATION DE FONDS POUR 2030

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**Selon l'association européenne des fonds et de la gestion d'actifs (EFAMA), le niveau des actifs gérés par les sociétés de gestion en Europe a été multiplié par deux au cours des dix dernières années pour atteindre un peu plus de 20 mille milliards d'euros. En présupposant une croissance similaire, nous estimons, d'ici 2030, une évolution susceptible d'osciller entre 30 à 40 mille milliards d'euros d'actifs pour l'ensemble des 4 000 sociétés de gestion actives dans ce secteur. Plus de 70% de ces actifs sont détenus par les investisseurs institutionnels dont majoritairement les compagnies d'assurances et les fonds de pension. Les investissements effectués par les particuliers représentent un peu plus de 25% de ces actifs. L'hypothèse d'une croissance similaire à celle enregistrée à ce jour, nous permet d'anticiper plusieurs enjeux auxquels l'industrie des fonds devra faire face.**

**L'AMÉNAGEMENT DE LA RÉGLEMENTATION ET DU CONTRÔLE DES INVESTISSEURS PERMETTRAIT UNE PLUS LARGE DIFFUSION DES FONDS D'INVESTISSEMENTS À TRAVERS DES NOUVEAUX CANAUX DE DISTRIBUTION.**
Alban de Piedoue, Senior Consultant, Wavestone

### VULGARISATION DES PRODUITS D'INVESTISSEMENTS

Pour augmenter l'attrait des particuliers aux produits financiers, la simplification de la codification et de la littérature relative à la présentation des produits financiers est l'un des défis de l'industrie des fonds. Malgré les changements apportés visant à protéger les investisseurs, la codification des produits financiers notamment le KID PRIIPS ou prospectus, bien que disponibles au grand public, restent difficilement compréhensibles.
L'aménagement de la réglementation et du contrôle des investisseurs permettrait une plus large diffusion des fonds d'investissements à travers des nouveaux canaux de distribution tels que les réseaux sociaux et les géants du numérique (Google, Apple, Amazon, Baidu, Alibaba).
À titre d'exemple, les procédures d'entrée en relation devraient être simplifiées pour fluidifier les transactions en ligne et permettre un traitement instantané des premières souscriptions effectuées par les clients.
Les processus AML/ Know Your Customer, renforcés par les directives européennes notamment la 4ème directive mise en application au Luxembourg le 13 Avril 2018 (et la préparation de la 5ème directive) représentent un véritable défi en matière de vulgarisation des produits financiers non pas pour les particuliers mais pour les acteurs qui ont la charge du traitement opérationnel des opérations.

### DIGITALISATION

La dématérialisation de la documentation telle que proposée actuellement par certains acteurs pour les clients institutionnels notamment favorise la simplification de l'accès aux produits financiers. Toutefois, à l'heure actuelle, la digitalisation se limite majoritairement aux activités « Front-Office ». En effet, à ce jour, la dématérialisation des pièces justificatives n'est pas totale car la documentation requise est importante et certains documents doivent être fournis avec une certification originale.
Si la plupart des documents pourront d'ici 2030 être fournis via des plateformes sécurisées permettant leur authentification et la création d'une signature électronique, le traitement du risque par des outils informatiques intelligents ne saurait totalement remplacer l'analyse humaine, ne serait-ce que pour pouvoir croiser la typologie des investisseurs, les pays de résidence, les structures intermédiaires utilisées et in fine apprécier adéquatement le risque client.

### AUTOMATISATION DES PROCESSUS BACK OFFICES

Selon une étude réalisée par Wavestone Luxembourg en 2017, à peine un tiers des participants avaient exprimé la mise en œuvre d'intelligence artificielle et de logiciels dits Robotic Process Automation (RPA) dans leurs chaines d'administration de fonds afin d'améliorer les relations clients, augmenter la productivité sur les activités ayant déjà un niveau de maturité élevé, ou repenser certains modèles d'affaires. Compte tenu des coûts de mise en œuvre, nous estimons une évolution de ce chiffre entre 40% et 50% d'ici 2030.
Ces approches supposent que les activités de « back-office » au sein de l'administration de fonds évolueront d'une logique d'exécution à une mutation progressive vers des opérations « analyse » en laissant l'exécution aux mains des robots !

**À L'HEURE ACTUELLE, LA DIGITALISATION SE LIMITE MAJORITAIREMENT AUX ACTIVITÉS « FRONT-OFFICE ».**
Alban de Piedoue, Senior Consultant, Wavestone

**Alban de Piedoue,**
Senior Consultant,
Wavestone

# INDEX FUNDS ARE WELL-SUITED FOR RESPONSIBLE INVESTMENT

**Passive and committed at the same time! According to François Millet, Head of ETF and Index Product Development at Lyxor Asset Management, passive funds can now provide innovative solutions to investors who want to improve their portfolios' environmental, social and governance profile.**



### SUSTAINED GROWTH IN THE ESG ETF MARKET

Assets under management have reached EUR 6.7 billion in Europe (source: Bloomberg), just 1% of the whole ETF market. This segment is still modest but is enjoying sustained growth. Net inflows into ESG ETFs amounted to EUR 1.1 billion in the first quarter. In just three months, net inflows therefore amounted to half of the total for the whole of 2017 (EUR 2.2 billion). The question for investors is no longer why they should invest responsibly, but rather why shouldn't they if the levels of return or risk are no worse than across the market.

### CONTRARY TO POPULAR BELIEF, INDEX FUND MANAGEMENT IS FAR FROM BEING PASSIVE WHEN IT COMES TO RESPONSIBLE INVESTMENT

Index fund management is perfectly compatible with this type of investment, and Lyxor is heavily involved in the field. First of all, we play just as much of an active role as shareholders for our passive management as for our active management. We have drawn up a voting policy, the principles of which have been made public, and we enter into dialogue with the companies in which we invest, through a special team. We also respond to investor demand with an ETF range built on two pillars: ETFs exposed to strong ESG themes and, for allocation in core portfolios, ETFs invested in companies that top the ESG rankings.

### CAN WE TALK ABOUT IMPACT INVESTING?

Impact investing is generally associated with unlisted securities and private debt. However, driven by institutional investors, it is spreading to listed equities and bonds. To a varying extent, we see the same key attributes such as intentionality in investment strategies and search for measurability, albeit with a slightly lower degree of impact. Indeed, listed securities have a much greater volume effect, as well as liquidity and freedom as regards investment horizon, thereby attracting more capital. Following on from them, being transparent and easy to set up, and having lower management fees, ETFs are particularly consistent with a responsible approach, and are accessible to a wider audience.

### WE PROPOSE THEMATIC INVESTMENT SOLUTIONS…

We are the only ETF providers in Europe to offer ETFs aligned with four the UN's Sustainable Development Goals. Around a decade ago, we launched a World Water ETF, now with assets under management of around EUR 550 million, as well as a New Energy ETF. We also launched the first Global Green Bond ETF. And since last autumn, we have been offering a Global Gender Equality ETF based on gender equality in the workplace, the first of its kind in Europe.

### … AND A RANGE BASED ON GLOBAL ESG CRITERIA

The MSCI Trend Leaders range is broken down into emerging markets, the world, United States and European Union. We were the first to launch ETFs invested in a best-in-class selection that takes into account not only companies' ESG rating but also their efforts to improve this rating.

> **THE QUESTION FOR INVESTORS IS NO LONGER WHY THEY SHOULD INVEST RESPONSIBLY, BUT RATHER WHY SHOULDN'T THEY IF THE LEVELS OF RETURN OR RISK ARE NO WORSE THAN ACROSS THE MARKET.**

### STRENGTHENED ESG REPORTING TO IMPROVE TRANSPARENCY

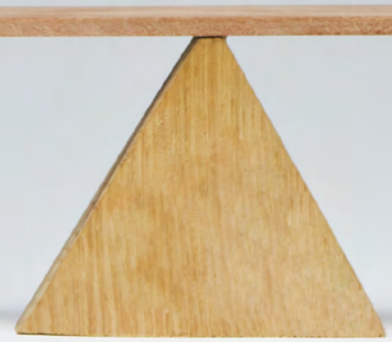
We publish very detailed ESG reports for all of our equity and bond ETFs. To do this, we are developing numerous proprietary tools using raw data from external providers, including MSCI ESG research. We will continue to strengthen our reporting and widen our analysis to constantly strive for greater investment transparency.



## PUSH RESPONSIBLE INVESTING FORWARD

Thanks to our strong innovation culture and our proven ability to design transparent and liquid investment frameworks, we are well-equipped at Lyxor with our passive, active solutions and our fund selection expertise to help our clients embrace the challenge of sustainable investments. We provide our clients with a full suite of ESG-themed solutions as well as ESG and Climat footprint metrics, allowing investors to dynamically manage their portfolios based on these criteria, while meeting the demands of end investors, stakeholders and regulators. Lyxor is the right fiduciary partner in order to incorporate environmental, social and governance topics.

**Florent Deixonne,**
Head of Sustainable and Responsible Investments,



**François Millet,** Head of ETF and Index Product Development, Lyxor Asset Management

**Florent Deixonne,** Head of Sustainable and Responsible Investments, Lyxor Asset Management

STEVEN MAIJOOR (ESMA):

# MAKING MARKETS SAFER



**The European Securities and Markets Authority is working together with national competent authorities like CSSF. An interview of Steven Maijoor, Chair of ESMA since 2011.**

**How is ESMA* enhancing investor protection and promoting stable financial markets?**
Financial services have a significant impact on investors, which is why ESMA has a specific objective in its Regulation to promote investor protection, which it is committed to doing through the various tools at its disposal. We achieve this, in cooperation with the national authorities in each Member State, by ensuring that the rules governing the conduct of firms that sell or advise consumers to buy financial instruments are implemented in a consistent and coherent manner across the EU. Firms have a duty to treat their customers in a fair and transparent way and put customers' interests at the centre of their business models and corporate culture.
MiFID II, which came in force at the beginning of this year, further strengthens the protection of investors through the introduction of new requirements on product governance and independent investment advice. It also provided ESMA with EU-wide product intervention powers, which we first exercised on 1 June, regarding the provision of contracts for differences (CFDs) and binary options for retail investors.
In addition to protecting investors, the two other main ESMA objectives are to ensure orderly markets and safeguard the stability of financial markets. This is why ESMA identifies and assesses, at an early stage, trends, potential risks and vulnerabilities, across borders and across sectors. Particular attention is paid to any systemic risk posed by financial market participants or related to financial innovation that may impair the operation of the financial system or the real economy.

**After an era of under-regulation, do you see a risk of over-regulation in Europe? Regulation is becoming a competitive edge? How do you analyse this trend on a global scale?**
Looking at the lessons learnt from the financial crisis, I think it was, and is, important to have, for example, credit rating agencies supervised and derivative trading made more transparent, allowing for improved monitoring of sectoral and systemic risk, both regionally and globally. While, it took some time to fix these issues globally and within the EU through new rules, the resulting safer and more transparent markets is a common good to the benefit of all investors. Of course, new regulation comes at a cost and it is normal that at times where new rules are implemented, voices are rising about too much and too detailed regulation. However, I think the post-crisis institutional and regulatory changes the EU has introduced were necessary and we now need to observe how these changes play out over time. The European model has enough built-in flexibility, through regular reviews, to adapt its rules going forward if need be. One of the key goals remains regulatory convergence, both within the EU and globally. Financial markets are global markets, which need globally comparable rules and we work closely with our international counterparts on areas of common interest to address any potential conflicts or unintended consequences.
The impetus for much of today's regulation goes back to the global agreement at G20 level, while much has also been achieved at IOSCO level too with the key markets committing to following the same regulatory path.
Another lesson learnt from the crisis is the detrimental effects regulatory arbitrage can have. Therefore, Europe has invested a lot in increasing the coherence across the Union for which the European Supervisory Authorities, like ESMA, play a pivotal role, which becomes yet more important with Brexit. Financial markets are competitive markets driven by innovation. As regulators, we are committed to ensuring the same ground rules apply no matter where you invest thus protecting investors from undue risk.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**ALL OF ESMA'S POLICY DECISIONS ARE THE PRODUCT OF A COLLABORATIVE APPROACH INVOLVING THE NATIONAL COMPETENT AUTHORITIES.**
Steven Maijoor, Chair, ESMA



**How is ESMA interacting with a national financial regulator like CSSF in Luxembourg?**
ESMA is closely working with all national competent authorities, such as the CSSF. Claude Marx is a member of ESMA's Board of Supervisors along the other 27 Chairs of national regulators. However, what many people may not know is that there is also continuous cooperation on daily issues, where NCAs', including the CSSF's, staff are represented and involved in the development of ESMA's technical work through its standing committees, working groups or task forces. Our governance structure is such that all of ESMA's policy decisions are the product of a collaborative approach involving the national competent authorities and are ultimately decided upon, and endorsed, by the Board of Supervisors. This collaborative approach is also essential to achieve a common supervisory culture across national regulators.

*European Securities and Markets Authority

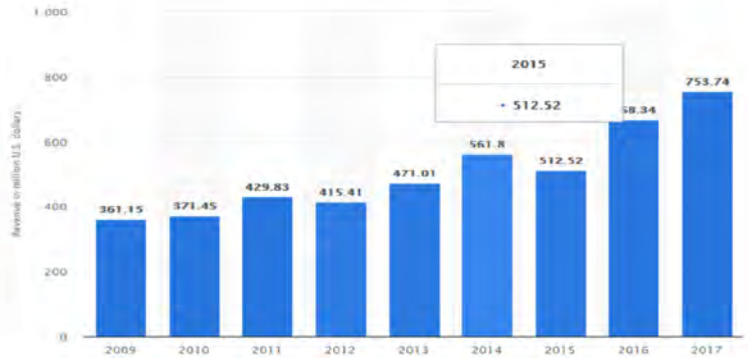
# FINANCIAL RESULTS VS SPORTS RESULTS

Manchester United has proven that a sound financial situation does not need to depend on team performance. Take stock of the Premier League giant's revenue evolution and other key financial figures.

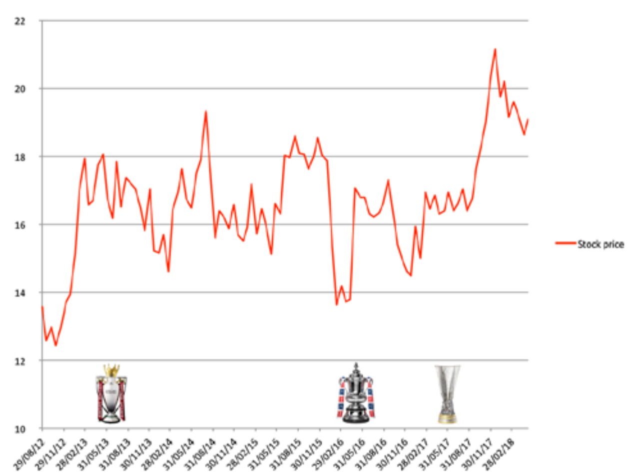
**3,5 USD Billion**

MARKET CAPITALIZATION.
MOST VALUABLE CLUB
IN 2018.

## TOTAL REVENUE OF MANCHESTER UNITED FROM 2009 TO 2017
(IN MILLION U.S. DOLLARS)*




## MAN U. SHARE PRICE SINCE INTRODUCTION IN WALL STREET




- Manchester introduction in Wall Street occurred few months before Sir Alex Ferguson left the club back end of Season 2013.
- Since then, the club only won 2 major titles being less dependent to titles.
- Despite a lack of success on the pitch those years, the club succeed to turn years of history into profit.

## MAN U. BREAK DOWN REVENUE


- Premier league 2013 and European League in 2017 were the last major titles won by the club.
- Titles used to drive finance. In 2008, Matchday represents 42% of revenue whereas in 2017 it only represents 19%.
  - Matchday revenues, mainly composed of admission tickets and food & drinks, remained flat year over year.
- The club is less dependent on results on the field thanks to:
  - its monetization of its global brand locally and abroad (strong presence in Asia). Commercial mainly derived from sponsors, adviertizing, and marketing products have increased by 4.3 times in 10 years.
  - Broadcast rights, have more than double in 10 years standing at USD 261 millions in 2017.



RATING
Non Rated

## FINANCIAL STATEMENTS

Consolidated Balance Sheets (unaudited)

| (in thousands) | 30/06/2016 | 30/06/2017 |
|---|---|---|
| Property, plant and equipment | 331,088 | 329,773 |
| Intangible assets | 896,912 | 966,858 |
| Other assets | 234,309 | 233,296 |
| Trade and other receivables | 173,359 | 139,774 |
| Cash and cash equivalents | 308,829 | 391,122 |
| Other current assets | 11,876 | 6,542 |
| **Total assets** | **$ 1,956,373** | **$ 2,067,365** |
| Capital | 92,805 | 92,806 |
| Retained earnings | 233,604 | 257,951 |
| Other Equity | 291,105 | 292,810 |
| Trade and other payables | 55,852 | 112,630 |
| Borrowings | 652,880 | 670,534 |
| Other non current liabilities | 86,102 | 82,371 |
| Trade and other payables | 269,044 | 256,441 |
| Deferred revenue | 254,459 | 279,253 |
| Other current liabilities | 20,523 | 22,569 |
| **Total equity and liabilities** | **$ 1,956,373** | **$ 2,067,365** |

| (in $ thousands) | 30/06/2016 | 30/06/2017 |
|---|---|---|
| Total revenue | 783,146 | 694,404 |
| Operating expenses | ( 688,974) | ( 588,446) |
| Adjusted EBITDA | 269,221 | 258,577 |
| *Ebitda margin* | *34%* | *37%* |
| Net finance costs | ( 32,712) | ( 26,972) |
| **Profit/(loss) for the period** | **52,789** | **49,008** |

- ✓ *Before being acquired by the Family Glazers by LBO (leveraged buy-out), the club had no debt.*
- ✓ *The club has the highest net debt of any football club in the world. In 2010, the club's debt exceed $ 1 billion.*
- ✓ *Since 2013, debt of clubs has been significantly reduced. However, it is still 35% of turnover against 65% in 2011.*
- ✓ *Net Debt/Ebitda Ratio EBITDA = (290,2 - 497,6) / 1.199,8m £ = 5,8 Should be < 7*

## KEY FINANCIALS OF MAN U.

- **Fair Value of players: USD 884 million**
- **Annual cost of salaries of players (incl. Bonuses and premium) USD 355 million employee benefit (Increased by 13.5%)**
- **Turnover: USD 783 million**
- **EBITDA: USD 269 million**
- **Net Profit after taxes: USD 53 million**

**Mikael Pereira,**
ATEL

**François Masquelier,**
Chairman of ATEL

**READ THE FULL ANALYSIS AT**
www.atel.lu/manu

TRENDS

# FINANCIAL FAIR-PLAY IN FOOTBALL **BECOMES MORE SPECIFIC**

© DR



**Next season, the economic control of football club's members of UEFA will be reinforced. UEFA has decided to take 5 new measures to ensure a better respect of fair financial principles by all the club's engaged in European competitions.**

The first provisions have been enforced 7 years ago. According to UEFA, they have been successfully implemented and keep bearing fruits. For example, the total net losses of all major European clubs have been reduced from 1.7 bln EUR to 269m EUR. However, it was not sufficient to guarantee the fair-play from all club's. The UEFA supervisor will now have 5 new weapons to punish the worst students of the class-room.

**1.** Control of transfers balance: purchase balance compared to sale balance must be < -100m EUR. If not, the club could be forced to sell one or more players at next mercato.

**2.** Sales of players better regulated and controlled: when 2 clubs have common shareholder, or one is the shareholder of the other, the transfers between them will be closely scrutinized and controlled to respect a principle at arm's length and to avoid arrangements to rebalance finance between parent company and daughter or between two daughters.

**3.** Publication of annual reports: all clubs must publish their financial results once a year and be more transparent. By the way, new IFRS rules will be applied by all football clubs. This new adapted standard elaborated with PwC was supposed to be released by end of May 2018. This could bring more financial comparability between clubs.

> **UEFA HAS DECIDED TO TAKE 5 NEW MEASURES TO ENSURE A BETTER RESPECT OF FAIR FINANCIAL PRINCIPLES BY ALL THE CLUB'S ENGAGED IN EUROPEAN COMPETITIONS.**
>
> François Masquelier, Chairman of ATEL

**4.** Transparency on player's agents: UEFA wants to limit fees paid to agents. These commissions must be published to guarantee to anyone to check what has been paid to an agent when he transfers a player to another club. It was far from clear and transparent so far.

**5.** Indebtedness controlled: the deficit must be below a certain predefined threshold and EBITDA / Net Debt must be below 7 times to prevent bankruptcy and risks of hiding and pushing forward problems.

As we can see, all these provisions will help reaching a higher financial transparency. It will also enable better and more comparable financial figures. Sport results are key and must remain the ultimate objective of each club but not at any price. We can imagine that some large teams will face serious problem next year to respect this new financial discipline or they will be simply ejected of the European competitions.

**François Masquelier,**
Chairman of ATEL

TRENDS

SHAHRZAD RAFATI (BROADBANDTV CORP):

# NEXTGEN BROADCASTING

**Shahrzad Rafati founder and CEO of BroadbandTV Corp says leveraging AI and Big Data is key as technology now powers all aspects of the digital video ecosystem. Interview.**

© DR

**Can you tell your story in a few words?**
Certainly, I'm the Founder and CEO of BroadbandTV (BBTV), a digital entertainment company which exists to empower creators and inspire audiences. I was born in Tehran, Iran and moved to Canada when I was 17. Growing up, content was rationed and after visiting North America I was inspired by the freedom of access to popular content. It was this access that inspired me to build the business model for BBTV while studying Computer Science at The University of British Columbia in Vancouver, BC. I founded BBTV in 2005 and it's grown from a small startup to a global leader with more than 400 employees. BBTV's platform currently operates in 11 languages and 32 countries and we continue to experience unprecedented growth.

**BBTV has 34 bn views/month. How did you achieve this?**
BBTV is building one of the strongest ecosystems in digital video worldwide by connecting our owned and operated brands, content, top talent, millennial audiences and digital platforms, powered by its smart proprietary technology. BBTV remains the third largest video property globally following only Google and Facebook. As of last year, BBTV represents 31 percent of Google site viewers and 59 percent of Facebook. To put that into context, almost one in three people on Google sites, including YouTube, are watching BBTV content. Our core foundation in technology leveraging AI and Big Data has allowed us to stand out from the competition as tech now powers all aspects of the digital video ecosystem, from content production, distribution, marketing to monetization, allowing us to achieve success at scale. Our tech platforms offer real solutions for creators and our brand partners, which translates into multiple revenue streams for BBTV.

**How is gender-equality evolving in the corporate world?**
We know there is still a long way to go in terms of true equality in the workplace and we have a duty to make change. It is no myth that a gender balanced organization equals a higher performing organization – the data and facts are there. On a global level, it's estimated that fully bridging the gender gap could produce up to $28 trillion or 26% in additional global economic output in 2025. Practicing gender diversity is not the moral thing to do but the smart thing to do. I couldn't be more proud to say that we've implemented equal pay for equal work at BBTV, there is 0% pay discrepancy between male and female employees. 43% of our employees are female, and 46% of our managers are female managers. Unfortunately, there aren't many companies in our space that can say that. I'm also honoured to have been appointed by PM Trudeau to represent Canada for G20 BWLTF to help with female economic empowerment and social participation across G20 regions. It's 2018 and it's time for change.

**Prime Minister Trudeau has appointed you to represent Canada on the G20 Business Women Leaders task force. How do you approach this mission?**
I am incredibly honoured to represent Canada on the G20 Business Women Leaders task force. Gender equality and female economic empowerment are essential to the success of global economies and industries across all sectors. I created an executive committee of leaders from the private, public and non-profit sectors in North America to advise on specific issues related to advancing women's leadership in business, such as equal pay, quality employment, social services and education, financial parity and economic opportunity. In forming the executive committee, I looked to ensure that we had a variety of different impactful perspectives across different sectors, industries, regions, and spheres of influence. We will communicate our plans ahead of the next G20 summit, we look forward to making an impact!

**OUR TECH PLATFORMS OFFER REAL SOLUTIONS FOR CREATORS AND OUR BRAND PARTNERS, WHICH TRANSLATES INTO MULTIPLE REVENUE STREAMS FOR BBTV.**
Shahrzad Rafati, CEO of BroadbandTV Corp

**MORE INFORMATION**
www.bbtv.com

**Shahrzad Rafati,**
CEO of BroadbandTV Corp

# I DON'T HAVE **THE TIME...**

**How many times have you heard this in response to a missed deadline, availability to attend a meeting or just have a conversation over coffee...? The single biggest limiting factor in many peoples lives and careers is not lack of time, but the inability to manage activities and projects within the time that is available.**

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### RULE #1 YOU CAN'T MANAGE TIME; ONLY YOURSELF AND HOW YOU INVEST IT

If you go on a Time Management Workshop they'll tell you to make a list, prioritise the important vs urgent to stop procrastinating and avoid distractions – like family, children, holidays. But it doesn't work does it...? For a week or two and then "life" takes over and your back to where you started, and the reason is, there's no framework set.

### RULE #2 ALL WORK FILLS THE TIME ALLOCATED TO IT – THE LAW OF VACUUM

If you give someone a task, and 4 hours to do it, they will take 4 hours, allocate 2 hours and it will take 2 hours... The first principle of getting more done is to fix the amount of time you are prepared to allocate to your job, project or task list. I remember, having career advice as a teenager, having worked in the family business I understood work, but I also understood freedom and making choices.When I was told that most jobs worked 5 days on 2 days off shift pattern, I couldn't believe it. "So I work 5 days and get 2 days off...?" Well that sucks... How come all jobs take exactly 5 days, all over the world – it's a hangover from industrial age thinking and education – but it doesn't have to be that way. For my Business Coaching Clients, one of the first things I ask them is what shift pattern they want to work.

**SCORE BOARD...**

5 - 2

AWAY HOME

### RULE #3 CHOOSE YOUR WORK HOURS AND HOME HOURS

Most choose a 2 on 5 off or 3 on 4 off pattern – work 3 days and have 4 days off, and you can do the same, or at least apply the same principles. How does this principle work...? Imagine the most productive, efficient day of the year – there are probably four or five of them; it's the day before you go on holiday. The reason you are so productive is that you have no choice but to be on the plane the next day, you can't procrastinate, get distracted, do Facebook, chat at the coffee machine or Google sports cars. It works with limiting the amount of time you expend on your job, not managing time, but rationing it. I aim for a 2 on 5 off pattern in my business – sometimes we travel, deliver workshops, do a conference and I get taken away from the office – but if I achieve 2 on 5 off in my Coaching business it means I can use the other time to do road trips, video series, key notes and writing – sometimes of course we can just go to the beach too...

### RULE #4 HAVE A VISION AND PURPOSE

Not for the job, for yourself. Why are you doing what you do, what's the Vision you have for you, your family, lifestyle and future...? Where will you live, travel and what will you experience...? Having a Vision is like booking the holiday, it makes it real, tangible and possible – you will get so much more done when you know what you are working towards than you will by simply getting your KPI's achieved on time. Have a Vision Board, write the dates in the calendar, book the flights, pay for the hotels; make it as real as possible and then you'll become more productive overnight.

**SCORE BOARD...**

3 - 4

AWAY HOME

**SO I WORK 5 DAYS AND GET 2 DAYS OFF...?**

David Holland,
Founder and CEO, Results Rules OK

### RULE #5 SAY NO, STOP BEING A DOORMAT

Once you have done the de3al with yourself about your work time scorecard, start saying NO to requests; not to be difficult or awkward, but to maintain your sanity and productivity, and have Friday off too. Restricting your activity to only that which you agree to and fits with your scorecard gives you control, being disciplined in the achievement of your Vision gives you purpose and getting your life back gives you sanity. Now, many people will say – "Well that's OK for you, but it won't work in my job / business / company..." And if that's the case then it's true for you; but what would happen if it did work for you and life became enjoyable again...?

## BIO

DAVID HOLLAND MBA owns a few companies, has written a few books, travels a lot, is kind to animals and plays the drums. He's founder and CEO of Results Rules OK, the #1 choice Business and Executive Coach in Luxembourg and is available for Workshops, Conferences & Keynotes and can be contacted at davidholland@resultsrulesok.com

**David Holland,**
MBA Founder & CEO
Results Rules OK

# CONFÉRENCE ATEL PME/PMI

## ORGANISÉE CE 7 JUIN 2018 DANS LES LOCAUX DE BDO À LA CLOCHE D'OR


**Cette année l'ATEL avait décidé d'aborder trois différents sujets d'actualité à l'occasion de sa conférence PME/PMI.**

Frédéric Capraro

Daniel Joseph

Nicolas Swiatek

Brice Kempf

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**1** Le premier sujet était d'étudier comment l'intelligence artificielle était en train de transformer le monde du recrutement. La société Skeeled a présenté quelques exemples pratiques du recours à des machines pour faciliter et optimiser le recrutement. L'intelligence artificielle (i.e. IA) peut aider le recrutement dans les domaines suivants : la recherche de candidats, l'analyse des CV's, les tests de pré-embauche, la vérification des antécédents des employés, l'analyse des vidéos et des compétences verbales et non verbales des candidats et enfin les « chatbots ». Grâce à ces nouveaux outils, on comprend que le recrutement va être facilité, optimisé et le processus n'en sera que plus rapide.

**2** Dans un même ordre d'idée, BDO a présenté la dématérialisation de la paie et de la transmission des données et informations aux employés. Il s'agit d'une question d'efficacité, de sécurité et de respect de la confidentialité d'informations par essence sensibles. Les processus sont de plus en plus « sans papier » afin aussi de minimiser l'intervention humaine et les risques d'erreur ou de perte de documents. Ce type d'outil en matière de ressources humaines est aussi accessible aux plus petites entreprises.

**3** Le nouveau règlement « RGPD » sur la protection des données à caractère privé, en application depuis le 25 mai 2018, reste un défi pour les PME's. Au travers du cas pratique de RTL Group, le « Compliance Officer » nous a expliqué comment une grande entreprise a géré et mis en œuvre ce règlement très contraignant. Cette matière austère par définition a été vulgarisée avec brio par l'orateur qui a expliqué les points-clés sur lesquels il fallait s'appesantir. Il faut démontrer que les données sont traitées de manière licite, loyale et transparente, pour une finalité déterminée, explicite et légitime. Enfin, les données doivent être conservées sous une forme qui permettent l'identification de la personne concernée et de pouvoir la restituer en cas de demande de cette dernière. Ce type de projet requiert de nombreuses ressources internes et externes, des outils informatiques (éventuellement), une cartographie exhaustive des données sensibles et comment les agréger et les restituer. Il implique une excellente communication interne et un suivi continu pour assurer la conformité dans le temps, notamment en cas de contrôle du superviseur national.

Cette matière est neuve, l'expertise va venir graduellement et le risque d'amendes au début sera léger mais se précisera au fil du temps. La route est longue et hélas ce type de projet n'est pas épisodique mais continuel.

La conférence s'est conclue sur une séance de questions-réponses pour permettre aux participants d'exposer leurs propres soucis et mieux comprendre comment les traiter. Cette conférence annuelle fut un succès et sera rééditée l'an prochain.

**François Masquelier,**
*Chairman of ATEL*

**+ MORE INFORMATION**
On ATEL events consult www.atel.lu


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DIRECT TAX

**CIRCULAR L.G. - A N°64 OF 7 MAY 2018 ON COUNTER-MEASURES IN RELATION WITH NON-COOPERATIVE TAX JURISDICTIONS ISSUED**

According to the Circular, tax authorities will particularly focus on transactions with associated enterprises in the meaning of article 56 of the Income Tax Law that are located in a non-cooperative tax jurisdiction. As from tax year 2018, companies will have to disclose in their tax return if they have entered into transactions with associated enterprises located in such jurisdictions. Details of the transactions must be provided upon request of the tax administration.

**CIRCULARS ON VIRTUAL CURRENCIES**

On 26 July 2018, the Administration for Direct Taxes released Circular L.I.R. n°14/5 - 99/3 - 99bis/3, which purpose is to clarify the tax treatment of income generated by a virtual currency, particularly in the context of disposal transactions or the creation of such virtual currencies. On 11 June 2018, the Luxembourg VAT Authorities also issued an administrative Circular confirming that transactions on virtual currencies are VAT exempt. The application of the VAT exemption is however conditional on the purpose/use of the virtual currency.

**NEW LAW ON ACCESS TO INFORMATION ON ANTI-MONEY LAUNDERING**

The law of 1 August 2018 grants tax authorities the access to information on anti-money laundering in the framework of European and international administrative cooperation, as foreseen by the relevant laws.

**ON 20 MARCH 2018, THE NEW LUXEMBOURG-FRANCE INCOME TAX TREATY AND A NEW PROTOCOL WERE SIGNED BY THE GOVERNMENTS OF FRANCE AND LUXEMBOURG.**

**NEW LAW ON INFORMATION TO BE OBTAINED AND MAINTAINED BY TRUSTEES**

Law of 10 August 2018 on information to be obtained and maintained by fiduciaries has been published in the Memorial A N°708 of 21 August 2018. The provisions relating to the establishment of a central register of trusts have been removed from the initial draft law and are dealt with in a separate law which is still pending before Parliament.

**DRAFT LAW TRANSPOSING EU ANTI-TAX AVOIDANCE DIRECTIVE**

The draft law implementing the EU Anti-Tax Avoidance Directive (ATAD) was introduced in the Luxembourg Parliament. The ATAD establishes minimum standards with respect to five areas: (i) limitation to interest deductibility; (ii) exit taxation (including provisions relating to inbound transfers); (iii) a General Anti-Abuse Rule (GAAR); (iv) Controlled Foreign Company (CFC) rules; and (v) rules countering hybrid mismatches within the EU. In addition, the draft law introduces a provision in relation with the recognition of foreign permanent establishments under a tax treaty and abolishes the tax neutral conversion of loans into shares.

**DRAFT LAW APPROVING MULTILATERAL CONVENTION TO IMPLEMENT TAX TREATY RELATED MEASURES TO PREVENT BEPS PUBLISHED**

On 3 July 2018, the Luxembourg Government submitted the draft law ratifying the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS (MLI), which was signed on 7 June 2017, to the Luxembourg Parliament. The list of tax treaties in force that Luxembourg would like to designate as Covered Tax Agreements, i.e., to be amended through the MLI, as per the Draft Law corresponds to the list submitted at the time of signature of the MLI. The Draft Law also confirms the partial or full reservations against a number of the articles of the MLI that Luxembourg made at the time of the signature of the MLI, as well as the options chosen by Luxembourg where the provisions of the MLI allowed for a choice to be made.

**UPDATE ON DOUBLE TAXATION TREATIES**

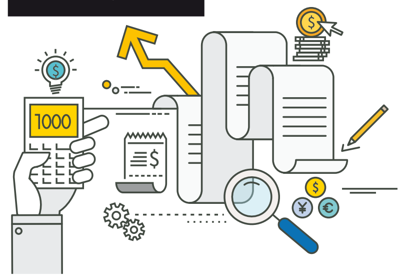
On 20 March 2018, the new Luxembourg-France Income Tax Treaty and a new protocol were signed by the Governments of France and Luxembourg, replacing the current double tax treaty signed on 1 April 1958. The new treaty is based on the 2017 OECD Model Tax Convention, and contains significant changes including provisions to meet OECD standards, the definition of tax residency, and the withholding tax treatment of dividend distributions.

On 19 September 2018, the Minister of Finance Pierre Gramegna and S.E.M. Samuel Otsile Outule, ambassador of the Republic of Botswana in Luxembourg, signed a double tax treaty between Luxembourg and Botswana. The new treaty comprises the Base Erosion and Profit Shifting (BEPS) standards and foresees a provision on exchange of information.

**John Hames,**
Partner, EY Luxembourg

**Elmar Schwickerath,**
Partner, EY Luxembourg

INDIRECT TAX




# NEW LAW ON VAT GROUP REGIME

On 26 July 2018 the Luxembourg Parliament voted and adopted a law introducing the VAT group regime in Luxembourg. It is an optional regime, meant to alleviate the VAT burden on supplies made between members of a VAT group, active in all sectors of the economy, and to help maintain Luxembourg's competitiveness as a financial center. The new optional regime comes into force for businesses as of 31 July 2018.
The VAT group is seen as one taxable person for VAT purposes with the consequence that the intra group transactions are disregarded for VAT, leading to a possible VAT saving, enhancement of VAT recovery position and/or cash flow improvement. From a reporting point of view, VAT returns in the name of the VAT group will only be due, rather than returns in the name of each member. A VAT group can only be created between Luxembourgish entities and should be in place for a minimum of 2 years.

**Yannick Zeippen,**
Indirect Tax Partner,
EY Luxembourg

**Jacques Verschaffel,**
Associate Partner,
EY Luxembourg

**ON 26 JULY 2018 THE LUXEMBOURG PARLIAMENT VOTED AND ADOPTED A LAW INTRODUCING THE VAT GROUP REGIME IN LUXEMBOURG.**

+ READ ALL THE NEWS ON THE BLOG AT
www.atel.lu

ATEL EVENTS

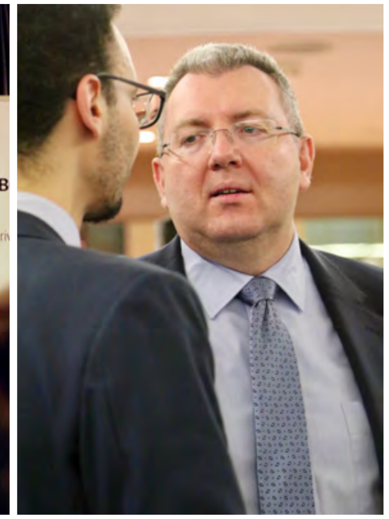
# ATEL ANNUAL CONFERENCE 2018

THE ATEL ANNUAL CONFERENCE WAS HELD ON THURSDAY 20TH SEPTEMBER AT THE HOTEL SOFITEL LUXEMBOURG EUROPE. DECISION-MAKERS SHARED THEIR VIEWS ON FOCUSING ON VALUE THROUGH INTELLIGENT TREASURY. THE EVENT WAS FOLLOWED BY A DINNER AND CO-SPONSORED BY HSBC, EY, EXCLUSIVE PARTNERS AND CENTRALIS.

**MORE INFORMATION**

www.atel.lu







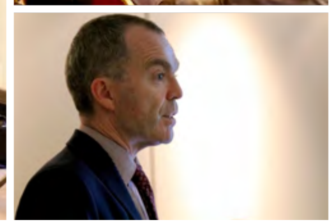










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