ATEL
Luxembourg Association of Corporate Treasurers

MAGAZINE #106

TREASURER

THE CORPORATE TREASURERS' COMMUNITY MAGAZINE

THE ART OF CORPORATE TREASURY

TREASURER
The Corporate Treasurers' Community Magazine

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#106

20 YEARS UNDER IAS 39 (IFRS 9)

Happy anniversary to IAS 39, replaced by IFRS 9. On first of January 2021, we were celebrating the 20th anniversary of IFRS rules for accounting financial instruments and two decades of applying the hedge accounting exception. It seems to be yesterday, and I always remember the first day when in January 2001 the company I was working for decided to early adopt this fantastic and revolutionary accounting standard. It was a revolution coming from the ancestral Rhenian accounting principles with the amortized cost method moving to the famous "fair value". It was one of most important milestones in my career. As I often said, it changed my life, my job, and the life of some of my fellow treasurers and some advisors, forever.

I used to claim that modern treasury function took another dimension with this standard, recently replaced by IFRS9. Then it was adopted by EU and applied since 1st of January 2005 for all listed companies across Europe. It changed my life for many reasons, and I talked, presented, discussed, lobbied, wrote, etc... so much about the topic that it became one of my favorite topics. I even wrote books on this interesting topic. Just to evidence my love with this standard. Love and hate by the way. I remembered tough time when we were lobbying EFRAG, the IASB with PwC and EACT and complex discussions with auditors. But at the end of the day, this standard, I must confess, really changed my treasurer's life (for better). Then came other important factors, like EURO, SARBOX, Global Financial Crisis, state debt crisis and more recently the COVID. In between, we also faced a technical IT revolution. Again, our scope of activities has been broadened and enriched by new tasks and new role. The modern treasury role has somehow been shaped and designed by some regulations and standards, by some crisis and problems faced, to become today a complicate but exciting function, as I guess as you treasurers, I always loved.

I wanted to celebrate this anniversary and highlight what changed my life as treasurer.


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François Masquelier,
Chairman of ATEL

PAYMENTS

HERWIG TEMMERMAN (BEARINGPOINT LUXEMBOURG):

WHEN EVERYONE WINS! **THE BENEFITS AND CHALLENGES** OF SEPA REQUEST-TO-PAY (SRTP)

The payments landscape is changing quickly not only because of the increasing digitalization of our society, but also because of the growing customer expectation that everything should happen instantly, frictionless and convenient. SRTP is a service that meets this expectation by simplifying the invoice and payment process.

THE MISSING LINK BETWEEN INVOICES AND PAYMENTS

SRTP is a messaging service where the beneficiary sends a request for a payment initiation to the payer. The message could also contain a link to the invoice.
Imagine you want to buy something in a shop and choose to pay directly from account to account. The vendor sends in real time a SRTP to your bank including the details of your purchase. You almost instantly see the payment details on your mobile banking app and authorize the transaction. The merchant gets the immediate feedback and releases the product you want to buy. Your bank and the seller's bank could clear the payment instantly.
The SRTP-Rulebook from EPC will become effective on15 June 2021.

A TRIPLE WIN

SRTP offers a WIN-WIN-WIN proposition for buyers, sellers and banks.
The new and unique process for invoice and payment processing offers the buyer an immediate and easy access to invoices in one place. Payments can be made with a single click. The customer can decide to pay immediately or at a later time. The consolidated view of all invoices and payments in one place facilitates financial planning and tax declaration.
For the seller SRTP could offer a full end-to-end digitization of payments and invoicing with easy follow up of the payment process and automated reconciliation.
The SRTP link can be used in any channel and thus increases the number of potential points of sale. If the provider of the channel has the buyer's contact details, a click by the buyer will be sufficient to access the invoice and payment details in his web or mobile payment application and immediately pay the purchase. The sales process can thus be shortened significantly.
Thanks to SRTP, banks can build a stronger relationship with their clients (payers and payees) and offer additional services. With SRTP banks are putting the account of the customers in the middle of the customer life.

CHALLENGES

Besides the obvious advantages, SRTP also has its challenges.
The payer must give his consent to receive the invoice via SRTP. Optionally the payer may set up a "whitelist'".
For banks there is a security challenge: it must be assured that the messages do not contain hacked or virus contaminated data.
In order to meet these challenges, the new "BearingPoint Bill" service acts as a hub and provides a trusted repository for e-invoices. This solves the problem for banks of having to process data from third parties in their own systems and make it possible to present e-invoices to payers across banks. Via this service, BearingPoint makes it easier for banks to connect corporates to the SRTP service.
BearingPoint will provide the bank with the necessary SRTP data including invoice reference/link (URL) to the interface defined with the bank.

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FOR THE SELLER SRTP COULD OFFER A FULL END-TO-END DIGITIZATION OF PAYMENTS AND INVOICING WITH EASY FOLLOW UP OF THE PAYMENT PROCESS AND AUTOMATED RECONCILIATION.

Herwig Temmerman is Partner at BearingPoint

BearingPoint Bill connects the bank's corporate customers and transforms the data supplied by its «ERP» system into the format required by the bank.
BearingPoint Bill covers following functionalities:

- Invoices delivered as attachment will be deposited in a repository with a link to retrieve this invoice.
- Banks only need to process the payment data. Invoices are processed separately.
- The payers see all relevant data in the SRTPs provided to them and can display the invoice via link.
- Invoices that may contain potential malware will not be processed in the SRTP system.
- The service connects all individual corporate customer with the banking systems through one hub.
- A download function is provided, enabling the end-user for example to use it for tax purposes.

As a technical service-provider, BearingPoint Bill is a neutral party that processes incoming e-invoices including SRTP-information from corporates and ensures trustworthiness of SRTP generating parties. We act as a hub and provide a trusted and secure information store for e-invoices. In this way, we solve the problem for banks of having to process data from third parties in their own systems and make it possible to present e-invoices to payers across banks. Finally, BearingPoint Bill creates the ability to display the invoice to the customer and this generates the potential to increase the use of the SRTPs.

Christian Bruck, Herwig Temmerman and Peter Golumbeck,
BearingPoint

PAYMENTS

CAPELLE TRANSPORTS TESTIMONIAL

CASH MANAGEMENT AND **WORKING CAPITAL** OPTIMIZATION

Longer payment delays and more substantial working capital requirements (WCR): the slowdown caused by the Covid-19 pandemic has put businesses' cash under pressure. To help, Kyriba and Cashlab have developed solutions to assist businesses like Capelle Transports better manage their cash to cope with the recession.

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THE RECESSION CAUSED BY THE COVID-19 PANDEMIC ONLY QUICKENED OUR RESOLVE TO DIGITALIZE, MANAGE, AND PROJECT CASH FLOW.

Déborah Vuche, Treasurer, Capelle Transports says "Capelle Transports grew strongly and rapidly during the last years. As a result, even before the Covid-19 pandemic, we intended to change our cash and liquidity management software to meet the requirements of our financial partners. Our objective was to secure and centralize payments as much as possible. In addition, we needed to save time in our daily processes related to cash and liquidity management and analyses. At that time, we were already thinking of adopting a treasury management system (TMS) to meet those needs."

The recession caused by the Covid-19 pandemic only quickened our resolve to digitalize, manage, and project cash flow. As **Laurent Mahéo (CFO, Capelle Transports)** puts it: "This recession forced us to decide more quickly. At the beginning of April 2020, almost all our trucks were idle, resulting in a 75% plunge in business within several days. Against this backdrop of uncertainty and a reduction in credit lending between businesses, we found that we needed to manage our cash more effectively on a day-to-day basis; however, we also needed to project it accurately to reassure employees, senior managers, and stockholders."

Capelle Transports decided to adopt Cashlab to model budget and cash flow needs, and Kyriba's solution to optimize liquidity management and short-term projections. The combination of the Kyriba and Cashlab solutions allows the company to have a strategic vision of the business, and manage cash effectively over the short and medium-term.

"We preferred the Kyriba solution right away," declares **Déborah Vuche, Treasurer, Capelle Transports.** "Using this solution, we were able to set up a TMS (Treasury Management System) simply and quickly in a few months. The TMS allowed us to know exactly how much cash we had daily and manage it more effectively over the short term. To determine where we were headed in this recession in terms of cash, we also needed a reliable tool to generate consolidated cash projections group wide. To do so, we picked the Cashlab solution which enabled us to optimize our financial reporting and cash management."

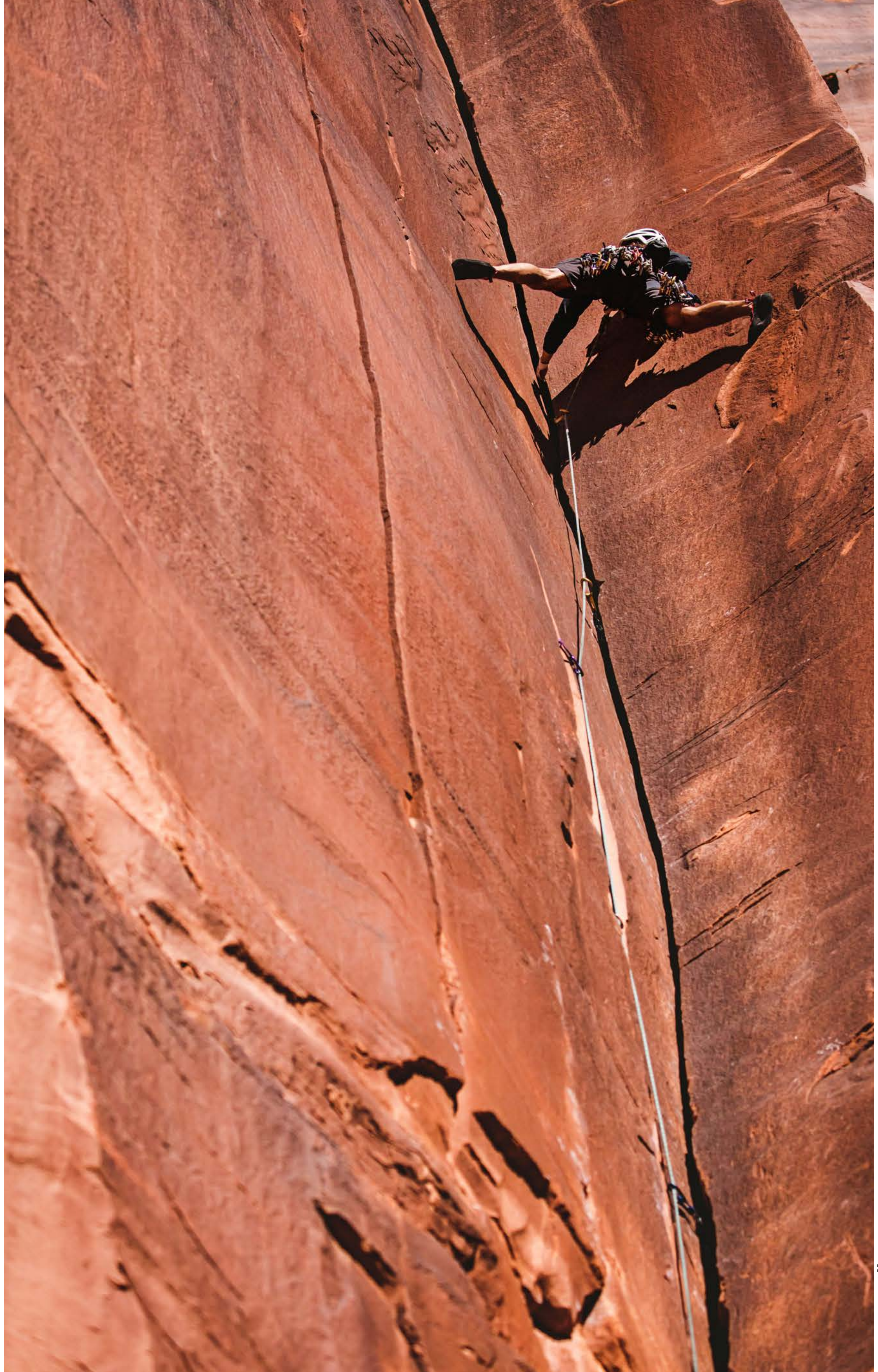
Laurent Mahéo, CFO, Capelle Transports adds: "Despite the recession, rolling out the Kyriba and Cashlab solutions enabled us to considerably improve our cash by the end of FY 2020 compared to FY 2019."

To rise up to the future challenges faced by CFOs, Kyriba and Cashlab signed a partnership to implement a new generation of solutions to enable businesses to get a clearer picture of their liquidities and better project their financing requirements. "The Kyriba and Cashlab solutions complement each other. Kyriba is the daily tool which, connected to banks, enables businesses to manage cash over the short term. Cashlab, on the other hand, is going to add value to budget management and cash management over the medium and long term," **points out Timothée Simon, Channel Sales Manager Mid-Market, Kyriba.**

"The Covid-19 pandemic sped up the need for new partnership combinations such as that of Kyriba and Cashlab. Our two solutions are completely complementary from a functional standpoint as a result of the dual approach via bank flows and budget flows, but also because we have the same DNA with fully cloud-based solutions" **concludes Laurent Marcellin, CEO, Cashlab.**

PAYMENTS

HEDGING OR **DE-HEDGING,** THAT IS THE QUESTION...



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> **REALLOCATING/RE-DESIGNATING HEDGES BY DE-DESIGNATING AND RE-DESIGNATING IS POSSIBLE, ALTHOUGH NOT ALWAYS PERFECT.**
> François Masquelier, Chairman of ATEL

DELAY IN FX HEDGING, ACCOUNTING TREATMENT

The accounting treatment of currency hedging (timing) mismatches remains a major problem that has become more acute in the wake of the health crisis. Many companies have suffered from the effects of the crisis and the drop in their sales, or sometimes they have simply experienced delays in delivery from their suppliers or payment from their customers. When payments were in foreign currencies, this may have affected their results because of currency hedging. The extremely high market volatility during the health crisis, one of the economic consequences of COVID, also forced many companies to review their hedging strategy. We have seen that harbors were blocked, goods could not be delivered, and even commodities or finished products became unavailable (e.g., semiconductors for the automotive industry or for white goods). This exceptional (but not historic) situation generated significant delivery delays, or even cancellations of purchases or sales denominated in foreign currencies, initially covered by financial derivatives. The idea was to protect against any adverse impact of the exchange rate on the income statement. Many companies use these hedging instruments (derivatives) to protect themselves against a change in the value of the currency against the company's functional currency. But when the underlying currency disappears, the hedge becomes speculative and a real risk.

"CASH-FLOW HEDGE (CFH) METHOD APPLIED

Many companies hedge on a budgetary basis and qualify hedges of future cash flows by applying the so-called "cash-flow hedge" method under IFRS 9 (ex-IAS 39). Thus, when circumstances required it, companies had to shift the timing of transactions initially planned for a specific date. They have used currency swaps or "roll-overs" of forward exchange contracts (an extension consisting of a spot purchase of the currency sold, for example, and a forward resale of the same currency to match to the new expected payment date). These roll-overs obviously have an immediate impact on the income statement, at the time of the extension, and modify the new future rate (even if the new rate reflects the exchange rate at the time of the extension - i.e., a more favorable rate implies a less favorable forward rate and conversely a less favorable spot rate at the time of the extension implies a lower future / forward rate). It appears that an extension of a hedging contract has a "spot" impact that will eventually be neutralized forward (except for the new swap points, due to the extension in time). If the initially hedged transaction has not taken place and is no longer expected to take place, e.g., the cancellation of a hedged order, the extended hedging instrument can no longer →

→ be allocated to the cash flow that was initially hedged. In this case, the hedging relationship should be discontinued at the date of disappearance of the hedged underlying and the effects of the hedge initially accumulated in recyclable equity item (i.e., in OCI - "Other Comprehensive Income" or EHR - "Equity Hedging Reserve") should be immediately recycled / released to the income statement (P&L).

WE ALWAYS ADVISE TO BE WELL EQUIPPED IN SOLUTIONS TO BE ABLE TO QUALIFY YOUR FOREIGN EXCHANGE OPERATIONS PROPERLY AND MAINTAIN BENEFITS OF THE HEDGE ACCOUNTING TREATMENT.

François Masquelier, Chairman of ATEL

ACCOUNTING CONSEQUENCES OF HEDGING ADJUSTMENTS

It is possible, at that date (extension date), to qualify the extended hedging instrument in a new hedging relationship. If the initially hedged transaction did not occur on the date initially planned, but is expected to occur later, the occurrence of the related cash flow may remain probable or even "highly probable" (according to IFRS terminology), e.g., a three-month delay in the acquisition of machine tools or in the delivery of electronic components, and consequently in the associated cash flow (underlying flows).

The hedging instrument then continues to cover a clearly identified future flow, precisely traced in the information systems (e.g., TMS), and shifted in time. In this case, the time lag does not systematically call into question the accounting hedging relationship. If the expected transaction remains "highly probable" (according to the IAS 39 definition – circa 90% of occurrence), then the hedging relationship can often be maintained. However, the effect of the timing difference on the effectiveness of the hedge must be assessed and the ineffectiveness (if any) recognized accordingly (into P&L). There is always the question of the acceptable duration of the extension. If the extension is too long, it may have an impact on the assessment of the "highly probable" nature of the cash flow. If the flow is no longer highly probable, but is still expected, the hedging relationship should be discontinued (the derivative no longer qualifies as a hedging instrument, unless it is redesignated in another hedging relationship). But the amount initially accumulated in OCI/EHR (i.e., frozen into equity item) must remain in equity until such time as this cash flow occurs / materializes and affects profit or loss. Therefore, the operational implementation of such strategies must be accompanied by specific internal accounting analyses, about the hedging documentation previously established, with the aim of anticipating their effects on the income statement.

DYNAMIC HEDGING OF EXPOSURES

In such a troubled context, managing dynamically its FX exposures becomes even more essential and requires ad hoc IT solutions on top of the TMS to fully cover the processes and automate them further. One of the problems with FX management is also the lack of adapted IT tools (even TMS's). These tools are certainly efficient but often cannot produce appropriate reports to manage required adjustments or dynamic portfolio management by linking it to the underlying portfolios (i.e., direct automate link between underlying exposures and designated hedging instruments). The underlying exposures and operational risks to be hedged, are managed elsewhere, in another tool(s) (when this tool exists and when it is not in a simple and unrobust spreadsheet). Fortunately, there are solutions that allow for a more dynamic and efficient management of foreign exchange risks and their hedging, in a world of economic upheaval that can pose problems of timing and therefore hedging efficiency. For example, KANTOX proposes solutions to fully automate and track hedge relationships to ensure at any moment in time qualification under CFH or at least to assess accounting impacts (if any). The objective is to fill in the gaps left by existing systems or spread sheets.

DE-DESIGNATION AND RE-DESIGNATION

Reallocating/re-designating hedges by de-designating and re-designating is possible, although not always perfect. Canceling hedges requires immediate consideration of the results of the accounting impacts in P&L (and/or on balance-sheet). Not covering FX risks may appear as financially dangerous. But hedging is effective if the underlying assets materialize in a timely manner. Any hiccup may require readjustment of the accounting of the transactions, as required by IFRS 9. The management of financial instruments can only be done if it is coordinated with the management of the underlying exposures. Managing one without the other would be risky and inefficient. The art is to be perfectly equipped with a TMS and a dynamic hedge management tool to align everything and to perfectly account for all transactions. When the company manages a lot of hedges at the same time, because it has a lot of underlying's, coordination becomes potentially problematic and complicated. So, we always advise to be well equipped in solutions to be able to qualify your foreign exchange operations properly and maintain benefits of the hedge accounting treatment during the whole life of all underlying exposures. It is an art, and it requires to be well organized to avoid any problem and impact the results. Implementing state-of-the art solutions helps treasurers to prevent problems at roll-over time and to always keep track records of any operations in a fully automated mode. We may look like pushing at open doors here. However, automation is the best response found (so far) to the crisis to become more resilient and be able to effectively manage these kinds of inevitable delays and adjustments of business operations.

François Masquelier,
Chairman of ATEL

PHILIPPE SCHINDLER (STONEX):

CROSS-BORDER PAYMENTS AND HEDGING IN EMERGING MARKETS: CHALLENGES AND OPPORTUNITIES

Commodity trading, foreign exchange and clearing specialist StoneX has built up specialist expertise in cross-border payments over the past four decades, attracting customers including the world's biggest transaction banks, multinational corporations, aid organisations and UN agencies. Two emerging opportunities are mobile phone apps and online freelance marketplaces.

What is StoneX's background?
StoneX is a US company listed on Nasdaq that provides trading, foreign exchange and clearing services for commodities, especially base and precious metals and grains. We offer consulting on asset management, investment banking and capital markets as well as proprietary risk management tools.
The company dates back to 1924, when a door-to-door egg wholesaler founded Saul Stone and Company. Through organic growth, acquisitions and the 2009 merger of International Assets Holding Corporation and FCStone Group, the business has evolved into a global financial services group.
We have been a specialist provider of cross-border payments since 1986, building up a customer base that relies on our expertise and efficiency and includes most of the world's leading transaction banks as well as multinational corporations, aid and development organisations, and UN agencies.

What kind of challenges arise with cross-border payments and hedging in emerging markets?
We work with a global insurance group that conducts multiple local currency payments all over the world, making more than 3,000 cross-border payments a month in 52 currency pairs, in jurisdictions where it does not itself have local currency accounts. It can upload these payments in a single file directly to our pricing and payments system, Fxecute, which automatically prices foreign exchange deals, validates instructions and notifies the ordering customer once the transaction is settled. Our software receives the instruction and makes the payment directly to the ultimate beneficiary, saving the ordering customer the time and expense of maintaining its own local currency accounts in developing markets, without any loss of certainty or transparency.
In countries such as Brazil, regulations and processes regarding FX can be challenging without proper assistance. We looked for the best solution to meet growing demand from companies and banks, and decided to set up a foreign exchange bank in Brazil to facilitate transactions ranging from spot exchange remittances to more complex transactions such as inter-company loans, capital increases, dividend payments and margin calls. This provides customers with guaranteed prices and helps them smoothly manage the registration steps required with their beneficiary thanks to our dedicated local team in Brazil.

What differentiates you from other providers in the market?
Unlike many cross-border providers, we run our own network of around 350 correspondent banks in more than 180 countries. Instead of relying on one or two global banks, we actually conduct transactions in the market of the intended payment, using a local specialist. Our 'boots on the ground' expertise provides us with accurate and reactive market intelligence, along with the ability to open up new markets to provide easy access to more currencies.
Being a solid and diversified financial institution with a strong balance sheet and deep liquidity within the group, in most cases we can use our own treasury to settle payments. The StoneX Group is a specialist trader in a large and diverse range of markets including metals, energy, grains, dairy, renewable fuels, soya, livestock, interest rates, securities, and obviously currencies. This enables us to provide customers with hedging and trading solutions for a wide range of products in these markets, not just payments and FX.

Why do the top 10 banks use StoneX for their payments?
A number of factors have obliged global transaction banks to rationalise their correspondent networks in recent years as part of de-risking strategies. Simultaneously, the increasing globalisation of commerce and its stabilising effect on many emerging market economies has resulted in customers of these banks requiring accurate and efficient delivery in a wider range of currencies, rather than simply sending US dollars. This trend has emerged in an environment in which banks no longer feel the need to do everything themselves, but recognise the value in partnering with leading specialist providers.
Via a single connection to StoneX, banks can instantly broaden their currency offering to corporate customers to as many as 140 currencies, offering live, streaming and executable benchmarked FX rates, providing certainty of cost and final delivery amount at the moment of transaction, without having to bear the cost of maintaining the infrastructure themselves. This enables customers of our partner banks to control their cross-border costs, rather than sending hard currency and being at the mercy of the conversion process of the receiving institution.

VIA A SINGLE CONNECTION TO STONEX, BANKS CAN INSTANTLY BROADEN THEIR CURRENCY OFFERING TO CORPORATE CUSTOMERS TO AS MANY AS 140 CURRENCIES.
Philippe Schindler, FX Sales Belgium – Luxembourg, Global Payments Division, StoneX

With 35 years of experience in cross-border payments and an extensive blue-chip client base, StoneX brings economies of scale to running a correspondent network that are hard to replicate, prompting even the largest transaction banks to partner with us. Such is our expertise that cross-border payment customers include one of the EU's largest central banks.

What trends may affect cross-border payments in the future?
Cross-border e-commerce continues to grow rapidly, and has accelerated amid the Covid-19 pandemic. Globalisation, and consumers spending more time online researching products, are driving annual growth in double figures.
Examples of opportunities in local currency payments include mobile phone platforms. Apps can be developed and uploaded to app stores by anyone in the world, whether corporations in India or individuals in Lithuania. When consumers download an app, it generates a revenue stream for the developer, either through payment for the app itself or in-app advertising, in most cases entailing payments in local currency.
Another avenue is online freelance marketplaces, a two-sided platform enabling both companies and individual specialists to connect for available jobs where skills match requirements. Employers for a particular job can be anywhere in the world, and when the work is completed, the contractor must most likely be paid in local currency.
This enables suppliers to bill in their own currency, removing the need for the conversion risk premium inherent in US dollar billing and facilitating more transparent cross-border pricing of goods and services.


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Philippe Schindler,
FX Sales Belgium – Luxembourg, Global Payments Division, StoneX

JAN DIRK VAN BEUSEKOM AND BRUNO MELLADO (BNP PARIBAS):

TECHNOLOGY AND THE ART **OF CASH FLOW** FORECASTING

Jan Dirk van Beusekom, head of strategic marketing at BNP Paribas Cash Management & Trade Solutions, and Bruno Mellado, the bank's global head of payments and receivables, say automation and digitalisation, in tandem with European and international initiatives, are helping to improve cash flow forecasting for corporate treasurers.

What would you say is the art of treasury management?
The art of treasury management is predicting the future. The treasurer always looks at future cash flows to ensure the company has the best funding opportunities, at the lowest cost with the highest yield. There are four questions a treasurer must address daily: How and where will I collect payments? Do I know I have been paid, and how my money is being collected? Once the money is in the company, how can I use it most efficiently; do I need additional funding, or do I have cash to invest? Finally, how, where and when will we make our own payments? Collection is a pain point – if you cannot predict where, by whom and how you will be paid, the treasurer cannot predict future cash flow accurately. Answering these questions is what treasury management entails. Automation and digitalisation help to predict the future, understand future cash flow and make better decisions based on data the treasurer possesses.

How do you adapt to your clients' payments needs?
We believe there is an opportunity to improve the payment experience and deliver significant improvement not only to your working capital but the working capital needs of your suppliers. Payment methods are evolving quickly and offer many options for managing the cost, speed and transparency of the final amount in a foreign currency. We are convinced the new normal will involve a pre-determined payment selection based on efficiency, cost and security. This requires intelligence to orchestrate payments based on vendor data offering treasury departments seamless execution, just as if you were paying with a credit card.

What factors are driving this trend?
On one side electronic invoicing is becoming a requirement for B2B payments in most European countries. It will be mandatory in France by 2023. Meanwhile the European Payments Council's Request to Pay scheme will go live this year, enabling the sending of structured messages to request payment and providing full control from the invoice and payment request to execution.
And under domestic and regional schemes instant payments enable finality of payment. Together with SWIFT we are designing international payments to be pre-validated with certainty over currency, account holder and cost, thanks to the new international payment architecture and banking services integrating with clients' treasury management and ERP systems. The ultimate objective is to recreate the experience of a card payment, which offers certainty of payment finality and execution at the time of the transaction. This hides payment complexity so that you can focus on the business, and banks can apply this intelligence to completely auditable processes, enabling you to forecast incoming and outgoing payments with greater accuracy.

What developments are shaping the digitalisation of the treasury function?
Technology is opening up new opportunities to make treasury more dynamic, in real time and on demand, but this requires good project execution together with banking partners and third party fintech firms with which banks are collaborating to enhance treasury procedures. One example is reconciliation of invoices, which has a direct impact on direct sales outstanding, and where banks and fintech providers are applying machine learning to improve the reconciliation rates. Another major evolution is the APIsation of financial services. For example, an insurance client automated claims processing – together with the bank, it created a process for claimants to request reimbursement completely digitally, and to receive the money even before they have logged off the claims website. The claim is analysed, validated and paid automatically; it is less work for the company and differentiates it from competitors. Another way to reduce treasury workload is through transparency of payment status to suppliers, thanks to SWIFT GPI and API connectivity that answers the perennial question: "Exactly where is my payment?".

> **THE TREASURER ALWAYS LOOKS AT FUTURE CASH FLOWS TO ENSURE THE COMPANY HAS THE BEST FUNDING OPPORTUNITIES, AT THE LOWEST COST WITH THE HIGHEST YIELD.**

Jan Dirk van Beusekom, BNP Paribas

Bruno Mellado, BNP Paribas

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JÖRG WIEMER (TIS):

ENTERPRISE PAYMENT OPTIMIZATION – PAYMENTS ARE AT THE CORE OF DOING BUSINESS

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Payments are at the center, at the very core of every business. Cash Flows are the lifeblood of a company and in essence drive the business and the decision making. TIS is reimagining the world of enterprise payments through a cloud-based platform designed to help global organizations optimize outbound payments. Interview Jörg Wiemer, CSO at TIS.

Can you explain what Enterprise Payment Optimization (EPO) really is?

Enterprise Payment Optimization (EPO) is a market trend bringing payments to the next level. It means reimagining the payments process and leverage related cash flow data to unlock significant positive impact on business performance and supporting the success of an entire organization.
In the past, companies have concentrated on streamlining in-bound cash collections i.e., how their customers pay. The next logical step is for a business to optimize its outbound payments process with EPO. By doing this, companies can harvest data and information breaking down barriers and facilitating collaboration. EPO is literally the orchestration layer supporting successful collaboration across an entire organization. Access to data for people and systems, regardless of their location or business line, becomes possible. Finance can be a true business partner and positive change-agent supporting the strategy, such as a firm's digital transformation of the entire company.

How does EPO fit into a current corporate structure? And why is a new approach to enterprise payments necessary… Now?

With today's speed of change in commerce and technology, it is no longer an option to leave each function, system, or geography siloed. Silos reduce visibility, communication, and therefore growth. A company's liquidity, profitability, and exposure to risk – including cybercrime and fraud – are negatively impacted without a holistic view across borders as well as business units. This principal transcends individual departments, such as accounts payable, HR or treasury.
In essence, an efficient, effective, and seamless, outbound payments process increases your strategic agility and your capacity to grow as an organization. Global companies with a high level of complexity need the right tools to allow a 360-degree view of their business. They also need the ability to streamline/standardize processes without reducing flexibility for the relevant organizational stakeholders.

Why is EPO and the EPO platform the right vehicle for journey to an optimized world of enterprise payments?

EPO is the orchestration layer that supports successful collaboration across an entire organization.
It can reduce much of the cost and risk, that is a result of trapped information and a lack of collaboration. EPO is a game changer, taking payments to the next level through data and systems' alignment as well as standardization of processes. The EPO platform offers solutions to meet the needs of clients, regardless of what stage they are in, on their maturity journey. Those stages are "isolated, controlled, networked and optimized". By assessing the processes with the matrix using the capabilities Connect, Collaborate, Pay, Analyze and Improve a company can easily find out in which stage they are in and how EPO can help taking payments to the next level.
Also, the platform goes beyond providing the information needed for companies to perform, it also gives access to best-of-breed products and services for a firm to thrive.

WITH TODAY'S SPEED OF CHANGE IN COMMERCE AND TECHNOLOGY, IT IS NO LONGER AN OPTION TO LEAVE EACH FUNCTION, SYSTEM, OR GEOGRAPHY SILOED.
Jörg Wiemer, CSO, TIS

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Jörg Wiemer,
CSO, TIS

STEW COFER, PRIYANKA RATH (J.P. MORGAN):

AFTER-BREXIT: NAVIGATING UK-EU PAYMENTS IN THE NEW NORMAL

As the reality of Brexit becomes clear, treasury and payments professionals now have to grapple with «new» regulations and operate in a more complex European payments environment. At the same time, the challenges of managing liquidity, safeguarding business continuity and optimizing working capital to manage COVID-19 related disruption have not disappeared.

Remember the exciting day? Your first smartphone. It came with all sorts of novel features and worked pretty much anywhere you could reach. Your "home" country code and phone number were initially considered as the base from which you reached the world virtually. Unless you experienced an unwelcome charge or delay, your world was a borderless frictionless experience, your local foundation hidden within a global experience.
Your corporate bank account structure might feel similar: carefully considered and designed to give you best access, optimisation, and reach.

HOW BREXIT WILL AFFECT PAYMENT PROCESSING

Borderless frictionless payments and seamless integrated liquidity management sound like good things. In order to reach this goal, the European Union (EU) has spent the past decade harmonising the way monies are transferred. The implementation of the Second Payment Services Directive (PSD2) spearheaded this political objective of creating a single, competitive payments market for Europe. Essentially, payments across the United Kingdom (UK) and the European Economic Area (EEA), in any currency, were treated as 'domestic' by Payment Service Providers (PSPs). This ensured protection of the principal amount and resulted in less onerous payment data requirements. So it is no surprise that the UK's departure from the EU (Brexit) has changed how customers do business in the region .
As the reality of Brexit appeared at the start of the withdrawal process, the financial sector went into preparation mode to manage the eventual European Banking Authority (EBA) position. UK-based financial institutions could no longer passport their UK regulatory license and authorisation, effectively cutting off any cross-border operations with the EEA. Many PSPs navigated new legal entity structures, clearing scheme connections, employment models and technology changes – all against the challenging backdrop of the global pandemic.
As treasury and payments professionals awake to the reality of Brexit, they now have to grapple with «new» regulations and operate in a more complex European payments environment. Simultaneously, there remains their existing challenges of managing liquidity, safeguarding business continuity and optimizing working capital to manage COVID-19 related disruption.
The exhibit below captures some of the key changes for corporates.
While the introduction of complexity, friction, and cost is never welcome, it is to be expected as corporates navigate a post-Brexit environment. Each individual impact to an end user paints a new picture in aggregate for cross-border payments, and indeed the cash management thinking in the prior landscape. When viewed together, operational elements can, and should, influence strategic choices.

OPERATIONS MEET STRATEGY: OPTIMIZING WORKING CAPITAL IN A CHANGING GEOPOLITICAL LANDSCAPE

Your phone could go anywhere, but it had a true home. So does your bank account structure. Is it fit for purpose given this new reality? What impact does it now have on the reach, access, and cost of maintaining and building new relationships with customers, suppliers, and your own

AS TREASURY AND PAYMENTS PROFESSIONALS AWAKE TO THE REALITY OF BREXIT, THEY NOW HAVE TO GRAPPLE WITH "NEW" REGULATIONS AND OPERATE IN A MORE COMPLEX EUROPEAN PAYMENTS ENVIRONMENT.

entities? We are having a lot of conversations with our customers these days that focus on these themes and how J.P. Morgan may best help them meet their respective needs and achieve their objectives.
J.P. Morgan understands that the answer to these questions is dependent on each company's unique set of challenges and priorities as it navigates this new environment. As a European bank, our range of capabilities enable us to offer optionality through the breadth of the global J.P. Morgan franchise. This includes our five centralisation hubs (Luxembourg, Germany, Ireland, the Netherlands, and the UK), which are the pillars of our broader European footprint. This helps maintain our current level of service and product offering to our clients, increases choice and insulates against the changing landscape. We have expanded product capabilities and services in our European treasury hubs to offer a full suite of cash management and liquidity solutions: payments, receipts, liquidity management and account services. Our investment in a multi-legal-entity based platform enables clients to bank with any of the hubs and branches based on their European structure, geographical preferences and the solutions utilised.
Clients can also benefit from the J.P. Morgan single global liquidity platform, and may choose to pay / receive into an EEA hub (or the UK for GBP). Such liquidity can be swept across J.P. Morgan locations in the UK-EEA on a same-day basis for consolidation purposes as required, thereby avoiding the impact of cross-border charges being applied by other providers.
Last but not least, we continue to leverage our voice in the industry to actively promote best practise in payments, with the goal of driving greater transparency, speed and simplicity.

Stew Cofer, head of EMEA payments product solutions specialists, J.P. Morgan

Priyanka Rath, global head of liquidity solutions specialists, J.P. Morgan

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COMPLEXITY FRICTION COST

IBAN Discrimination

International Bank Account Numbers (IBANs) begin with a 2-character country code denoting where in the world the account is based, e.g. "GB" for accounts in the UK. Some companies are refusing to accept SEPA payments and direct debit set-ups from "GB" IBANs, even though the EPC confirmed the UK's continued participation in SEPA schemes. This refusal of transactions from GB IBANs is known as IBAN discrimination and is in breach of EPC SEPA governing regulations (Eu No 260/2012). Account holders suffering from IBAN discrimination should complain to companies refusing the payment details. If this fails, relevant authorities are another route to report alleged breaches: https://ec.europa.eu/info/sites/info/files/art10-competent-authorities-05072013_en_0.pdf.

Additional Third-Party Bank Charges

With the UK no longer part of both the EU and EEA, payments between the UK and countries within the EEA can no longer be defined as intra-EEA payments under PSD2. Therefore the principal on impacted Wire payment amounts can no longer be protected from deductions or claim backs.

Some European Banks now treat SEPA transactions between the UK and Europe as cross-border from a fee perspective, resulting in additional bank charges. While industry views are varied, J.P. Morgan has observed complaints being raised to industry bodies and national banking communities to draw attention to the increased costs.

With respect to multibank sweeps, inbound sweeps sent as payments from a third party remitting bank in the EEA, may be subject to additional charges applied by the third party bank.

J.P. Morgan has not introduced any new charging practices or deductions as a result of Brexit.

Additional Data Requirements under the Funds Transfer Regulation (FTR)

Transactions between the UK and the EU have always required payer and payee information. Full payer (i.e. ordering customer) information includes:

- Name
- Account number or unique transaction identification number

However, there is now an additional requirement for:

- Full payer address, official personal document number, customer identification number or date and place of birth

Full payee (beneficiary) information, which includes:

- Name
- Account number or unique transaction identification number

Payment service providers located within the EU and UK may reject or delay transfers if the required information under the FTR is not provided.

Change to "Card not present" Interchange fees

Card interchange is a fee paid by merchants when processing card payments. The Interchange Fee Regulation (IFR) regulates the amount of interchange that can be charged on transactions between EEA merchants and EEA consumers.

EEA merchants selling to UK cardholders will see interchange rates rise for Mastercard card not present transactions. Currently, Interchange rates remain unchanged for card present transactions and when UK merchants sell to EEA cardholders.

THE MYSTERIOUS KYC, KIND OF SISYPHEAN MYTH

KYC, TREASURER'S SISYPHEAN MYTH

Treasurers remain concerned by pain points faced with Know Your Customers compliance and how to remove them. KYC is a serious concern and increasingly complex to fulfil because of unstructured and non-harmonized requests, beside the more stringent reviews made by banks. All recent surveys list KYC as a top priority for corporates and its rising costs are a source of frustration. It consumes lots of time, resources, and money. Central KYC registers, accessible by all banks and corporates, would create significant savings. Banks try to alleviate some of the regulatory pressure on them by increasing volumes of KYC information required. On average, MNC's have around 12 bank relationships. Multiple banking relationships make the KYC management documentation with financial counterparties more time consuming, complicated and it takes longer to on-board customers. One of the biggest impediments is the lack of common standards and comprehensive lists of required documents. You never know when your KYC process will end.

"CINFONIC" VARIATIONS ON A THEME

Even if KYC requirements intended to prevent increasing risks of money laundering, white-collar crime, and financing of terrorism, they have become increasingly onerous for banks. It consists of largely manual research processes often taking several weeks. But players understood that in establishing AML/KYC platform for local market that a national-only approach was not sufficient. An interesting German initiative named CINFONI is developing a network, a "Customer INFOrmation Network Intelligence". They saw its capability of growing into a system that will enable various players to contribute and collaborate on combined KYC solutions in a similar way as a symphony orchestra working in harmony. The idea is to establish a unique, dedicated protocol for cross-border regulatory data exchanges that has not previously existed. This network enables the exchange of KYC-company documents among banks in a standardized and automated process. This protocol is flexible enough to link local initiatives with their international counterparts. With CINFONI, once a single regulatory reliable record has been created, the validated and verified data, including required documents, can be forwarded to whatever banks require them, regardless the frequency and cross border. This is made possible because the entire process of composing and distributing the records is coordinated with the national financial regulators and meets the highest security requirements. Without the hindrance of legacy protocols, it is a "game-changer." Whereas legacy systems are highly centralized, it is based on distributed ledger technology. DLT is a digital system that records transactional data in multiple places at the same time so it can be accessed on a localized basis. It aims at creating a cooperative, federated platform for KYC requirements as an alternative to centralized storage and access to data. The network bets on expertise and relationships with local supervisors. Data does not have to be transmitted through a centralized hub as information is available to all users at any time facilitating cross-border interoperability. This delivers users regulatory compliant, trusted, and immutable data that is repeatable among multiple jurisdictions. Such protocol, therefore, provides international solutions to the slow and bureaucratic process of collecting and exchanging data. It gives access to regulatory compliant KYC record production that can be flexibly adjusted to banks' needs. This creates a dynamic standard covering data and workflows for a scalable evolution for the expansion of the network and growth in participants. For example, i-Hub, player in Luxembourg, will be the network node included by Arvato Financial Solutions into CINFONI. Many treasurers find growing KYC requirements a headache merely on a national level. The harmony of network helps meeting need for regulatory compliant, trusted, and immutable data, that is repeatable across international boundaries.

CONTEXT AND POTENTIAL SOLUTIONS TYPES

Treasury agenda is often hijacked by regulatory topics requiring urgent attention. The multiple bank relationships have increased KYC burden KYC negatively impacts client experience. Opening new bank accounts takes more and more time. KYC costs are also increasing significantly as requirements inflate and are not standardized. Furthermore, documents are transferred via unsecured means implying risks on sensitive data.

→

COMPLEXITY

"The complexity of KYC has increased dramatically during recent years."

L. Grisot, Treasurer Ferrero

ADMINISTRATIVE BURDEN

"KYC requirements have increased so much that they are now one of our main concerns when starting new business. Central KYC, accessible to all banks, would save significant time for corporates."

J. Geyer, Cargolux

VALUE DISTRACTION

"While KYC is fundamental, banks should not take treasurers further away from value creation."

B. Defays, KCTG

STANDARDS

"The Holy Grail of a standardized, automated KYC is still some way off."

F. Masquelier, EACT Vice-Chairman

REDUNDANCY

"The lack of harmonization implies significant work for corporations."

B. Scholtissen, Aperam

KYC

DEFINITION

BEFORE:
AML CHECKS

NOW:
TODAY'S REGULATION IS TOMORROW'S KYC

25 HOURS

AVERAGE TIME SPENT PER WEEK ON KYC BY MNC TREASURY TEAMS

> **EVEN IF KYC REQUIREMENTS INTENDED TO PREVENT INCREASING RISKS OF MONEY LAUNDERING, WHITE-COLLAR CRIME, AND FINANCING OF TERRORISM, THEY HAVE BECOME INCREASINGLY ONEROUS FOR BANKS.**
>
> François Masquelier, Chairman of ATEL

→ **List of different KYC solutions:**

- Proprietary solutions (within a same bank group for its customers across the world).
- National solutions (on DLT or other technologies but limited to local banks).
- Global market infrastructure solution (SWIFT register for SWIFT users only so far).
- Independent and open to all solutions (Cinfoni, I-HUB, Conformittee or Clipeum)

SMOOTHER AND SECURED KYC PROCESS WILL CREATE VALUE

A standardized, automated KYC solution covering all types of users would be fantastic; but remains for different reasons some way off. However, we have good reasons to remain optimistic as lots of initiatives are emerging. There is unfortunately no single, fit-all solution. There are many parallel initiatives, of which some seem promising and others more difficult to roll-out. Treasurers have the duty to move and to adopt one or several of them rather than to keep complaining about unstoppable KYC rules, which affect all stakeholders. Both banks and end-clients want to spend more time on running business and less time on KYC. There are several initiatives, all good and not necessarily in competition. Treasurers complain rightly KYC issues affect all stakeholders. Across the world, regulators have demonstrated no mercy to financial institutions that violated the stringent new post-GFC compliance rules. Now they are promising to punish corporations that do not respect AML and KYC requirements. Treasurers complain about KYC constraints. However, it is time for action and to adopt some of existing solutions. If the buy-side waits for standardization from the sell-side or from regulators, things could remain complex for years. It is such a complex issue that there are room for several solutions to cover the whole market. There is room for several solutions if they are interoperable.

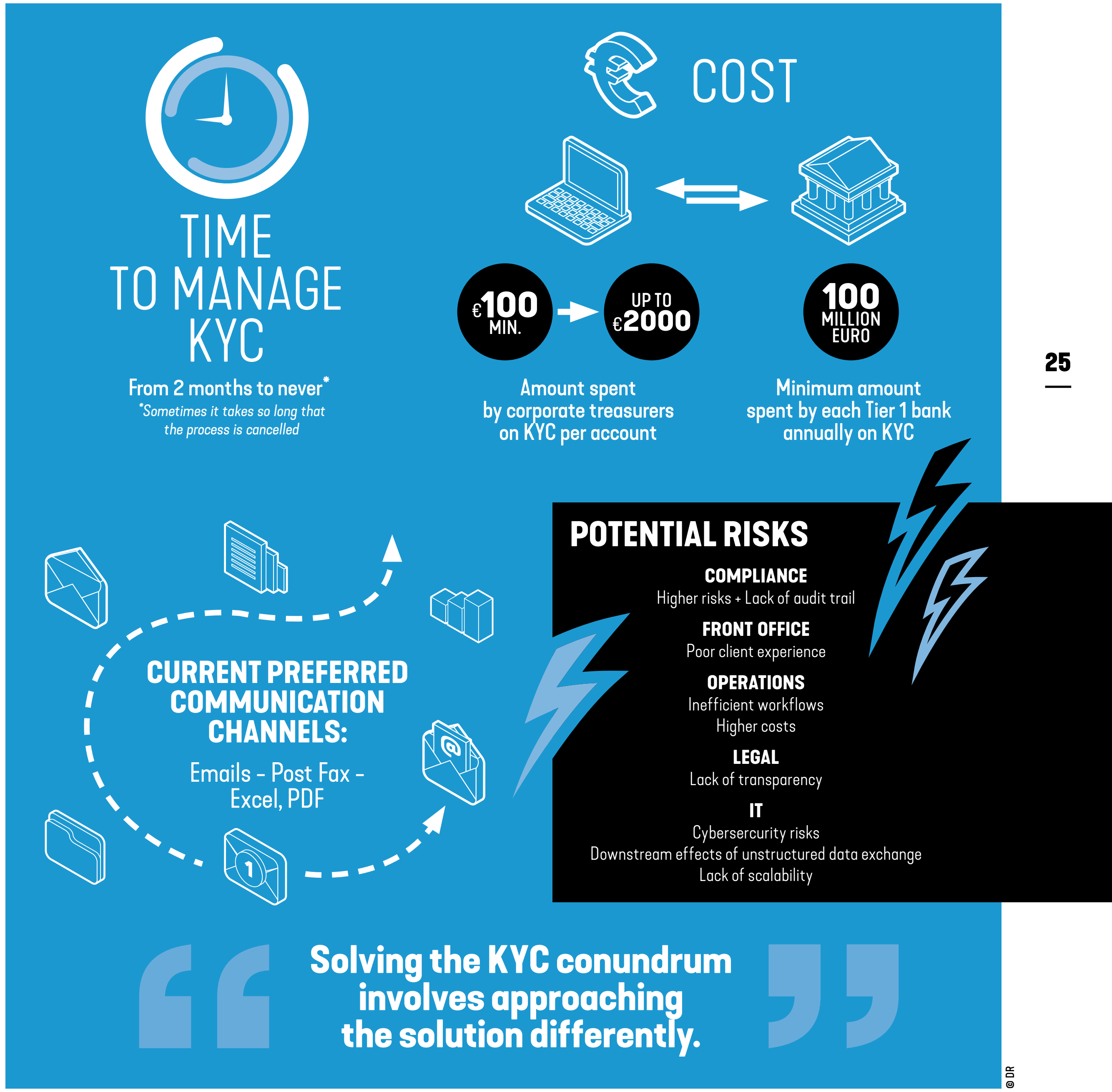
KYC A NEVER-ENDING STORY OR LIGHT AT THE END OF THE TUNNEL?

KYC aims at verifying customer's identity and ensure that clients are not involved in corruption, illicit businesses, or money laundering. KYC's policies have been expanding as issues related to corruption, terrorist financing and AML become more widespread. It became a tool in combating illegal transactions in international finance. Nevertheless, it seems that lines are moving. Even if the path has been long, tortuous, and full of pitfalls, with many aborted attempts, I am hopeful that the solution lies in the coordination of local and regional initiatives, and by making local champions the instruments of the same interconnected orchestra, we will finally arrive at a solution that is satisfactory for all Corporations, regardless of their size. ▬

François Masquelier,
Chairman of ATEL

KYC IN SHORT

Several efforts have been made to standardize KYC across the industry, with limited effects. Is it all about standards or is it about something else? Here is a quick overview of the key issues experienced by corporate treasurers and their banks.



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ALAIN GOEBEL AND DANNY BEETON (ARENDT & MEDERNACH):

UPSKILLING THE TREASURY FUNCTION FOR MODERN TRANSFER PRICING COMPLIANCE

Danny Beeton

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Alain Goebel

Alain Goebel, Partner and Danny Beeton, Of Counsel in Arendt & Medernach's transfer pricing team identify the enhanced skills which treasurers need for the modern transfer pricing environment.

How do transfer pricing rules affect the treasury function?

The international community has accepted the convention that any dealings between related parties should be charged for at prices to which independent parties would have agreed – the "Arm's Length Principle". In the group treasury context this would apply to related party loans and guarantees, cash pooling and other financial services such as hedging.

It is not just the initial price which is affected, but also the size of the transaction (for example a loan) and the behavior of the parties while the agreement remains in place (for example, when financial covenants are broken, the steps taken to manage the lender's risk). At each stage, the parties must be able to show that they have behaved as independent parties would have done. Failure to do so can result in time-consuming tax audits and possibly litigation, additional taxation with interest, and in many jurisdictions penalties. For example in 2020, the Finnish Oyj case involved an attempt by a tax administration to reallocate the bulk of the profit of a group treasury company to its parent company on the basis that this was where most of the financial decisions were made. In the Indian KEC case, the tax administration assessed tax on the interest which it said a treasury function should have charged in a short-term emergency cash advance to a struggling group company. In 2019 an anonymous Luxembourg company lost in court when it could not explain why a related party interest rate was so high.

THE MODERN TREASURER NEEDS TO BE ABLE TO SET FRAMEWORKS FOR FINANCIAL TRANSACTIONS AND THEN TO MONITOR THOSE TRANSACTIONS AND TAKE ACTION AS APPROPRIATE.

In which ways have they become more demanding?

In early 2020 the OECD published the first detailed guidance on how to apply the transfer pricing conventions to financial transactions. The guidance is deeply skeptical of cash pool header companies and places a new onus on taxpayers to explain why they merit an interest spread as opposed to a small cost-plus service fee. It also requires taxpayers to consider the perspective of the borrower and explain why any costly terms and conditions of a loan agreement (amount, tenor, lack of security, options) were necessary, or what additional benefit it received from paying for a related party guarantee.

Since then the global COVID-19 pandemic has affected market interest rates and also the creditworthiness and debt capacity of individual group companies. Borrowers may be able to borrow less, and at a higher interest rate, while the value of guarantees may have declined. Financial covenants may have been broken, and options may now be worth exercising. Where short term deposits and advances are concerned, the charge for liquidity may have become more significant element of the interest rate, and in any case some of these balances may have now become long term. Treasury policies need to be reviewed and this process and its outcome also need to be documented.

How should the treasury function respond?

The modern treasury function must have skills and research resources in the areas of credit rating, interest rate benchmarking, guarantee fee calculations (benefit received and cost to the guarantor), the calculation and allocation of the savings from cash pooling across the participants through the credit and debit balance interest rates, and the determination of a reward for the cash pool header for its financial risks. It needs to be able to set frameworks for financial transactions and then to monitor those transactions and take action as appropriate.

These skills are those of financial transfer pricing specialists and the necessary resources are also specialist and costly. Partnering with a specialist adviser is often the efficient response to these challenges.

Alain Goebel,
Partner in the Tax Law practice, Arendt & Medernach Luxembourg and London

Danny Beeton,
Of Counsel in the Tax Law practice, Arendt & Medernach Luxembourg and London

CHRISTIAN SCHLESSER, OANA POPESCU (EY LUXEMBOURG):

REACT TO CAPITAL CALLS OF MULTINATIONALS

Recent tax and transfer pricing reforms require a complete re-evaluation of the means in which multinationals design their funding structures. In addition, cash mobilization has become a priority for multinationals trying to manage funding needs around the world.


Christian Schlesser

What were the latest capital structure decisions taken by multinationals?
O.P: From the early stages of the pandemic, we noticed that the primary concern of our clients was to address the liquidity needs of their organizations.
Multinationals active in sectors such as retail, hospitality and automotive, needed to raise funding at high interest rates on the market to secure the short-term requirements of their operations. In this respect, the cash pool has been used extensively to push those funds down in a cost-efficient manner to those subsidiaries most in need. The role of the cash pool leader became critical in the management of credit limits down the chain.
On the other hand, we have noticed that borrowers from less impacted sectors and/or presenting strong credit profiles were looking to re-finance their debt in order to benefit from the lower interest rates available on the market, including those offered via European Central Bank programs for non-financial corporates with attractive interest rates and an optimized funding costs.

How could business needs be aligned with tax constraints arising from new international rules?
O.P: Once business decisions are implemented, multinationals must adjust their transfer pricing policies accordingly. Given the unprecedented situation in which decisions were recently made, new complexities have had to be assessed from an international tax perspective.
Luxembourg treasurers had to manage the amounts of internal/external debt and where it was raised. These decisions led to different withholding tax or interest limitation implications depending on how the latest international tax standards were implemented in the relevant domestic legislation.
Moreover, some Luxembourg treasurers had to determine to what extent they could deviate from existing transfer pricing studies. This topic is particularly complex when long-term funding contracted at higher interest rates is injected into existing cash pools bearing typically low interest rates. The complexity arises from the fact that those specific transactions can create accounting losses at the level of the cash pool leader. The question often raised is whether those losses would be acceptable from a tax perspective. Although, in principle, the OECD guidance on the transfer pricing implications of the Covid-19 pandemic should be a good reference in answering that question, it does not provide explicit guidance for financing structures.


Oana Popescu

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SCRUTINY WILL CONTINUE TO BE TRIGGERED ON TOPICS SUCH AS THE COMMERCIAL RATIONALE OF FINANCIAL TRANSACTIONS AND THE FINANCIAL CAPACITY OF BORROWERS/GUARANTORS TO SERVICE THEIR DEBT/GUARANTEE.

Which topics are treasurers preparing for in the upcoming months?
C.S: Several developments will have a significant impact on any multinational's capital structure. We expect the following trends to be particularly relevant for Luxembourg treasurers going forward:

- Transfer pricing policies for cash pools (including netting benefit allocation) and financing structures will be subject to increased scrutiny from tax authorities, pursuant to the publication of the OECD guidance on financial transactions in February 2020. The guidance has already been endorsed by numerous jurisdictions that are part of the OECD BEPS Inclusive Framework (e.g., Belgium, Ireland, the UK) and we are seeing tax authorities already ask the questions arising from those new rules, even during tax audits that date before the new rules were published. Tax authorities increasingly prepare their audits of future years by collecting relevant information in previous years' audits.
- Scrutiny will continue to be triggered on topics such as the commercial rationale of financial transactions and the financial capacity of borrowers/guarantors to service their debt/guarantee. Since the commercial rationale principle had already been included in article 56 bis of the Luxembourg Income Tax Law, we expect Luxembourg tax authorities to continue to bring it up in their inquiries.
- Globally, treasurers should be prepared to be increasingly challenged on the beneficial ownership of interest income streams based on, either the application of the principle purpose test to companies that claim a reduction of withholding tax rates provided in double tax treaties or, apparently undercapitalized entities. As such, it makes sense to review group structures to simplify and enhance the group cash flow and eliminate entities that have no purpose. A robust and simple treasury organization will also reduce the time spent to respond to documentation requests from foreign tax authorities based in those countries where a withholding tax reduction is requested.
- The BEPS 2.0 initiative will introduce global minimum taxation requirements, denying interest deductions or introducing withholding taxes if the income is subject to a low tax rate at the level of the recipient.

Christian Schlesser,
Partner, International Tax and Transactions Services, EY Luxembourg

Oana Popescu,
Senior Manager, International Tax and Transactions Services, EY Luxembourg

PHILIPPE FÖRSTER (PWC):

TREASURY IS NOT JUST FOR BIG COMPANIES

The importance of cash and liquidity management for businesses large and small has been a hot topic for three decades, so why in 2021 are companies still losing hours or days compiling manually figures from bank statements? Many SMEs and smaller organisations still see treasury management as mystifying or beyond their resources, but that's something that needs to change.

DISCREET BENEFITS OF TREASURY MANAGEMENT

Whatever the industry, every chief executive will agree that finance is one of the key aspects of managing a company. Within the role of chief financial officer, a significant part of reporting, budgeting, pricing, working capital management, funding and risk management relates to treasury.

For many SMEs and smaller organisations, including NGOs, treasury looks like a cliff face – inaccessible. This is something we urgently need to demystify.

Not all entities need a sophisticated treasury department if they have the latest software, but considering the crisis we have been through and the benefits provided by the function, having a dedicated treasurer, treasury team or budget for an existing treasury department is more than just nice to have.

The benefit of having what we will call a real treasury function will help in several ways. Although it seems difficult to assess the potential economies that can be achieved by appropriate treasury management, even outsourced, it may demonstrate significant savings far beyond headline costs.

An example is lowering your cost of funding by optimising cash and liquidity management, enhancing cash forecasts and better managing financial risks.

FROM CONTROLS TO EXTERNAL RELATIONSHIPS

The world was not created in a day, so you may start with a transactional treasury function with increased control, improved compliance and better visibility of your cash global position. Then you can upgrade to a process-efficient treasury optimising liquidity management, implementing straight-through processing and centralisation or harmonisation within your group. Later on automation and other technology can enable the emergence of a strategic treasurer assisting external growth, in relationships with suppliers and customers.

But let's start with the beginning. What is the role of the treasury, and what can be done at the initial stage?

The role of the treasurer is to ensure that enough cash is available, at the right time, in the right place and in the right currency. However, the treasury is central to or least linked with finance activity as a whole, since it deals directly with funding, investment, cash and liquidity management as well as working capital, capital structure, and risk management with the related treasury accounting.

If you aim to set up or enhance a treasury function, some fundamental questions need to be considered, including:

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- Is the treasury aligned with your strategic business plan?
- Do your policies accommodate the unexpected?
- How much time do you spend producing cash reports?
- Which tool do you use to model cash and risk effectively and in a timely manner to ensure high-quality decision-making?
- Do you have visibility of all your bank accounts?
- Who is responsible for the opening of new accounts?
- How do you counter the risk of fraud?
- Do you have visibility on the timing of payments and expected collection?
- How many channels of communication do you have to contact your banks?

Depending on the size and complexity of the business, setting up a real treasury function may not end up being a massive project. While large and well-equipped companies are probably looking for on-demand treasury, some of you may already consider recruiting a treasurer or dedicating resources to begin the process.

IDENTIFYING THE KEY ISSUES

It will be up to each of you or your treasurer to draw up the agenda for quick wins and more profound transformation. Based on our observations, the issues on top of the list for the majority of treasurers tend to be:

- Cash forecasting.
- FX risk management.
- Bank rationalisation.
- Liquidity and working capital management.
- Process improvement.
- Working capital.
- Fraud and cyber-risks.

Technology being a new solution to old problems, we invite you to consider not only investing in a treasury management system but niche solution dedicated to cash forecasting, for example, and/or 'free' banking solutions to enhance visibility and controls. Emerging solutions are accessible for smaller companies that think they may not have the resources.

I would compare the process to transport for someone without a driving licence. Renting a chauffeur – by which I mean Uber – is cheaper than travelling in a normal taxi, which is the equivalent of the large treasury department of a multinational corporation.

All this boils down to the fact that treasury is not just big companies – just the opposite. It can help make your organisation fit for purpose.

Philippe Foerster,
Director IFRS and Treasury,
PwC

MARCUS HUGHES (BOTTOMLINE):

HARNESSING THE POWER OF TREASURY DATA

Marcus Hughes, head of strategic business development at Bottomline Technologies, says that through the ability to convert data into valuable information and analysis, treasury teams can make a strategic contribution to enhancing companies' financial performance.

How is data changing the ways companies are managing their treasury?

Treasury teams have always had plenty of data, but never before have they been able to access it in real time and convert it instantly into something truly meaningful.

Now data can be transformed into valuable information and analysis, from which treasurers can gain greater and more accurate insights into what has happened, is happening and, perhaps most important, what is likely to happen in the future. This enables a treasury team to drive enhanced financial performance across the business. With the right cloud-based technology and connectivity, treasurers can do more with less and take on a strategic role in their organisations, while automating many processes that historically have been manual and time-consuming.

An obvious example is manually downloading balance and transaction data from multiple bank accounts using their separate internet banking systems. This is an antiquated approach and by now should be fully automated and visible to the treasury team whenever they log onto to their systems, enabling them to view all balances immediately in a dashboard and to drill down easily to all transactions and cash flow forecasts.

Today data is very high on the corporate agenda, since it can be used intelligently to enhance performance in mission-critical areas such as payables, treasury and receivables. These have historically operated in silos, despite being highly interdependent on each other. But new technologies and better usage and sharing of data can make them truly interconnected, enabling a flow of data between these systems as well as Enterprise Resource Planning solutions.

How can corporate treasurers harness the power of their own data?

Data analytics, and techniques such as machine learning and predictive analytics, are becoming essential tools for treasurers. Data can be obtained from multiple sources within a business and from outside, such as bank accounts, and in real time. Inside a business, a wealth of data exists in corporate systems such as the ERP, as well as accounts payable, accounts receivable and the customer relationship management system. But the real value lies in combining enterprise data with banking data in a single view – a summary of all this data using dashboards to show a business's key performance indicators. Financial decision-makers can benefit greatly from analytical tools which enable them not only to measure key performance indicators, such as days sales outstanding, days payables outstanding or the cash conversion cycle, but to improve these metrics, benefiting an organisation's overall financial performance.

Analysing this rich vein of data leads to greater insights and better decision-making. Advanced techniques such as artificial intelligence and predictive analytics can be applied to historic performance and improve the accuracy of forecasts throughout the business cycle. An integrated system can generate actionable suggestions to improve financial performance.

There are many ways to aggregate this data, including SWIFT or open banking APIs to obtain external data such as bank statements. Within a business, connectivity can be achieved via APIs or more traditional means such as SFTP or MQ. Data transformation is an important part of this process; since data often arrives in incompatible formats, it needs to be normalised to be consolidated and analysed.

In what practical ways can smart use of data enhance financial performance?

Cash flow forecasting includes historical and current data as well as projected inputs such as payments and receivables from the ERP, TMS and CRM. It's important to input as many future transactions and fees over the coming days, weeks and months as possible. Some flows are easy to predict with precision, others less so. Unpaid items must be rolled forward in the forecasts to optimise liquidity management with business rules and predictive analytics.

A best-in-class system should propose inter-account transfers to minimise bank overdrafts and maximise the return on spare cash by sweeping these balances into money market funds or other investments.

Successful data-driven spend management involves checking that business units are spending in accordance with budget and policy. Are they buying from approved suppliers? Are suppliers respecting contracted pricing?

Many TMS systems support bank fee analysis which enable the treasury team to check whether banks are complying with agreed terms and conditions, for example, delivering competitive foreign exchange rates. Having this useful analysis at their fingertips greatly facilitates contract and services negotiations with their banking partners.

THE REAL VALUE LIES IN COMBINING ENTERPRISE DATA WITH BANKING DATA IN A SINGLE VIEW.

Marcus Hughes, head of strategic business development at Bottomline

With collections and debtor management, predictive analytics can establish trade debtors' propensity to pay, making it easier for the collections team to decide where to focus their efforts to accelerate inbound cash flow, and track which invoices are paid and which are overdue. To counter payment fraud, machine learning and analytics systems can monitor user behaviour and transactions, tracking what is normal and detecting anomalous and potentially fraudulent activity.

The new payment standard ISO20022 will bring significant benefits, as this format can carry more structured, machine-readable data, greatly facilitating reconciliation in accounts receivable and reducing the number of supplier enquiries received by accounts payable teams. Furthermore, regulators will be able to track compliance with money laundering rules such as FATF 16 requirements and the EU Wire Transfer Regulations, by making certain fields mandatory and machine-readable, automating the process and reducing false positives.

How is a company such as Bottomline adapting to these trends?

Bottomline is a leading provider of cloud-based solutions helping businesses and banks pay and get paid efficiently and securely. Further, to maximise the potential of open banking, a Bottomline subsidiary has become authorised by the Financial Conduct Authority to help our customers to benefit from new requirements on banks to share account and payment data with accredited third-party providers, if the end-customer approves. This enables us to provide secure, real-time exchange of data to deliver added-value services, such as account visibility and streamlined payments. This is a new area with great potential that is only just beginning to gain traction among companies.

Given the importance of data in improving financial performance, we've already brought together solutions and are continuing to develop new ones combining payables, treasury and receivables in order to address customer pain points across a wide range of financial activities. We are always keen to identify other businesses with compelling synergies to become part of Bottomline and strengthen our value proposition. A recent example is TreasuryXpress, a cloud-based TMS which combined with Bottomline earlier this year and is helping us deliver a compelling and connected payment and cash lifecycle platform to our corporate customers and banking partners.

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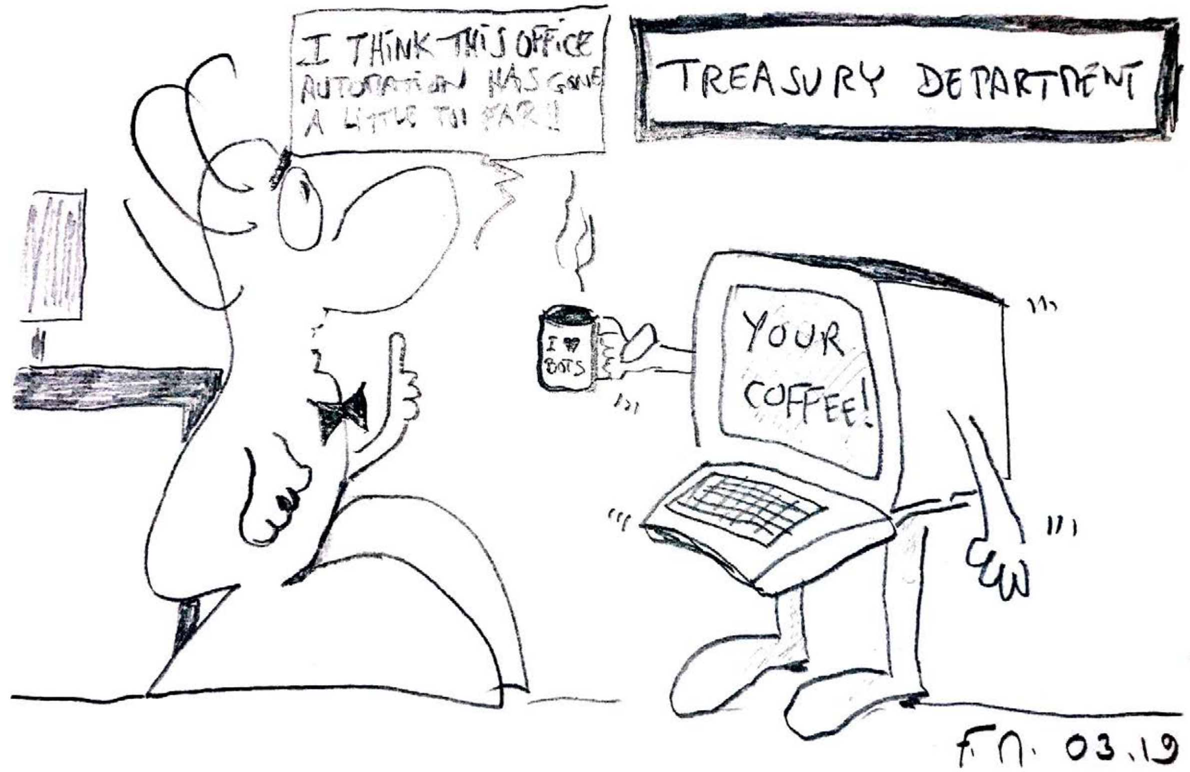
Marcus Hughes, head of strategic business development at Bottomline Technologies

HYPER-AUTOMATION **OF TREASURY** FOR BEING "ON-DEMAND"



ON-DEMAND REPORTING

These days, the buzz words in treasury are "Treasury-on-Demand", which means how to get the next level and generate automated reporting faster, better, and more reliably. A CFO (as well as a CIO) have some difficulties to understand why a TMS, for example, the major backbone of a treasury organization would not be able to produce what he/she expects in terms of financial and treasury reporting. It rather simple: generic solutions in treasury, although sometime "best-of-breed's" are shaped and designed to satisfy basic needs, normal treasury requirements and are therefore so generic that they are not fit to be adapted to extra-needs, even if some claim to have self-dashboarding and self-reporting functions. When there are holes in the IT architecture, a treasurer usually first (over-)use XL spreadsheets and sometimes start considering an extra-layer to generate what cannot be generated in the classic tools. If I wanted to dare a comparison and an image, I would say it is not because you buy a car that it can be driven on every type of ground and in every type of weather conditions. What is missing is the link between all existing tools and sum of data to produce what a treasurer needs automatically. If it is not automated, XL would be enough to fulfil requirements. If you want robust tool and reliable data, you will need something more elaborate and build.

> **THE MAGIC OF SUCH SOLUTIONS IS TO PROVIDE THE OIL THAT MAKE THE WHOLE TREASURY RECIPE SUCCESSFUL.**
> François Masquelier, Chairman of ATEL

TREASURY PROCESSES AUTOMATION (TPA)

We could qualify such tools a "Intelligent Treasury (and Finance) Process Automation" (ITPA) or more simply "Treasury Processes Automation" (TPA) solutions. These tools should digitalize, sanitize and aggregate internal and external relevant pieces of information, from several sources, to automate tasks that are still very much manual, like reconciliation, cash allocation, payment orchestration, detailed booking, cost control, regulatory and compliance reporting, or cash-flow forecasting, IFRS reports, stress-testing scenario, etc.. among others. People like to name it "hyper-automation" of treasury. The idea is to re-engineer broken financial and accounting processes to avoid manual data crunching. If the word "intelligent" is referred to, it is because these systems are much smarter and robust than RPA, and uses Digital Contracts, Machine Learning and AI. The benefits for a treasurer are real-time access to reliable data, accurate reporting, the ability to focus on taking the right decisions, scalability of operations, but also the ability for them to deploy very quickly (ideally at a modest cost compared to tweaking their existing ERP or other treasury solutions).

NEED OF (MORE) TREASURY AUTOMATION CRYSTALIZED BY COVID

Today, there are systems as sort of industrial strength platform (Platform as a Service) that can be used via a set of public APIs and/or dedicated micro-services. These providers, like FENNECH for example, plan to deliver "off the shelf" advanced (although affordable) treasury services for medium size companies. Such platforms must be completely agnostic about Payment Service Providers their clients use, PSP's or Banks. They tend to offer comprehensive pre- and post-payment platform that overlays and complements existing IT stack like ERP's, Payment Factories, CRM's or TMS's. They ensure that all non-added-value tasks performed by humans on XL, for instance, are fully automated. One of the very few positive aspects that the current health crisis has demonstrated is how important it is to have access to reliable data in real-time and robust processes to continue operating wherever people are and on whatever device, within a secured and controlled environment. Treasurers (bit also CFO's) have been much more receptive to what such Fintech's are offering. There is a momentum never seen before, despite the cost cutting and high pressure on staff reduction.
The homeworking will survive the crisis in a moderate proportion and plead for more robust tools, with higher internal controls and automation to mitigate risks of errors and frauds. The magic of such solutions is to provide the oil that make the whole treasury recipe successful. They are the missing piece, the missing link that will completely change the whole treasury organization and make it more performing.

François Masquelier,
Chairman of ATEL

DIGITIZATION

DIGITAL TRANSFORMATION BOOSTS **PROFILE OF CFO'S,** SO DOES PROFILE OF TREASURERS

The CFO's role is changing. Finance Chiefs play a greater role in strategy as more firms engage with technology. The journey to digitization is unfortunately long and full of hurdles. The new generations of CFO's need to be (more) curious about what the company do and how to use financial analytics to help partners in underperforming practices.

CHALLENGING ROLE

Without changing fundamentally, the role of the CFO has evolved and is more central than ever. Digitization will take its central and central role one step further. The post-COVID economic crisis is no stranger to this rise in power and strengthened role. But this crisis is also increasing the challenges they face, and this is only the beginning, one may fear. For those who know how to solve and resolve them, the problems create an opportunity to reposition themselves. Let us see this crisis as an opportunity where digitalization will be the culmination, the lever, or the fatal weapon. We must finish with the reports tinkered with on EXCEL or compiled in a handmade POWERPOINT. If there is one thing that should be robotized, it is financial reporting. These should be consistent, stable, complete, and synthetic in form. However, financial reports are too often fluctuating, variable and not concise. Often the CFO is a car driver who does not see his dashboard immediately but with a delay (the time to produce them). How can he drive on sight and without visualization of key financial data? He cannot and time is an increasingly crucial factor. I sometimes get the impression that companies are living in the twenty-first century with technology that is more than twenty years out of date. Is not it time to invest and demand appropriate instant reports, with the means to produce them automatically?

For being this CFO of the new generation, they need to be curious about what the company do and understand all mechanisms. The CFO must know how to use financial analytics to help partners in underperforming practices (rather than being viewed as an attack "controlling" dog). The CFO is an insider's outsider at a partnership. And eventually, the new CFO's should not be limited to laying down guardrails and respecting hard financial rules.

DATA SHOULD BE THEIR FRIEND

The CFO role now is excessively big in driving results and accountability through data analytics. The performing CFO's are using data. High-quality data helps to inform strategic decisions and generate the market credibility CFO's need. The CFO that shine is action oriented and can evaluate and make quick decisions. But for doing so, they need access to dashboards and decision tools. CFO's are viewed, as treasurers, as just the numbers people, but finance people have a fascinating perspective. It is a bird's-eye view and it is a privilege. The modern CFO is a thought leader as a voice of financial discipline. He/she tries to communicate the share-holder value he/she creates. Some others claim they are the company's chief storytellers to make the numbers dance. They are liaising with all other departments and talk several languages, which makes them unique. Data must be stored in often more than one system (e.g. ERP, TMS, Payment Factory, Financial reporting tool, consolidation tool, procurement, or even CRM). When you have several systems, you also have several formats, and it is impossible to consolidate the whole and get anything out of it (unless you export everything semi-manually into XL and redesign the whole into a readable report – exhausting and fragile, isn't it?). Without a single system such as SAP4Hana, you must juggle with several tools and that's where the difficulty starts. Diversifying tools is a choice that has serious consequences in terms of data harmonization and possible data consolidation. In my opinion, everything starts from the lack of a clear financial IT strategy, and without this, how can you claim to make optimal use of financial data from all sources and of all kinds?

DATA VISUALIZATION

I fear that many CFO's are aware of weaknesses in their organization and have the will to change things, but too gradually where everything would have to be rethought and redesigned. What is most often missing is the intention and the will to extract the quintessence of the existing (often under-exploited) IT tools, and then determine the reports that one would like to deploy to define the IT tools to be put in place: consolidation and dashboard tools. The CFO should drive performance and be the specialist in data viewing and predictive analysis. To do this, he or she needs to rethink his or her role and challenge himself or herself. I see the CFO of tomorrow more as a "CPO" (i.e. Chief Performance Officer). The transformation of the finance function seems to me to be going too smoothly. For example, he should optimize the "order-to-pay" process, give priority to predictive analysis, particularly in cash management, and finally put an end to the "Excellization" of financial reports.

What is often noticed in Finance Departments:
Lengthy and overburdened close cycles
Poor integration between systems and lack of automation
Lack of yimely visibility into data for decision-making because of too manual processing
Weak internal controls (usually not documented and tested)

DON'T TALK ABOUT AI EVEN THOUGH YOU DON'T HAVE ACCESS TO THE DATA.

Those who talk about AI even though they do not have direct, consolidated, reformatted and systematic access to data, leave us stunned and amused. Before we think that far ahead, let us scan the front door and get the financial data up and running. If we automate our processes, it is not to save jobs and to reduce staff, but to increase productivity while reducing risk. Your staff after digitization will not necessarily be smaller, but the skills required will certainly be different and IT knowledge will be privileged. What we are seeing in the treasury departments is an example of what all finance department will experience. The CFO should become the CIO's best friend to achieve the goal of becoming the Chief Performance Officer (i.e. CPO).

> **OFTEN THE CFO IS A CAR DRIVER WHO DOES NOT SEE HIS DASHBOARD IMMEDIATELY BUT WITH A DELAY (THE TIME TO PRODUCE THEM).**
> François Masquelier, CEO, *Simply*TREASURY

Digitizing the finance function is therefore by no means an impossible mission. The technologies are there to facilitate and accelerate the transition to CFO's 4.0. Compared to the financial decision-maker's historical positioning, he is moving from a support function to a value creator and from an essentially technical expertise to optimize a more assertive leadership at the center of the value chain. In addition, the CGO, sort of financial decision-maker, should have five other main positions: he drives performance, innovates, stays connected, communicates, and creates value. Each of these missions is accompanied by a range of technologies to digitize accounting. Process and organizational performance management is based on cloud applications, which are becoming more and more numerous, and on dematerialization. In terms of innovation, artificial intelligence is gaining ground in finance functions of large MNC's. The demands of collaboration and communication require investment in BI and data visualization solutions. As for value creation, it stems from an intelligent combination of technologies that permeate the entire organization.

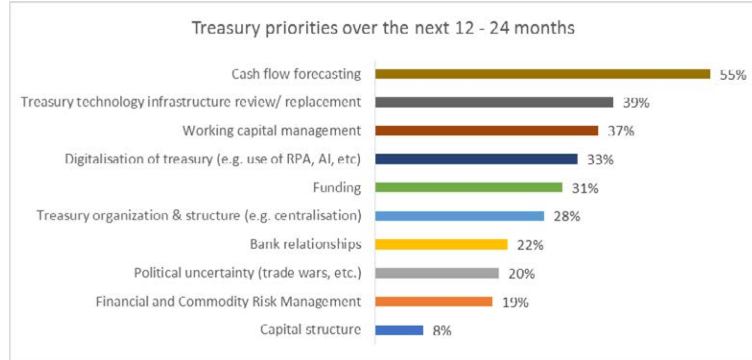
WANTING THE REVOLUTION

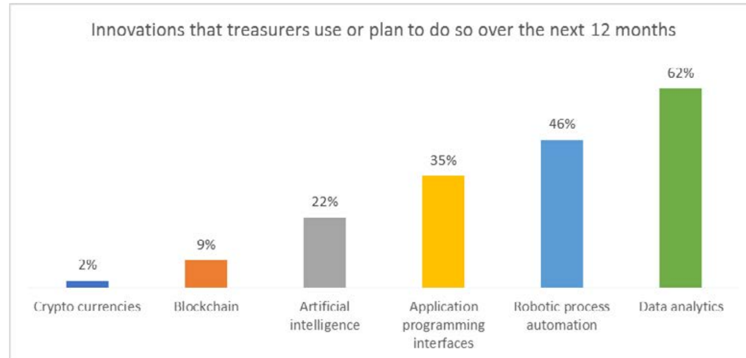
To modernize its function, the CFO must first want to change things. When the willingness is there accompanied by the financial means (i.e. an adequate budget to implement the tools defined), it is necessary to agree to completely revisit the function and rethink its mode of operation. This does not mean changing all the existing tools but getting the best out of them and aggregating the financial data. Without a solution that allows you to consolidate everything, you need an ETL-type tool or like to process and to reformat data to be able to use them. What is expressed in different languages (i.e. formats) must be first retranslated in a common language, before being crunched. Where a true "digital revolution" would be useful, some CFO's see only minor changes at the margin. This is the harm of wanting to change only too gradually at the risk of losing precious time compared to the competition and peers. I prefer to conclude with one of Peter Drucker's quotes: "Systematic innovation requires a willingness to view change as an opportunity".

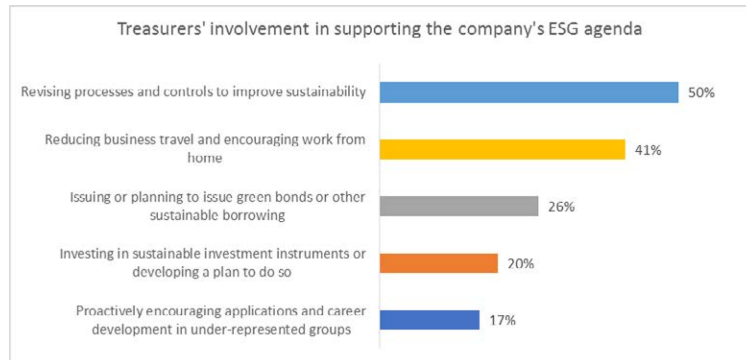
François Masquelier,
CEO, *Simply*TREASURY

EACT SURVEY 2021

The 2021 EACT survey, as it has become a tradition, attempts early this year to determine what the treasury trends and priorities for multinational companies will be in the next 12 to 24 months.







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TREASURY TOP PRIORITIES

This year, not surprisingly, future cash-flow forecasting (1) is largely in the lead, followed by the digitalization of the treasury function (2), financial risks management (3), followed by a few priorities at equal levels, such as treasury organization, treasury technology, working capital requirements, financing, and banking relationship management. We are not surprised that Cash-Flow Forecasting comes out on top when the COVID crisis has been hitting us for the past year. The uncertainties surrounding the economy explain the difficulty in producing reliable and accurate forecasts. In addition, the C-level has repeatedly called for stress scenarios and sensitivity analyses to predict the most diverse situations. The digitalization of the treasury function, itself part of the modernization of the finance function, was ranked second. Here again, it seems to us that the need to dematerialize, digitize and automate is logical to make companies more resilient and efficient in their financial management. Finally, in this top tier, the management of financial risks, including currency risk, which can be explained by the increased volatility of the markets. As can be seen, despite the health crisis, the priorities have remained relatively identical, even if the ranking order is somewhat different.

> **IT EMERGES THAT THE LACK OF STANDARDIZATION IN PROCESSES AND CONTROLS IS THE MAIN CHALLENGE.**
>
> François Masquelier, Vic-Chairman of EACT (European Association of Corporate Treasurers)

TECHNOLOGICAL INNOVATIONS

In terms of technological innovations, it appears that in the next 12 months, the priority will be placed on data analysis, then API's, the use of robotics (RPA) and finally Artificial Intelligence (AI). Contrary to the recent excitement for Bitcoins, crypto currencies do not seem to be a priority for treasurers. This is not surprising given their nature and the fact that they are a new asset class rather than a new currency. The answers show a certain lucidity on the part of treasurers who seem realistic in their use of new technologies.

REAL-TIME TREASURY

On the question of which technology will be of most interest in the next 12 to 24 months, access to real-time information emerges, followed by real-time collection and payment (we can see that immediacy and the time factor have become crucial) and finally immediate liquidity and automated management of foreign exchange risk. Next comes the use of very promising API's (i.e., Application Programming Interfaces) and "on-demand processing". The concept of on-demand treasury and real-time access to information has become a "must". Treasurers realize that they are sitting on a huge quantity of financial data that needs to be used, crunched, consolidated and analyzed to enable better management decision and to be more proactive and faster in reacting to crises or to problems. What role does treasury play in the management of working capital, what is its influence or responsibility within the organization is an essential question to enable it to be optimized. It emerges that the treasurer influences first and foremost, is responsible for 20% of the treasurers and partially responsible or not at all for the others.

GREATEST CHALLENGES AHEAD

The question of the greatest challenge facing the treasurer is interesting to understand what →

he or she will need in priority. It emerges that the lack of standardization in processes and controls is the main challenge, followed by the multitude of technological platforms. Then come the multiple banking relationships, the too large number of bank accounts, the lack of sufficient resources (a recurring problem – but one that drives automation), the lack of support from subsidiaries, the lack of budget (classic in times of crisis). Certainly, standardization is a preliminary to automation, improving the organization of the department, increasing efficiency (e.g., automatic reconciliation, Straight Through Processing / STP, use of mass data, etc.). The specificity of platforms and services, fintech's and API's explains the multitude of solutions, corollary of specialization. They may be multiple on the service offer, but they are also numerous to serve each time a specific need. The treasurer then must juggle with more and more solutions, which complicates management.

ESG FOCUS

The final question covers the ESG and how the treasurer supports and assists colleagues in implementing measures to support social and environmental responsibility. The forced reduction of travel and telecommuting during COVID certainly helped the treasurer to contribute to this. The issuance of green bonds comes in second place. Next is the review of processes and controls to improve sustainability. Despite this, a quarter of the treasurers are not involved in the ESG agenda. The use of sustainable investment instruments comes next with the objective of contributing to ESG using "greener" and more socially responsible money market funds. It seems that the ESG theme is gaining in importance but has not yet reached its full development and maturity. The treasurer seems to underestimate the possible imprint he may have on this theme.

TAKE-AWAYS

In summary, the results seem to be reinforced by the arrival of COVID, which has reinforced the need for centralization and automation, the two best responses to such a crisis. Uncertainty, need for efficiency, lack of sufficient resources, importance of combating risk of fraud and strengthening of internal controls explain this quest for digitization and the hope founded in new technologies and innovations. The crisis has crystallized the need to digitize and accelerate the ongoing transformation. The maturity of technological solutions makes it possible more than ever to place greater hope in improved cash management.

THE MATURITY OF TECHNOLOGICAL SOLUTIONS MAKES IT POSSIBLE MORE THAN EVER TO PLACE GREATER HOPE IN IMPROVED CASH MANAGEMENT.

François Masquelier, Vic-Chairman of EACT (European Association of Corporate Treasurers)

François Masquelier,
Vic-Chairman of EACT
(European Association
of Corporate Treasurers)

TRENDS

BARIS KALAY (BANK OF AMERICA), JEAN-FRANÇOIS DENIS (BNP PARIBAS): FACING THE **DISRUPTION**

COVID-19 has caused disruptions to the supply chain, due to local employee related challenges and due to diversion of raw materials for Personal Protective Equipment (PPE).

What products or services has your bank or the industry developed or focused on in order to address the challenges related to the supply chain disruption or more broadly the challenges of the current crisis?
Jean-François Denis (Global Head of Trade Solutions and Network Management, BNP Paribas): First, I would say that we have not yet seen systematic shifts in the supply chains. It depends, of course on the industry and as such it happened in some very specific sectors. But many are looking into it or planning some shifts or at least diversification of their supply chains. In that respect we can help enterprises that are looking into new corridors for their suppliers or looking to deploy some presence in some countries.
While confronted with new partners and possibly new countries to deal with, this is where risks need to be mitigated and we can deploy banking solutions like the traditional Documentary Credits. It has the advantage of being supported by internationally recognized business rules. Some new ways to further digitalization are opening up and they will help facilitate the process that can sometimes be cumbersome.
Especially for SMEs, we have a "Trade Development" offer for which we rely on a network of local pre-approved specialists. It goes from helping assessing the market potential, finding partners and executing due diligence, help in negotiation aspects, local legal support, etc.
Further on, not related to the supply chain disruption itself but definitely an important subject in the current crisis is liquidity. We have of course many options in terms of financing, which have helped a lot alongside classical credits. The bank can propose several options of Trade-related financings, Supply Chain programs when applicable and of course Factoring solutions.

Baris Kalay (Head of Trade and Supply Chain Finance, GTS EMEA, Bank of America): During the global health crisis, the most important priority for the bank and the trade finance industry as a whole, was to ensure that we continued to serve our clients in all locations. This was particularly important in light of regional lockdowns and restrictions in different geographies and time zones. Globally, our trade operations teams didn't skip a beat with supporting our clients, accepting and processing client requests as needed. Alongside this, the bank has implemented a number of digital initiatives to address client challenges, such as increasing the geographies where we accept e-signatures.

Which of your products or services might a buyer use to partner better with suppliers? Which of these products or services best preserve liquidity for the buyer?
JFD: Well, to be a better partner probably means increasing the trust on one side and possibly sharing benefits on the other so as to achieve win-win situations.
Regarding trust, you may have achieved such a level of trust that you can work in open account with payment terms that you know will be met systematically. But many situations require to build the trust and therefore to avoid too many or too big surprises. This is where Trade Finance products come into play, with typically the bank taking part of the risk and/or to guarantee that payment term are met, or to ensure payments are executed under certain conditions (eg. documentary).
Other possibilities exist in Supply Chain Finance where you can give your suppliers some access to financing thanks to your own size, rating or excess of cash. So in a way, you share the benefits of your position, you help the supplier which indirectly helps you and create some more depth in the relationship possibly.

TO BE A BETTER PARTNER PROBABLY MEANS INCREASING THE TRUST ON ONE SIDE AND POSSIBLY SHARING BENEFITS ON THE OTHER SO AS TO ACHIEVE WIN-WIN SITUATIONS.

BK: From a buyer's perspective, Supply Chain Finance (SCF) is an efficient use of managing working capital, preserving liquidity and providing support for the supply chain. During the global health crisis, we worked together with our clients to increase the number of suppliers we could reach, to ensure that more suppliers had access to cash – we experienced a 163% increase in the number of new suppliers on-boarded and 172% increase in the number of discounted invoices. The amount of new SCF discussions has also increased significantly, as our clients want to manage their working capital in a more efficient way during these turbulent times. ESG in relation to managing supply chains and supply chain finance has also become an important topic of discussion between the bank and our clients.

How long is the road to digitalization and more fluid processes in Trade Finance, many processes are still cumbersome. Do you think paperless Trade Finance is within reach anytime soon?
JFD: It depends on the product you're looking at. If you take guarantees, then yes, I would say that paperless processes are possible and actually happening now.
Progress here has partly been driven by the fact that only a small number of stakeholders need to align in order to create a digital workflow for guarantees. The tools are becoming available, we can propose a full digital process between the applicant and us. Same applies towards the beneficiary of the guarantee, we can deliver it paperless.
Supply chain finance is also becoming less paper-based. There are greater challenges here because more stakeholders are involved (many suppliers for instance). Nevertheless, we are seeing supplier onboarding platforms starting to flourish.
Documentary credit is different as there are so many stakeholders to align. Furthermore, digital documents such as the electronic Bill of Lading are not recognized everywhere. As such, there is a long road ahead to achieve paperless documentary credit. But BNP Paribas is making progress towards this goal with its involvement in Contour. Contour aims to use the functionality of the documentary credit but achieve ultimately a paperless process (or close to), this was in Beta version in 2020 and is now in production since 1st Jan 2021.

SUSTAINABLE FINANCE **PASSES THROUGH** SUSTAINABLE DISCLOSURES

With its sustainable finance disclosure regulations, the EU is leading the path in policing what can be considered an ESG fund. These rules could become soon the global standard that drive investment into the vast ESG sector. For many ESG funds, last year was stellar in terms of performances. More and more people take into consideration environmental, social and governance issues.

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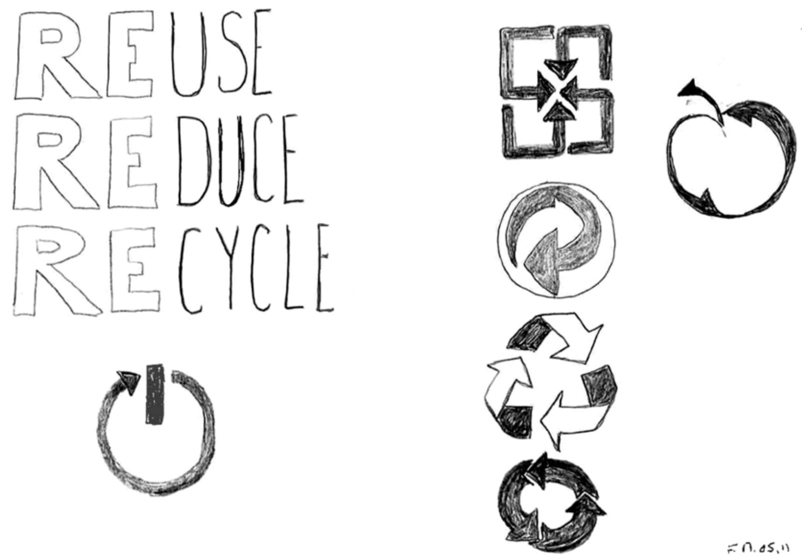
UNPRECEDENTED LEVELS OF LIQUIDITIES INJECTED INTO ESG FUNDS

Investors have placed unprecedented levels of cash into sustainable funds. Asset managers rush to launch new products. Research confirms such investments outperformed rivals. We can consider that ESG is the most important shift in the whole investment industry in a generation. No one could contest that the new "Y" generation also expect greener investments. However, green washing is a real problem. Often companies' promotion of environmental concerns as an advertising gimmick, no more. Furthermore, I have the impression in general people focus on the "E", consider that the "S" corresponds to "diversity" and they too frequently forget the "G". Although governance is important, for example regarding taxes and BEPS rules. Many funds using ESG label are not as sustainable as they appear. Even popular ESG funds invest in carbon emitters, for example. Every fund claims it is some way sustainable, although it may not be. If we do not police and rule ESG as well as fund disclosures, there are risks of this "green" passporting being reduced to a marketing exercise with modest substance. The long-overdue regulation of ESG has eventually allow people to know what their money and investments are used for. With new regulations, EU intends to avoid "greenwashing". Investment products are now categorized as sustainable and non-sustainable. If you want to market your fund as ESG compliant, you must prepare tougher disclosures. Greenwashing should become more difficult for fund managers. Funds are supposed to demonstrate they are serious about sustainability. But it will also influence the decisions of listed companies which will be under pressure to be concentrate more on sustainable issues or risk losing investor capital. EU aims at re-routing capital to ESG investments.

ESG FUND GROWTH

Since last year, we have the feeling that ESG has become a thing. Couple of major fund managers as AMUNDI or BlackRock have, signed a commitment to integrate ESG information into their investment decisions, while the total assets in specialist sustainable investing mutual funds hit a record last year.



They agree to adhere to Principles for Responsible Investment. The industry's interest in ESG has been driven by the combination of factors: rising client demand, including big pension funds, regular savers increasingly demanding sustainable investment options. The Y gen and demographics are moving in favor of this "green" revolution. The expectations of young generations translate into ESG products. In some countries, rules have changed too to push further pension funds to weigh ESG considerations. But it is also a way to differentiate yourselves from competitors at a time when profit margins have come under intense pressure from rise of passive investing. The fact that, according to Morningstar for example, the ESG funds have over-performed equivalent conventional funds over one year, three years and even ten years, helps convincing defenders of ESG that it is THE strategy for the future. I am convinced that last year experience has removed worry that sustainable investing meant giving up returns. The resilience of ESG products is remarkable and raised questions. With ESG becoming the biggest buzzword in investing, even the most cynical fund managers have been jumping on the bandwagon. But if all funds are marketed as "sustainable" these days, how to determine which are the most sustainable ones? Nevertheless, it remains complicate to decipher sustainable products from pseudo-green products. We need policymakers to fix standards and to determine clear regulations to identify and precisely separate the wheat from the chaff. The EU has always been at the forefront of the focus on sustainable finance, preparing series of reforms and classifying system for what counts as green corporate activities. They wanted to set up sustainable finance disclosure regulations.

> **WE NEED POLICYMAKERS TO FIX STANDARDS AND TO DETERMINE CLEAR REGULATIONS TO IDENTIFY AND PRECISELY SEPARATE THE WHEAT FROM THE CHAFF.**
> François Masquelier, Chairman of ATEL

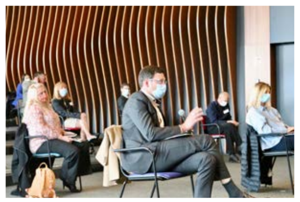
SFDR

Under the "Sustainable Finance Disclosures Regulations" (i.e., SFDR) all asset managers will have to publish information on their sustainability processes. They will have to classify products into three categories i.e., dark green, light green and non-sustainable depending on their climate and social impact (i.e., colored as for a white products). On top, they will have to report as of 2022 on issues like carbon footprint, investments in companies active in fossil fuel energies and exposure to controversial weapon clusters like bombs, canons, etc...

This regulation is "groundbreaking". It allows investors to compare between different products how sustainable they are and what sorts of assets the managers integrate into the fund for ensuring "sustainability". If we may we could compare to this French story of people discovering horsemeat in their Italian lasagna instead of beef. No one would appreciate to be cheated on quality of what he/she buys (or invest to). By changing investment rules, European regulator will change corporate behaviors and force them to become more sustainable to qualify for integrating some funds. To attract more new investors, number of qualified ESG funds is expected to outnumber conventional ones, as asset managers are rushing to make their products "greener". From being a "plus" it will become a "must" to attract capital. Even if EU is the center of a lot of the regulator sustainability drive, we can expect with the new Biden administration in the US to propel interest in ESG, including rejoining Paris Agreement. ESG will be fully embedded into any investment decision and will be a driver for huge changes in the industry. If you want to remain competitive now, you need to embrace ESG. It will become the main driver for organic growth in asset under management. European regulator has done a lot to remove greenwashing and this type of regulation will have a significant impact on all types of funds in the years to come.

François Masquelier,
Chairman of ATEL

Marc Binck

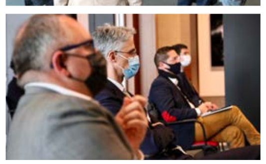


ATEL SPRING CONFERENCE

The ATEL Spring Conference was held on Tuesday 20th of May at the Arendt & Medernach Auditorium with Thierry Lodomez & Vincent Duquesne of Key-Business presenting their anti-fraud strategies. Marc Binck from Gresham Technologies, then showcased The Clareti Platform whose objective is the extreme simplification of the treasury activity.

MORE INFORMATION ON
www.atel.lu


Thierry Lodomez




Vincent Duquesne


Alain Goebel, Arendt

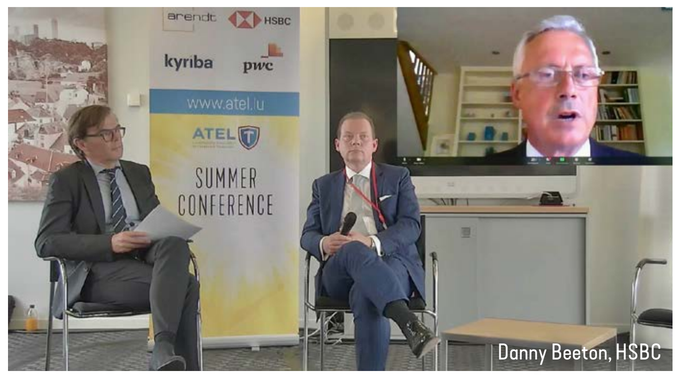
ATEL SUMMER CONFERENCE

The ATEL Summer Conference took place on 1 July 2021 at HSBC Luxembourg. The event included presentations and physical and digital panels presented by Arendt, Kyriba, PwC and HSBC. The conference was followed by a cocktail party and dinner at the Mama Shelter restaurant in Kirchberg.


Niccolo Polli, HSBC

Shyam Sanker, HSBC


Nicolas Roullier, Kyriba



Danny Beeton, HSBC


Philippe Foerster, PwC

JÉRÔME BLOCH (360DIGITALHEROES):
2021, THE DIGITAL SCHISM

According to Jérôme Bloch, CEO of 360DigitalHeroes, the months after Covid-19 ends will gradually reveal two concepts of digital practice, with significant impacts on the competitiveness of companies. Interview.

WHAT SCHISM ARE YOU TALKING ABOUT?

The Covid crisis has revealed two groups. On the one hand, people who only think of going back to their "normal life," and who see digital solutions as temporary crutches. On the other hand, users who are discovering the power of digital tools and who intend to use them sustainably to make their business more agile and competitive.

WHAT CAUSES DO YOU IDENTIFY?

In my experience, the schism always starts from the same point: corporate culture. In finance, in particular, the intense workload, especially last year, - made training in «technical» skills difficult to implement. As a result, other training courses related to the use of digital tools or a firm's corporate culture are being overlooked. When a CEO is unable to properly use Teams, Webex or Zoom on his own, you understand that he is waiting for one thing: to get back to his "normal life," with visitors in his office, an assistant to prepare calls and physical conferences to meet real people. To improve this, we produce, for example, 60-second videos about a digital corporate culture. All employees start the day with this mini-training and over the months, the message lands.

HOW DO YOU IMAGINE LIFE AFTER COVID?

The current situation brings forward radical notions like the «new normal.» Most answers, however, require granularity. Take the example of meetings in London: with Luxair, going back and forth during the day is not a problem, but not all meetings are equal! Thus, it will remain natural to make the trip for strategic clients, while a Zoom call for non-strategic meetings will, on the one hand, allow you to remain consistent with your firm's ESG policy and on the other hand, to gain seven hours of productivity. I am not even talking about the 500 euros saved, which represent millions on the scale of large companies over a year. The biggest impact will come from the conferences: everyone understood last year that they fulfill a major role to enable networking. Content has become a commodity that anyone can access on their smartphone, anywhere, anytime. I anticipate that many people will no longer be inclined - or allowed - to spend a full day in a conference center when their primary motivation is to network 15 minutes during the break and 60 minutes at lunch. We are going to see the proliferation of events where content will be reduced to maximize the «networking» part. Under these conditions, paid conferences will suffer if they do not review their model.

HOW CAN THEY ADAPT?

They must adapt their business plan by moving from a model focused on selling tickets and exhibition booths to a model of monetization of physical and digital audiences. One of our clients, for example, innovated by making his conference free and public. Surprisingly, the audience grew from 500 in the room in 2019 to 35,000 online in 2020. Businesses must consider these new opportunities in the long term if they want to remain competitive.

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