



TREASURER

THE CORPORATE TREASURERS' COMMUNITY MAGAZINE

25 YEARS



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OF TREASURY:
DEALING WITH
DISRUPTION**

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FERTILIZATION AND
BRIDGE FINANCING



OPTIMIZE FINANCE



STIMULATE INNOVATION



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BOOST INTELLIGENCE

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TREASURER

The Corporate Treasurers' Community Magazine

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WHEN BANK OF JAPAN PLAYED THE ROLE OF PRECURSOR

In February 1999, roughly 20 years ago, the Bank of Japan (i.e. BofJ) has adopted a zero percent rate policy. No one at that time thought that one day, Europe will follow them. The Japanese situation was at that time considered as unique, after the financial stock-exchange bubble blew up, banks faced problems and the economic context was in stagnation mode. Soon after, set up a “quantitative easing” policy (nothing new as you can see) in purchasing financial assets to supply banks with liquidities and to reduce or push down long-term rates. It even bought equities, could you imagine? BofJ tempted, several times, to come back to a “more normal” situation, without any success. But the global Financial Crisis (GFC) forced BofJ to reconsider its ambitions to come back to normal. Results of such a policy are mitigated. Growth and inflation stay weak. Two decades of floored rates impacted Japanese pensioners. These low rates have maintained alive some “zombie” companies. However according to economists, situation would have been worse in the absence of such radical measures. Nikkei was in the recent years a good performer which came from 15.000 points in 1999 to 20.900 in 20 years. We remain far from the 39.000 points (i.e. the record) reached in 1989. The Japanese situation is scary for its longevity and the impression that interest rates will never return to “positive” territories. Yet the Japanese economy is not doing so badly. Like Switzerland and Scandinavian countries, this unusual situation could continue. Time no longer creates value in interest, on the contrary, it costs. We would certainly want to see rates go up not to pay more interest but because it would herald better economic conditions and the end of the recession period that never ceases to affect us.

Japan's 20-year experience has demonstrated the limits of what a central bank can do on its own and underscores the importance of broader economic reforms as well as fiscal policies that dovetails with monetary strategies. The most pertinent lesson, if any, for the American Fed and European ECB could be the danger of reversing course too soon. As rightly expressed by Kenji Yumoto “monetary policy can buy time, but it doesn't solve all problems.” Who ever thought Quantitative Easing and zero-rate policy would be inflationary? More than two decades after, we can notice a

failure to reflate the economy. It has created a generation of consumers with little understanding or expectations of rising prices. It is much easier to introduce policy than to exit it. The anniversary of the Japanese zero rates ought to be an exercise in humility.

Who could say what the monetary future holds for us? When will this atypical period end? Perhaps we will have to live this «japanification» of the economy for a long time... Nothing is more certain. The change of generation, the arrival of the “Z” generation and the crucial ecological (necessary) transformations, coupled with a digital revolution, will completely change the situation. We will have opportunities, but also huge challenges ahead. We will have new businesses emerging but also the disappearance of old ones. Sooner or later we will have a shortage of energy and mineral resources, so vital to our economy. The transformation that occupies us and will occupy us is such that it can bring even more chaos and difficulties to emerge. This can certainly open fantastic opportunities for redeploying our economies. It may be a long time ago when interest rates were necessarily positive (that goes without saying). At least, negative rates enable Governments to reduce debt or to cap interests to be paid. Could we in current context even accept positive rates? I guess it would be dramatic given the global increase (all-in) of States indebtedness.

In future, the main financial principles taught in Universities will have to be distilled differently to incoming students.

Time is not anymore money...

Let's hope that this anniversary, despite everything a little sad, will not be repeated too long. But let's prepare to stay below zero for a while, I'm afraid. —



François Masquelier,
Chairman of ATEL

ALISON FLETCHER (BLOOMBERG):

WHY INTEGRATION SHOULD BE NON-NEGOTIABLE

Corporate treasuries are increasingly moving away from what was once the world's most common treasury management and risk system: spreadsheets. Instead, treasury professionals are choosing technologies appropriate for their modern, complex global business needs. While specialist technology has unquestioned advantages, it also raises challenges to ensure those systems integrate within their workflow and with each other, ensuring that the return on technology investment is maximized. All too often, the ability of vendor systems to integrate without having to assign the corporate's own scarce dedicated IT resources is not considered early enough in the process.

INTEGRATION HAS EVOLVED

One important integration factor to consider is ensuring that the corporate's understanding of integration is the same as the vendor's understanding. While it is undeniable that integration is an electronic exchange of information, there can be potential for confusion whether all parties are referring to 2nd or 3rd generation capabilities. Basic integration is generally a file-based delivery in scheduled batches, with information flowing in a single direction only. Enterprise integration, however, involves a real-time, automated, two-way exchange using Web Services technology, for example.

TREASURY AUTOMATION SHOULD BE ASSET-CLASS AGNOSTIC

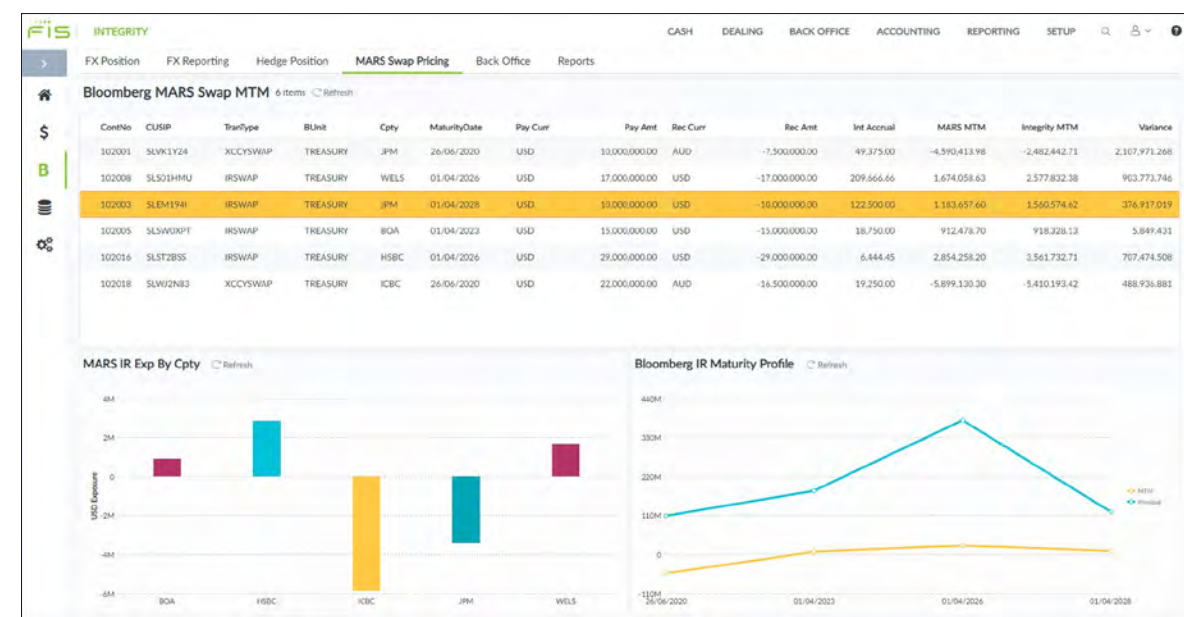
According to the 2019 FIS Global Treasury Technology Study, adoption of technology versus the continued use of manual spreadsheets varies greatly depending on the asset class that the corporate treasury is trading. As an example, manual processes, which include spreadsheets, for FX are still being used by 28% of survey respondents, while interest

rates are at 43% and commodities at 55%. When treasury departments decide to integrate with third-party systems and automate their corporate treasury workflow, the choice of asset class should be irrelevant. The technology already exists for corporations to trade FX, interest rates and commodities electronically and for those trades to flow directly into TMS and risk management systems. The technology also exists for information to flow back and forth between these two systems seamlessly.

THE UTOPIAN SOLUTION

When comparing vendors to streamline treasury workflow, it is not essential to find a vendor that can perform every single stage of the workflow in one solution. In fact, as treasury functions are so diverse, it may be more beneficial to consider a cash management specialist for a TMS and adopt a specialist vendor in financial markets and risk for functions such as electronic trading, confirmation and matching, valuations, hedge accounting and CVA. However, it is necessary that each vendor can fully integrate with each other in a proven, streamlined way to avoid any issues.

BLOOMBERG'S MULTI ASSET RISK SYSTEM (MARS) IS FULLY INTEGRATED INTO FIS INTEGRITY



Diverged systems increase the odds of operational risk and may ultimately impact the productivity of the entire treasury department.

A CALL TO ACTION FOR CORPORATE TREASURIES

When reassessing existing or assessing potential new technology, a few emerging best practice questions should be at the top of every list to ensure the return in technology spend is both maximized and can achieve the desired efficiency gains. Examine the entire front-to-back workflow by answering the following questions:

- Do the proposed vendors integrate with each other? How? What aspects are integrated?
- Are both vendors SaaS or is there a mismatch of installed and SaaS? How often are upgrades performed? How will the interface work after the upgrade?
- Can the system be tested before going live? Is it the same data that the company needs integrating? Is transformation mapping or consolidation required?
- What does the vendor mean by integration? Is there any manual upload/download? Is it two-way? Is it a file-based or service based? Is it scalable?
- Who would have to settle the cost for any integration (financial or time cost)? Who supports it if it stops working? How quickly will they respond? How time sensitive is the integration? What service levels are needed from the vendors?
- If a new instrument type/asset class is added over time, where does the responsibility lie to ensure a seamless workflow?
- Will market data need to be purchased to feed these systems?

SEAMLESS INTEGRATION SHOULD NO LONGER BE REGARDED AS A "NICE TO HAVE", BUT AS A TRULY NON-NEGOTIABLE COMPONENT OF ANY TECHNOLOGY ADOPTION.

Alison Fletcher, Corporate Treasury Markets Specialist at Bloomberg

REAPING THE REWARDS

A fully integrated corporate treasury workflow provides numerous benefits to corporations. By freeing up human capital within the department, these professionals are able to engage in more strategic projects and undertake more responsibilities, rather than focusing only on manual tasks. More importantly, automated workflows significantly reduce operational risks such as spreadsheet errors. Seamless integration should no longer be regarded as a "nice to have", but as a truly non-negotiable component of any technology adoption throughout the enterprise.



Alison Fletcher,
Corporate Treasury Markets
Specialist at Bloomberg

SERGE MASLIAH (MANAGING DIRECTOR
OF KYRIBA SOUTHERN EUROPE):

CFO AND TREASURER OF THE FUTURE

According to Serge Masliah, Managing Director of Kyriba Southern Europe, the CFO and the treasurer of tomorrow will rely on data exploration and advanced technologies to play a key role in their company's growth.

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Cash flow and corporate finance have evolved rapidly in recent years. How does a company like Kyriba adapt to these challenges?

A trillion euros are on the accounts of companies in Europe. In order to manage these sums and the associated flows, the treasurers' scope has particularly expanded. Treasurers act as a true co-pilot of the CFO. They now supervise four dimensions associated with liquidity: see it, protect it, move it and optimise it. Their role has become increasingly strategic as they help the CFOs develop their liquidity positions to invest. They turn into the right hand of finance by managing the nerve centre of the company: its cash and liquidity. Risk management has become the priority for 67% of financial managers. Kyriba offers dedicated compliance and risk solutions to ensure that cash and liquidity transactions are executed at the right time, in the right place, on the right accounts, protecting them from interest rate, currency and fraud risks. Kyriba is also the only global cloud platform capable of meeting all the needs of CFOs and treasurers at a single point in more than 100 countries and in 13 languages including Chinese, Japanese, Arabic and Cyrillic. Kyriba offers a wide-range of integrated solutions including cash management, a payment factory, risk protection and Supply Chain Finance to optimise working capital, which is

ultra-secure and accessible at all times, from a computer or a mobile phone. In addition, we deploy our system within companies environment in just three months.

How do you fight fraud?

Security has been Kyriba's cornerstone since its inception in 2004. We serve more than 2,000 companies and 75,000 users worldwide – corporates and banks – to whom we offer the highest standards in this field. Our infrastructure is certified SOC1, SOC2 and also includes artificial intelligence (AI) engines for network analysis. At the application level, Kyriba inserts user and database protection measures into all its systems. To this end, we use the latest technological innovations. At the functional level, we have developed very specific anti-fraud measures in certain areas – e.g. internal and external payment fraud. These include preventive detection with the use of machine learning, statistical behavioural analysis and AI. We also integrate protection principles such as the fight against money laundering and the analysis of politically exposed individuals thanks to the offer developed with our partner Fircosoft from Accuity. Kyriba's customer environments is hosted in five data centres around the world. They are at the heart of an integrated ecosystem including banks, ERPs, such as Oracle/NetSuite or



AS A LEADER, OUR ADDED VALUE IS DRIVEN BY TECHNOLOGICAL INNOVATION, TO SUPPORT GLOBAL FINANCE TRANSFORMATION.

Serge Masliah, Managing Director, Kyriba Southern Europe

Cegid or technological players, such as Swift, to manage the identification of principals – KYC or 3SKey. Our alliances with consulting firms such as Deloitte and Accenture, as well as our partnerships with local and/or international VARs, such as Absys-Cyborg and Dimo Software, help us to support companies in optimising their organization and processes and therefore in implementing security measures for their activities.

What is the impact of new technologies, especially artificial intelligence?

Treasury acts as a cash distribution hub in the company: it locates, optimises, distributes and protects cash, providing a resource to CFOs and CEOs. In this sense, it acts as the heart of the company that distributes cash to departments that need for their growth. Technology helps the CFO and the treasurer to make relevant choices, both in time and

in economic space. As a fintech, Kyriba invests heavily in innovation. We are conducting numerous projects and have already integrated three main technological assets: first, Analytics, which makes possible the analysis of all the data to create indicators and forecasts; second, AI and machine learning, which facilitate the detection of atypical behaviour to reduce risks and accelerate processing. Finally, Open Banking and Instant Payments where we connect with APIs for more efficiency and speed in the transmission of banking information. Partnerships complete these technological devices by allowing us to enrich the value-added offered to our customers. This is the case with WorldFirst – which allows our customers to benefit from the best exchange conditions for payments, and BlackRock – which allows our customers to optimise cash surpluses. In addition, our recent acquisition of FiREapps makes it possible to offer new functionalities for managing exchange rate risks. 155 people work at Kyriba on innovation projects and we invest 25% of our turnover in this field. The \$160 million invested by Bridgepoint, our new shareholder, is mainly allocated to innovation.

So, data is becoming a full resource in treasury and corporate finance?

Absolutely. In recent years, Kyriba has become a data company. The CFO himself has become a data specialist to help the CEO, the management board and the shareholders make the right decisions. With 240 million orders processed per year and 10,000 daily payment files, we help financial managers extract relevant information to benchmark themselves, identify trends and detect anomalies such as bad credits or bad payers. The great richness of our databases allows our users to benefit from valuable information on a daily basis and in real time. Thanks to technology, many tasks can be automated, allowing CFOs and treasurers to remain focused on high value-added areas. With this approach to cloud data analysis, Kyriba provides treasurers with instant access to valuable data to manage their cash and liquidity: data as a service. ■



Serge Masliah,
Managing Director,
Kyriba Southern Europe

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THE TREASURY MARKET FAILURE

The economic recovery has given more budgetary space for financial innovation initiatives which is greatly changing the profiles sought after on the job market. Indeed, the automation of low added-value tasks is creating needs for more soft & technical skills, and this is for the best for finance professionals.

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Of course, some roles will be made redundant due to this huge transformation, but we should not be afraid of new technologies as these will support us in bringing more value to our businesses, and to our daily work as well, making it more exciting and rewarding. The challenge in this huge industrial move is to prepare ourselves with new skills. You'll soon see new colleagues named RPA (Robotic Process Automation), blockchain, big data analytics with the support of AI (Artificial Intelligence), VAM (Virtual Account Management), Swift GPI... It's not the first time in history that we see such industrial change where humans have to adapt their skills and aptitude to find their way in a new working environment in order to stay alive. Change is not only

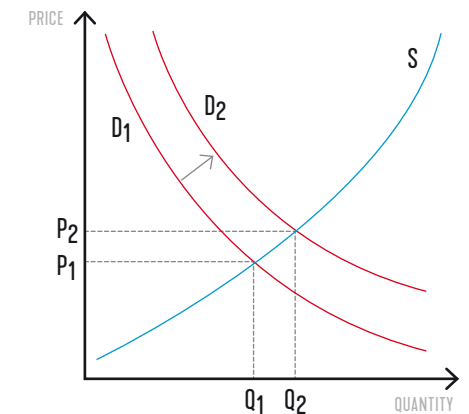
something nice, it's something we have to integrate into our DNA because it is unavoidable. We keep saying treasurers are heading towards a more strategic role: well, this is exactly how we'll be able to free up some time to be spent on creating real value to our internal customers. Without robotization & automation, how can we possibly achieve this? What if we rejected this idea and decided that it was a threat for our own jobs? Would we remain competitive compared to other countries? Would we keep our jobs? Certainly not.

To that regard, the financial sector, especially in treasury, is reaching a point of market failure, at least in Luxembourg, where the supply of skilled workforce does not follow the increasing demand coming from Corporates

ATEL HAS BEEN PHYSICALLY MEETING WITH STUDENTS LOOKING FOR A FINANCIAL CAREER AND INTRODUCING THEM TO TREASURY.

Benjamin Defays, Senior Treasury Analyst, Koch Chemical Technology Group LLC

who are looking to implement and/or develop their treasury centers. This is the reason why (constant) training is a must if you wish to survive, professionally. As a Treasury Association, we have a natural obligation to help Corporates attract and retain their future treasury "superstars" overtime, which is far from being an easy task. No matter what the level of difficulty can be, it is key for the sustainability of the function as we cannot stay in this overheating situation where wage



CHANGE IS NOT ONLY SOMETHING NICE, IT'S SOMETHING WE HAVE TO INTEGRATE INTO OUR DNA BECAUSE IT IS UNAVOIDABLE.

Benjamin Defays, Senior Treasury Analyst, Koch Chemical Technology Group LLC

costs never stop increasing due to the lack of skilled workforce supply. These overhead costs are putting pressure on the companies' earnings as they have to replicate this on their sales price in order to secure a decent margin, which as a result is jeopardizing their competitiveness, hence the stability of Luxembourg as a preferred location for implementing a financial/treasury center. If you work as a treasury professional in Luxembourg, you should be concerned about this. Today, we're in a typical situation where employees only see the short-term benefits of this (short-term) situation, while their career is in front of an absolute risk either because they don't see the urge of being up-to-date and trained regularly, or because their attractiveness (and their price) is solely based on a scarce resource

situation which Corporates could easily overcome by implementing their treasury department somewhere else.

ATEL has been physically meeting with students looking for a financial career and introducing them to treasury, in view of transferring some of our passion for the function and attract them to Luxembourg. In parallel, ATEL has initiated its first treasury cursus which started in February 2019 in cooperation with the House of Training of Luxembourg, which covers cash & liquidity management, trade finance, credit control, advance excel for finance professionals, pension, insurance, risk management, compliance... a challenging program for those willing to perfect their knowledge into treasury and bring value to work the next day. In addition,

ATEL has privileged contacts and partnerships with recruitment companies and professional mentors in order to help both the offer and demand to gain in visibility.

Treasury has always been a difficult function to staff properly. This is because it requires highly skilled labor, now more than ever, and this is a limiting factor. For that reason, strong and immediate actions have to be taken to alleviate the shortage. More to come in 2019! —



Benjamin Defays,
Senior Treasury Analyst
chez Koch Chemical
Technology Group, LLC

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BOOSTING THE BOTS:

THE NEXT STEP TOWARDS TREASURY DIGITIZATION

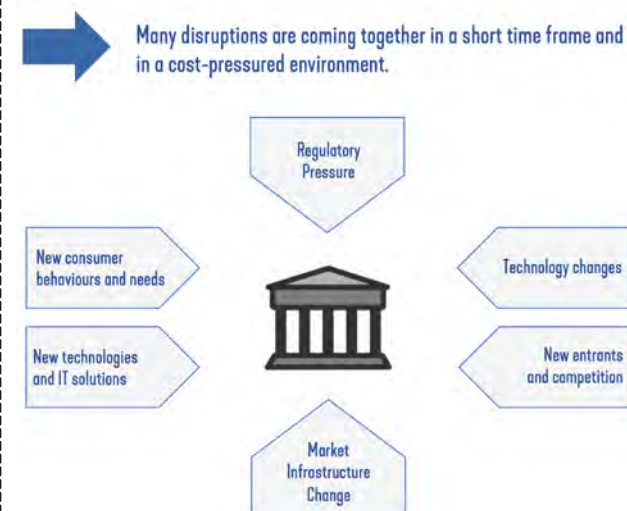
Where should the digital transformation of a treasury department begin? That's the issue currently occupying many treasurers' minds. How can we robotise part of the treasury process in order to gain in terms of efficiency, resources and security? This article aims to set out a gradual and logical approach to retrofitting and further digitizing your organisation. After all, the world is changing so swiftly that increased agility within a more flexible and finely tuned structure is an absolute must.

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THE PATH TO DIGITIZATION

If they haven't already done so, treasurers need to firmly commit to the "digitization" of their activity. Their role is to make their organisation more resistant and more resilient, but that doesn't just involve having a more efficient TMS. That will help, but it won't suffice on its own. The treasury department's IT architecture needs to be redefined as a whole, but that's a long and complex road strewn with hazards and you might be wondering precisely where to start on it. There's no miracle cure or plan applicable to everyone, but unless you take the bull by the horns, greater operational efficiency will remain out of reach. So once you've optimised the systems in place (e.g. Treasury Management System, Payment Factory and the other IT satellites and additional applications), the next stage is to install an ETF (i.e. Extract Transform Load) system in order to connect & consolidate your data and add the missing layer of reporting required. This is the ideal way of bridging gaps in terms of reporting and functionality. This phase can best be described as IT "consolidation" designed to rectify any absences and deficiencies, especially in terms of financial reports. Such a customization enables to develop dashboards and a full array of key performance indicators. This preliminary "customization" stage of system consolidation and optimisation of processes and reports cannot be skipped. Once this layer is in place, the next stage will be the deployment of robots in order to automate a series of processes.

THE DRIVERS OF CHANGE



"UNBLOCKING" RESOURCES AND POWER THROUGH ROBOTISATION

The overarching objective is to "unlock" the (potential) robotization power of treasury processes by automating certain repetitive, tedious or laborious processes which present systematic characteristics, even if this involves opening and searching for information in multiple IT systems. In essence, a robot is just software that will

perform macros in the same way as a spreadsheet file, but on a multi-system basis and allowing the execution of an action or a successive and repetitive set of actions, possibly with calculations. RPA (i.e. Robotics Process Automation) offers us several low-cost and efficient products (e.g. Blue Prism, Automation Anywhere or Ui Path for RPA and WATSON IBM for AI) in this regard. So if robotization ever was an illusion or a chimera dream, that's not true anymore today.

IS THE FINANCIAL DEPARTMENT FIT FOR PURPOSE, OR FOSSILISED AND STATIC?

Entire financial departments are going to have to change and adapt. In this unavoidable evolution of finance as a whole, treasurers need to be proactive regarding their own adaptation and bring themselves up to "digital speed". Sitting back passively while being subjected to a profound transformation would be tantamount to madness. From the following diagram, we will be focusing in particular

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FINANCE TRANSFORMATION ROADMAP

SYSTEM OPTIMIZATION

IT systems optimization to extract the maximum from reporting from existing systems, which are supposed to be fully interfaced

- Bank connectivity, Banking data reliability, Internal controls enhancement

PERFORMANCE & EXCELLENCE MANAGEMENT

Data mining and model-ing to consolidate, add reports and feed dash-boards to design KPI's and KRI's. (through ETF solution or alike) – Management cockpit – New data visualisation technologies

DIGITAL PROCESS OPTIMIZATION

Different levels, 5 steps:

1. Dematerialisation
2. Robotic Process Automation
3. A.I. and machine learning
4. Process mining and modelling predictive analytics
5. Fraud detection tools

BENEFITS OF ROBOTISATION

10 BENEFITS OF ROBOTISATION	
+	Audit Trail: fully maintained logs essential for compliance
+	Productivity: freeing up manual resources for more value-added tasks
+	Reliability: it works 24/7, all year around – full availability
+	Staff motivation: implying better retention by removal of boring tasks
+	Flexibility: can be customized and tailor-made
+	Perfect opportunity to potentially rethink process
+	Consistency: identical processes and output standardisation
+	Error elimination: right results at first time
+	Fee sharing: geographical independence
+	Cheap(er): than heavy development of existing IT tools

➔ Robotization generates better, more agile and more efficient processes and organisation.

➔ on robotisation which, if it ever was a mere myth or pipe dream, is certainly far from it today. This digital transformation is structured around the transformation of the entire finance department. CFOs are currently grappling with multiple challenges such as the reduction of costs, more rapid production of financial information, simplification of financial processes and reduction of red tape, playing the role of integrator, better understanding the expectations of contacts and

TREASURERS NEED TO BE PROACTIVE REGARDING THEIR OWN ADAPTATION AND BRING THEMSELVES UP TO “DIGITAL SPEED”.

François Masquelier, Chairman of ATEL

economic, regulatory, political environments and in a context of growing fraud attempts. The root-and-branch structure of finance departments is due a complete overhaul. CFOs are going to have to deliver greater agility, be more connected and more focused in terms of data, integrate new technical skills, make better use of the data at their disposal and improve the decision-making process via predictive analysis, irrespective of the technical resources deployed.

Benefits of Robotisation

“SO WHAT SHOULD BE ROBOTISED?”

While robots can create value in a number of financial functions, it would appear that certain departments are more capable of generating value via the robotization of

processes. Out of all financial operations, it's departments such as treasury, taxes, financial reporting, purchase-to-pay and operational accounting where robotization makes the most sense.

In order to robotise, it's essential to have repetitive processes of which the rules are definable and standardised (or “standardisable”), with a logical and clear sequence. Let's take, for instance, the activities of cash management, FX, banking relations management, reporting and statistics. Ultimately, it all depends on your organisation and the process which you've defined. A robot will enable the definition of a flow chart and possibly the review of the process in order to be able to enhance and then implement it, such as a macro in Excel. This macro can carry out the task of a person (hence the idea of a robot) and/or access one or more databases or systems in order to perform predetermined and precise operations, even when these are numerous. Let's demystify the robot which, at the end of the day, is nothing other than simple software, a mechanical box suited to self-assembly. And contrary to popular belief, they don't require any in-depth technological knowledge or training.

A robot is a tool that's relatively easy to configure, or a flow chart (and therefore documented) that will perform predefined and specified tasks. It can carry out multiple processes provided that they don't need to take place at the same time. Basically, we're asking a machine to replace a worker by indicating to it which tools to enter and exit and what to do within them. For instance, the treasurer sends standardised templates to subsidiaries via their e-mail inbox, which then respond.

The robot processes the e-mails and extracts the necessary information from them by scanning the response. It then imports the desired data into a spreadsheet file, saving it on a shared disk, converting the files into Word documents (text) in order to pass them onto another department for further processing. The return of the processed file will then be worked upon again and reimported in another tool (i.e. XL spreadsheet or other softwares) and finally reconciled in order to be saved and sorted. Alerts may be automatically initiated in order to monitor the process and subsequently, an artificial intelligence layer can even be added.

RETURN ON INVESTMENT?

It's a legitimate and frequent question. The ROI (return on investment) can be calculated by estimating the number of minutes saved per day and by multiplying the man-hours as euros. But who could fail to grasp the added value of freeing up time and relieving the daily pressure

ENTIRE FINANCIAL DEPARTMENTS ARE GOING TO HAVE TO CHANGE AND ADAPT

François Masquelier, Chairman of ATEL

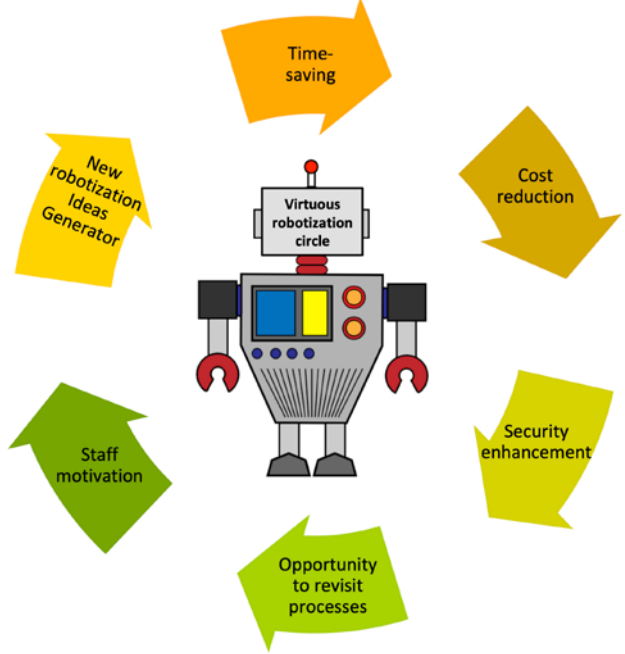
each morning or when closing the accounts? Being able to focus on the more worthwhile and rewarding tasks is motivating for employees. Are other skills required? The treasury profession currently requires more skills in terms of IT, data processing, an analytical mind and the ability to reduce IT dependency. Robots are the prior stage to artificial intelligence, which can be grafted onto them. As well as executing tasks, the machine can follow decision trees and, depending on the responses, adapt different processes and adapt itself. It seems logical to seek to eliminate errors and offer audit trails, greater productivity, coherence in the treatment of processes and greater flexibility while at the same time motivating staff. The robots are tailor-made DIY solutions which a treasurer can rapidly tailor to suit their needs. But in order to identify what would be “robotizable”, it's essential to consider all the routine processes and what they entail, as before going ahead with the deployment of complex algorithms, it's more logical to start by freeing yourself from the most tedious processes that are of little interest to those performing them.

THE VIRTUES OF ROBOTS

This type of process is very much a win-win, as the more you automate with robots, the more satisfied your employees will be. Greater security and more internal controls help motivate teams. What's more, the more you robotise, the more you tend to find new ideas for robotization and the more you will be capable of modelling yourselves. With robots, you'll also be less dependent on certain IT suppliers. Of course, those who subcontract and outsource their treasury activities won't be too chuffed to see these machines hit the scene. But with limited financial resources and little training time, the treasurer will be able to automate a series of tedious and time-consuming processes in order to enhance the comfort of their team.

The cost of a robot is ultimately low, as we're talking about roughly €5,000 for several processes as long as they don't take place at the same time, plus configuration and training

VIRTUOUS ROBOTIZATION OF TREASURY PROCESSES



IN ORDER TO ROBOTISE, IT'S ESSENTIAL TO HAVE REPETITIVE PROCESSES OF WHICH THE RULES ARE DEFINABLE AND STANDARDISED.

François Masquelier, Chairman of ATEL

costs. So you see, it would be a shame to deprive yourself of this flexible technology that's adaptable to suit your needs. What might have seemed impossible and even frightening not long ago has now become simple and attractive. In this weird world of ours, everything is changing constantly, even our perception of machines. I'll leave it to the great Bruce Lee to sign off for me: “be self aware, rather than a repetitious robot”.



François Masquelier, Chairman of ATEL

ENHANCEMENT OF TREASURY INFORMATION WORKFLOWS AT RTL GROUP:

DATA INTEGRATION AND VALUATION AUTOMATION, CONTINUOUS MONITORING, IMPROVEMENT OF INTERNAL CONTROLS AND INTELLIGENT DASHBOARDING

IN COLLABORATION WITH FINMETRICS

The sophistication of IT systems results in a profusion of data and makes it very difficult to process or compile it properly. We have to cobble dashboards together in a Heath Robinson manner because the data does not match standard formats and is compartmentalized in its own systems, which are all independent from each other and different.

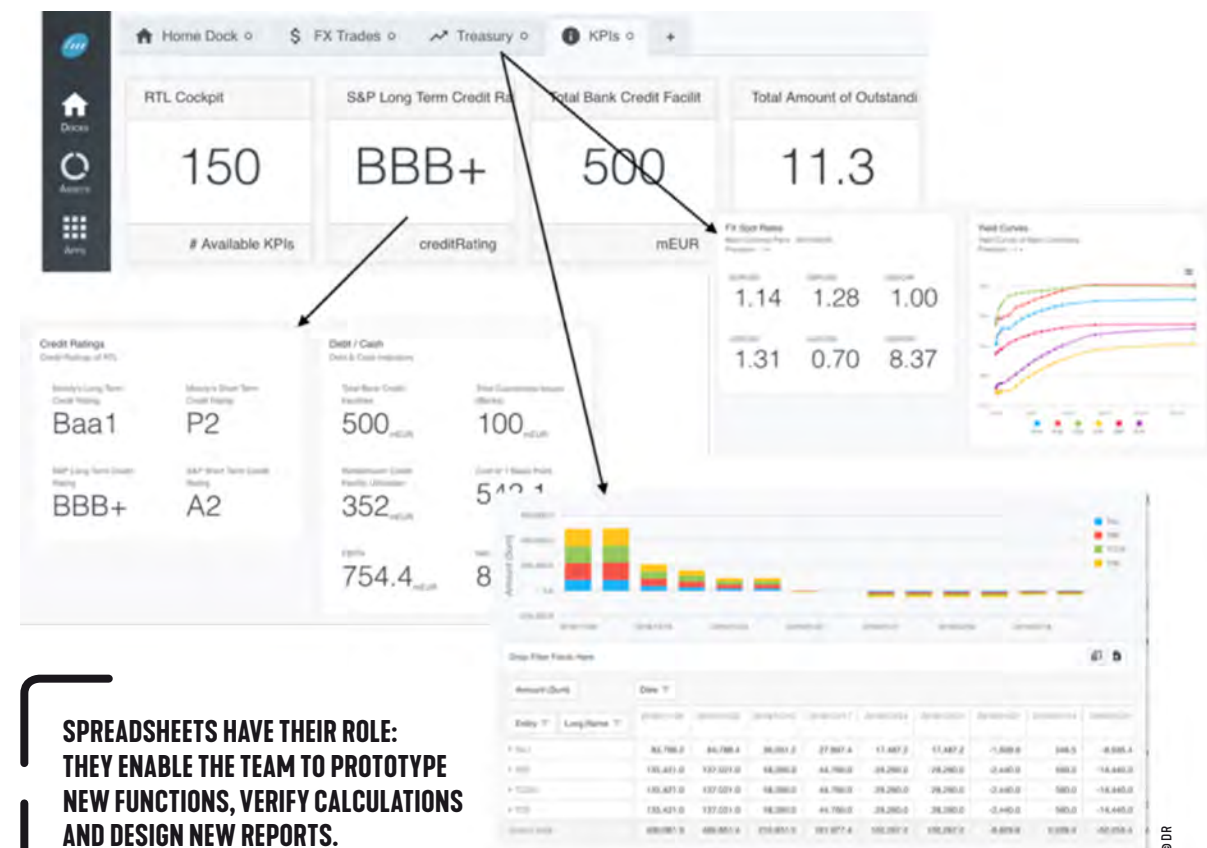
Since too much is often worse than too little, we may end up submerged in data, or we may just underuse it. This is also due to another phenomenon: the preference of obscurantism to learning from imperfect but still adequate data, leading to Big Unused Financial Data. The Business Intelligence (BI) challenge is to extract the data, make formats compatible and process the data to condense it into an appropriate dashboard that makes sense for the financial managers of the Treasury. The added value lingers therefore on the whole chain, not on a complex data system, a nice visualisation tool, or a financial library, alone.

EXCEL: NOT THE BEST, BUT STILL THE MOST USED TMS

For the last thirty years, Excel has been the piece of software in widest use amongst treasurers, but by far not the safest when it comes to use it at full throttle. It is not as robust as it needs to be, which is the other side of the coin, of extreme flexibility. However, for prototyping your next report or dashboard, Excel is at the top of the list, the one you think of immediately. It is capable of complex calculations and routines, and can communicate today with other databases of various dimensions. Unlike a Treasury Management System (TMS), Excel starts from a blank page and is not process-oriented. It is useful, but

in measured, homeopathic doses. As with drugs, abusing from them makes us hyper-dependent. If CIOs are wary of new and untried applications, the temptation to use Excel is enormous. Here again, DIY can help us, but it will never be like a factory finish.

With a greater taxonomy of financial information and structuring it using digital tags, even with IFRS standards we will be able to extract financial data in XBRL type formats more easily. In this way data customisation can be easily parameterised to produce tailored reports, cutting costs. It is, and always will be, all about standards. One day, we will get there – but in the



SPREADSHEETS HAVE THEIR ROLE: THEY ENABLE THE TEAM TO PROTOTYPE NEW FUNCTIONS, VERIFY CALCULATIONS AND DESIGN NEW REPORTS.

meanwhile we have to extract and keep on doing a bit of DIY. We may dream of a world in which a robot can extract everything and can discover by artificial intelligence alone how to compile it to produce intelligent reports for the management. Happily, or sadly, that will not happen any time soon, for two reasons. First, the lack of standardization decreases but still forces us to innovate and to sculpt a solution that can be swiftly parameterised to gather and integrate any data flow. Thanks to event-driven robots, we are able to do it more and more intelligently. Second, a tool remains a tool. Many of them remain a Lego box until somebody provides a shape to them. It is particularly difficult to have a programmatically efficient solution whilst being able to remain creative and capable to integrate the experience of senior managers. And creativity is not yet artificially provided...unless you believe in creationism.

THE FINBOARD PROJECT AT RTL GROUP

Why on earth would you look elsewhere for a solution and add yet another tool that has to be connected and interfaced? On the face of it, that would seem to be a pretty bad idea. However, the reality of current treasury IT tools is that they are standard, sophisticated yes, but somewhat generic and at the end, not very flexible. They are made to satisfy the greatest number and therefore they are off-the-peg products, when perhaps tailor-made would be better (except for the price). The requirements are becoming ever more specific in terms of reporting, and everyone addresses them in their own way. A generic solution is often not possible. Furthermore, the growth of regulations and new IFRS standards is such that software producers are a bit behind the curve and wait to find out what they have to develop before getting down to work. The principle of the

“very last minute” (to put it kindly) therefore applies and very often leaves treasurers helpless in the face of compliance requirements.

Digressing a little bit on the question of “interconnected” vs. “integrated” systems, this has been a long and cyclical debate for a while. At the end of the 90s, substantial amounts were being invested by global firms in their desire to have one system for the whole group. Some of these projects were eventually trashed down, with huge losses. A better idea emerged at the same time: make systems collaborate more easily by being interconnectable (through connectors, APIs or the like) and by sharing a common taxonomy, the latter making connectors even more standard. Of course, pushing this idea to the extreme would be also critical, requiring at least more than one to know the map of interconnected systems. But globally, this simply

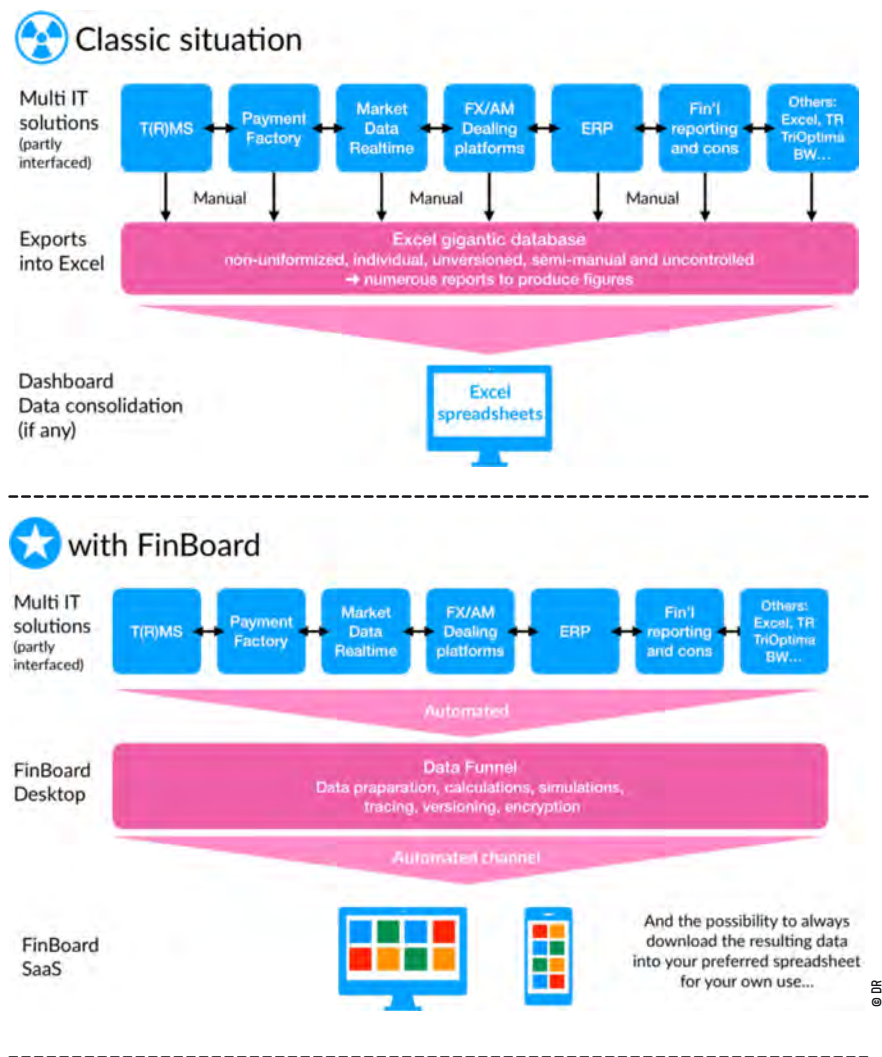
→ means the mastery should not be on the system(s) but on the flows of information. Big system or not, few users are aware of where the data comes from...and even where it goes sometimes.

At RTL, like in many other corporate treasury departments, a wide range of specific operations were maintained in spreadsheets aside of those processes naturally performed on ERP and TMS systems. Those processes mainly comprise reports and internal controls, but also include the explanation of variations on the pricing components of derivatives used in hedging strategies.

Those checks and reports implied manipulations of large datasets, present on the main system, to be then aggregated with data flows from other systems in place or from external IT sources. Checks comprise verifications and reconciliations whilst reports require also mark-to-model valuations and specific splits of those valuations. The numerous manipulations and the repetition of cumbersome calculations on a regular basis – such as in FX where triangulated calculations do not lead to similar valuations – require an additional scrutiny as well.

This leads to many issues:

- 1. Ungrateful tasks** making spreadsheets more **error-prone** and globally, creating demotivation and more human turnover.
- 2. There is a lack of responsiveness** when gaps show up, when checks have to be done or simply when a question raised must be swiftly answered. It is perceived as a heavy process that must be performed on top of the rest. It takes time to reproduce those reports. By the time something is spotted, deadlines are often passed.
- 3. Productivity blackholes.** Substantial energy and efforts are devoted on the replication of regular reports, producing values and cross-checking them, instead of having them automatically available on a regular basis and using them for timely decision-making.
- 4. Lack of global view** on the processes run by treasury. The rhythm of the activity is regulated by the reporting frequency defined in the various systems. We want instead today an App to alert us on an issue raised.



THE SOLUTION CONVERTS REPORTING INTO MONITORING.

- 5. The management has a very limited and irregular view** on the activity and deadlines of the team.

Still, spreadsheets have their role: they enable the team to prototype new functions, verify calculations and design new reports.

The solution must be therefore one that automates the data

aggregation, performs financial and risk calculations in real time, and is capable to show an ergonomic monitoring dashboard that provides all reports and checks continuously, with the capacity to easily get reports and spreadsheet exports for the team for their own use and flexibility, but now at a later stage where cumbersome manipulations are behind. The champion users must keep ownership of the data.

In that respect, FinBoard (developed by FinMetrics) was the perfect application for RTL. It can be a full cloud solution only or combine a system on premises with a cloud interface, so that the team can perform very customised functions in-house, whilst publishing a complete set of key indicators to the App in the cloud so that the management can have a responsive cockpit on their desktop or smartphone, install-free.

Here are some key elements of the added-value by the solution: Innovation and excellence.

It provides an intelligent bridge between the main systems in place and the specific reporting requirements realized in spreadsheets in general. The tool collects data from different systems used by RTL treasury and store them in its own database. Several processes and reports usually produced using a mix of spreadsheets were transposed into the system, enabling significant savings in man-days as well as safer and more trustable results. KPIs and their drilldown, associated or not to market data from the usual providers, are also available directly on managers' mobile devices. The solution converts reporting into monitoring. The tool uses state-of-the-art

technology guaranteeing a stable and robust system for the future. The data architecture, traceability and encryption have been designed by one of the pioneers of the Blockchain technology, recognized by Satoshi Nakamoto, Xavier Serret. The implemented solution can accumulate flat files, spreadsheets and data from APIs, maintain them in their original forms, with bots translating the data automatically for the various Apps. The overall chain is encrypted certifying the accuracy and integrity of the outputs as stemming from the same inputs.

Benefits to the users. FinBoard

is not (just) a BI tool but a sum of benefits: (1) it makes robust and sound processes that are only realizable in spreadsheets otherwise, in a very short implementation time (days, max some weeks), (2) it provides a wonderful user-experience; it is ergonomic and ludic to use, fostering a frequent use, (3) it comes with a powerful instruments pricing and risk valuation library, (4) it provides Apps, each one corresponding precisely to a given function of the métier, and (5) it benefits from the accompaniment of experienced financial engineers who propose, design and can accompany treasurers in their follow-up of regulations and internal monitoring requirements. The savings in time and efforts but also the dialogue with responsive financial experts is the success key of the formula. Examples of monitoring uses include:

- Automation of EMIR Reporting process
- Mark-to-market calculations and split between the value components (time effect, market effect, hedging impact),

THIS LEADS TO AN IMMEDIATE TRUST IN THE RESULTS AND THE "ONE VERSION OF THE TRUTH" PRODUCED.

- Margins for back-to-back FX forwards with subsidiaries,
 - Process linking FX bank deals with associated FX internal deals to assess the split on/off balance sheet,
 - Wide KPIs on the overall activity as well as with data reused from other systems, spreadsheets, flat files, or live market data,
- The tool makes this directly available on manager's mobile devices through an ergonomic cockpit.

An application to support a best practice in corporate treasury. By implementing an agile approach, whereby the Finance Engineers of FinMetrics accompany RTL team from the inception of the idea to the release in production, these ideas are quickly transformed into prototypes and then implemented into FinBoard as a new App. The Finance Engineers are finance specialists with an IT expertise, which simplifies greatly the dialogue between them and RTL Analysts. This leads to an immediate trust in the results and the "one version of the truth" produced. It means that the RTL team can spend more time in analysis and strategic tasks than in crunching numbers. —



Hugues Pirotte,
FinMetrics



Patrick Verspecht,
FinMetrics

DIGITAL INNOVATION AND ILLICIT FINANCIAL FLOWS

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Building on our commitment to drive positive change through data and insight, Refinitiv has joined the UN's Task Force on Digital Financing, the global task force charged with recommending strategies to harness the potential of financial technology.

We are in full support of the G20 Action Plan to promote and support the UN's sustainable development goals (SDGs) and its clear objective to 'ensure that no one is left behind in our efforts to eradicate poverty, achieve sustainable development and build an inclusive and sustainable future for all.' We will continue to work tirelessly to help further the achievement of these global SDGs and deliver innovative solutions to pinpoint risk and criminal activity at every level.

COUNTING THE COST

Financial crime, including bribery and corruption; money laundering; fraud; theft; cybercrime; and slave labor/human trafficking, is pervasive: Refinitiv's 2018 True Cost of Financial Crime survey¹ revealed that nearly half (47%) of respondents had fallen victim to at least one form of this crime in the preceding 12 month period. In financial terms, these crimes led to an estimated US\$1.45 trillion in lost turnover, but the cost does not end there. Critical social and humanitarian consequences impact the lives of millions of individuals across the globe on a daily basis – for example, estimates reveal that 40.3 million

people remain trapped in modern day slavery. Moreover, there is the opportunity cost of illicit funds diverted from legitimate economies to consider. Our collective inability to combat financial crime and halt the illicit financial flows that it facilitates correlate with exponentially rising environmental crime and an international lack of success in achieving the SDGs that are aimed at halting the global biodiversity loss that will impact every country, every society and every individual.

DIGITAL INNOVATION – A DOUBLE-EDGED SWORD

Part of the solution lies in each individual organization taking targeted steps to pinpoint risk and eradicate financial crime within their own operations – and digital innovation is stepping up to the plate with new solutions to help organizations achieve this, but this same technology is, of course, also available to ever-more sophisticated criminals. Digital innovation can help to reduce illicit financial flows by, for example:

- Enhancing the exchange of information, which in turn promotes transparency
- Improving companies' ability to identify suspicious behaviour more quickly and more accurately

DIGITAL INNOVATION IS STEPPING UP TO THE PLATE WITH NEW SOLUTIONS WHICH HELP ORGANISATIONS TO PINPOINT RISK AND ERADICATE FINANCIAL CRIME WITHIN THEIR OWN OPERATIONS.

- Enabling organizations to maximize their resources and work smarter, for example by recognizing patterns of behavior that could indicate potential risk
- Promoting efficiency in a cost effective manner, for example by enabling governments to conduct digital investigations
- Improving public scrutiny and offering individuals access to improved ways to report suspicious behavior for the benefit of society

The caveat is that digital technologies can also facilitate crime. For example, such technology can allow the easy creation of online criminal networks that transcend traditional boundaries, and can facilitate the frictionless transfer of illicit funds via digital currencies. Anonymous online activity can also facilitate crimes such as tax evasion. The private sector therefore has a critical role to play in actively embracing the innovation on offer and taking concrete steps to fight financial crime. It is encouraging to note that globally 97% of respondents in our 2019 survey² of over 3000 managers with compliance-related responsibilities believe technology can significantly help with financial crime prevention and, moreover, 60% across the globe are prioritizing automation and digitization for investment. However, a change in the prevailing mindset is needed – 67% of respondents are hesitant to report financial crime incidents externally as this may sour relationships. Trusted data and collaboration At Refinitiv we believe that clean, complete and reliable data, combined with invaluable human expertise and the right technology can create a powerful combination to identify risk and criminal activity. We further believe that collaboration and the open sharing of such data are crucial to realizing the potential of innovation, particularly between tech companies, governments and financial institutions and are encouraged that this view is supported by the US Financial Crimes Enforcement Network (FinCEN) and its regulatory partners' joint statement encouraging banks and credit unions to take innovative approaches to combating money laundering, terrorist financing, and other illicit financial threats. —

1. [DOWNLOAD](#) the 2018 True Cost of Financial Crime survey
2. [DOWNLOAD](#) the 2019 Innovation and the fight against financial crime report

REFINITIV™
DATA IS JUST
THE BEGINNING

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BRUNO MELLADO (BNP PARIBAS): TOWARD THE FUTURE OF INSTANT PAYMENTS

THE ULTIMATE GOAL IS FOR
PAYMENTS TO BECOME INVISIBLE
TO COMMERCIAL ACTS.

Bruno Mellado, global head of payments
and receivables, BNP Paribas

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Global head of payments and receivables Bruno Mellado says that innovation strategies including co-operation with fintech firms are helping BNP Paribas accelerate toward a future where payments are invisible, seamless and instantaneous.

How is the payment landscape evolving?

The payment environment had changed very little for a very long time, but over the past three years it has been evolving at unprecedented speed – making the payment business much more attractive for professionals and companies with new technologies and investments. Blockchain still has a scalability issue to be addressed before it can become a payment solution, but

it has proved a great catalyst for improvement in existing information rich processes between banks. On the other hand, proven technologies such as cloud computing and APIs are delivering significant added value to payments. Until recently there was no means of checking on when international payments reached the beneficiary, but thanks to collaboration with SWIFT, a new standard called gpi allows 50% of transactions to be

credited within five minutes – a drastic change. Technology is one driver of change; competition is the other. Certain fintech firms have started to rethink payments and triggered existing players to do the same. However, innovation requires adoption, which is linked to accessibility. If an influential institution with a collaborative approach onboards a new technology, it is more likely to spread within its ecosystem of partners than in the case of a smaller player in a more limited market. Collaboration and access are critical.

How does BNP Paribas tackle innovation?

We are active on three different fronts. First, BNP Paribas remains very close to its client base and is always looking to identify their problems – especially in

the corporate area, where we organise cash management and payment forums at which clients can discuss the obstacles they face. This dialogue helps us draw up a roadmap for relevant areas of innovation. Secondly, we are an influential voice among our peers within the domestic, regional and global industry through organisations such as the EPC in Europe or NACHA in the US to define the payment innovation agenda and bring our clients' needs to the forefront of discussions. In the case of SWIFT gpi, we collaborated with corporate clients in design sessions and incorporated their concerns into our agenda. In addition, we have established a fintech lab to engage with new companies, understand what they are doing and take stock of the competition. A collaborative

approach works much better than head-on rivalry and underlines BNP Paribas's ability to integrate, alongside its own offering, the best services of third parties and to understand their relevance and strengths. So far, we have screened 200 fintech firms, met around 80, analysed more than 30 in detail and are now directly working with 14. We refer some to our clients, integrate others into our offering, and invest in a few. These firms benefit from our client base, our services and in some cases our investment.

What future developments can we expect in the payment field?

The ultimate goal is for payments to become invisible. They will happen in the background of a commercial transaction, seamlessly in real time, and

everyone will enjoy a complete picture of what funds are moving in or out, and whom they are coming from or going to. This will come at a cost, however, and I believe some banks will not be able to keep up with the level of infrastructure investment required to move to global standards. BNP Paribas has the resources and capability to deploy this strategy with local and international payment means.



Bruno Mellado,
global head of payments
and receivables,
BNP Paribas

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(R)EVOLUTION OF PAYMENTS – ARE YOU READY FOR THE NEXT LEVEL?

The payments market is entering a new decade. The payments market as we know is undergoing some drastic changes in recent years. It all started with the introduction of SEPA and its final countdown in 2014. As the changes introduced by SEPA were mandatory for all participants in the Euro-area the harmonization of mass payments on a Europe wide basis has been completed. Furthermore, the time span for a payment to reach its recipient was capped at a single day within Europe and prices remain on domestic level.

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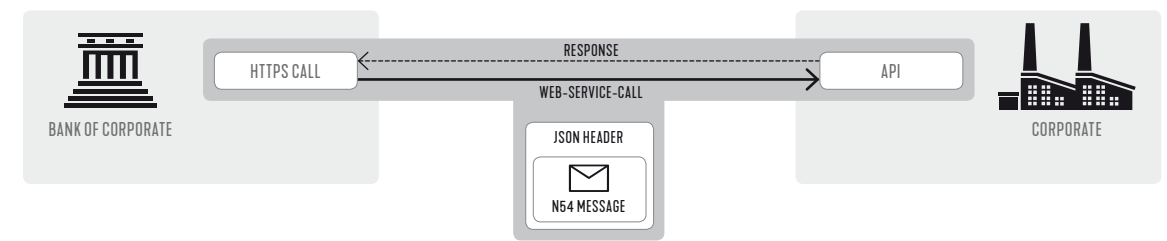
In order to allow the remains to expand to new innovations after the introduction of SEPA, new roles such as Payment Initiation Service Provider (PISP) or Account Information Services Provider (AISP) were established while requesting a high security standard through a two-factor authentication on a legal basis. Therefore, at the end of 2015, several new regulations were adopted in the form of a revised Payment Directive – **Payment Services Directive 2 (PSD2)**.

Building on both a European wide payment scheme complemented by an open and a secure infrastructure, the demand for a real time execution of payments has risen. Instant Payments, a payment method where Euro transactions are finalized in a matter of seconds while the participating counterparties have a certainty of fulfillment, was born. This new form of payment is experiencing a rapid growth since it's first ever transaction, which mirrors the demand of faster, more real time processes at the point of sale, in e-commerce or for treasury purposes in the near future. Even if the Instant Payments scheme designed by the EPC is completely applicable within the bank-to-bank space, a seamless integration of Instant Payments into

THE EURO PAYMENTS MARKET IS PICKING UP PACE. THEREFORE, THE TIME TO PARTICIPATE IN THE DEVELOPMENT OF THE PAYMENTS MARKET OF THE FUTURE IS NOW.

the end-to-end processes lacks an applicable standard. Finally, the desire for change within the market bears a chance to define needed enhancements on a best practice level or industry standard's according to the needs of the industry. To apply the appropriate forum, the **“Westhafen Expert Dialogue on Instant Payments”** was founded to enable representatives of corporates, banks and service providers to define the needed best practices. Empowered by BearingPoint as the guiding consultancy, first gaps were closed by defining a local standard for Germany which informs corporates about incoming Instant Payments upon reception. This credit notification – called N54 – is based on the camt.054 format but is streamlined for a fast transfer of single payment transaction data. Looking forward, interest in the N54 was raised by several market participants on this topic, who expect it to become a European wide standard.

INSTANT PAYMENT NOTIFICATION N54



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Westhafen Expert Dialogue on Instant Payments is an open forum and therefore open to all affected corporates, banks or service providers on this topic. In regularly scheduled meetings these participants look forward to discuss new best practices on market needs, such as new ways to instruct Instant Payments like using a PISP or the Request-to-Pay initiative. **Request-to-Pay** is a service where the recipient of the payment initiates a payment prompt including all relevant data, which is then sent to the payer, so he/she only has to accept / confirm the payment for it to be triggered.

Innovation does not stop at borders. Within the next few years the ISO 20022 migration provides a huge chance for corporates as the entire messaging services will be unified. This change is not limited to Europe but will take place worldwide. Major high value payment systems as well as TARGET2 will change their messaging to ISO 20022. Introducing **ISO 20022 with a big-bang approach in November 2021** will challenge all affected users of TARGET and TARGET2 payments. Furthermore, the payments community requested SWIFT to only support payments and cash management messages in ISO 20022 after a transition period lasting until 2025. As one can see, the Euro payments market is picking up pace. So, the time to participate in the development of the payments market of the future is now.

The best place to start is the **25th anniversary ATEL event** on September 19th in the Sofitel Kirchberg in Luxembourg. An event where over 250 local and international people, mostly treasurers from non-financial institutions and banks, as well as representatives of 25 treasurers' associations will participate. Furthermore, the Luxembourgish Minister of Finance Pierre Gramegna will be a speaker during one of the plenary sessions. The event itself will consist of four stream sessions addressing topics of treasurers' interest. Westhafen Expert Dialogue insights by participating corporates or banks will be shared with you at this event as well as the announced changes forced by TARGET consolidation and SWIFT ISO 20022 migration. —



Christian Bruck,
Partner
BearingPoint



Thomas Frenzel,
Senior Manager
BearingPoint



FERNANDO PACHECO
(J.P. MORGAN BANK
LUXEMBOURG S.A.):

ENABLING FRICTIONLESS PAYMENTS

Fernando Pacheco, Head of Treasury Services and Commercial Bank, says in today's "always-on" world, J. P. Morgan is creating an environment where payments are moving instantly.

What has been driving the trend for real-time payments?

In a word, expectations. As individuals, using our mobile devices, we are no longer location dependent so neither are our payments: we ride share, buy-online and conduct our banking anywhere, anytime. We expect our payment arrangements to be conducted instantly. Businesses have higher expectations, paying and receiving their money faster and having visibility over the transactions and the information that goes with it. That is why J. P. Morgan has been actively engaged in assisting our clients with the benefits of real-time payments systems that provide

immediate payment finality. In turn, this allows for improved liquidity, better financial control, budgeting, and easier reconciliation. To that end, we are proud to have been the first US bank to join SEPA Instant in April 2019.

What role is Luxembourg playing in meeting expectations?

Luxembourg is a strategic regional treasury hub for J.P. Morgan, and perfectly positioned to support the unprecedented rate of change in the European payments landscape as a result of ever changing client expectations and technological advances. J.P. Morgan Bank Luxembourg

LUXEMBOURG IS A GREAT LOCATION FOR OUR CLIENTS TO LEVERAGE THE NEW TECHNOLOGIES, TO DRIVE TRUE BENEFITS TO THE BOTTOM LINE.

Fernando Pacheco, Head of Treasury Services and Commercial Bank, J.P. Morgan Bank Luxembourg S.A.

offers global companies the ability to centralise their cash management and is constantly delivering new, innovative solutions to our clients, from Virtual Account Management to API connectivity. Luxembourg is a great location for our clients to leverage these capabilities, and in 2019 we are aiming to be the first global corporate bank to offer SEPA Instant payments in the local market. J.P. Morgan is already a member of the SEPA Instant payments scheme in Germany and became the only bank in the world to offer the capability of real-time payments in USD, GBP and EUR earlier this year.

How are you addressing the growing requirement for fast and accurate information?

As payments start to move to real-time, the flow of information needs to match the speed of payment expectations. We launched the Interbank Information Network (IIN) in 2017 to address friction points within the payments chain. What is exciting and unique about IIN is that it is the first live interbank blockchain service for banks, providing information exchange and maintenance through a secure network. Leveraging distributed ledger technology and J.P. Morgan's blockchain platform, IIN also provides a framework and architecture for participants to develop new applications or value-added services. —

Fernando Pacheco,
Head of Treasury Services
and Commercial Bank,
J.P. Morgan Bank
Luxembourg S.A.

HOW CORPORATE TREASURERS CAN MAKE THE MOST OF THE API ECONOMY AND OPEN-BANKING?

In the USA and Asia, open-banking refers to a broad set of API-based connectivity that allows greater sharing of account and balance information, account aggregation via APIs with one log-in with multiple banks. In Europe, open-banking is increasingly associated with specific aspects of the 2016 EU Payment Services Directive (PSD2), which had to be transposed into national law in the different member states by January 2018 (in Luxembourg in July 2018).

WHAT PSD2 AND OPEN-BANKING MEAN TO TREASURERS?

PSD2 sets a framework for redefining the European payments ecosystem. The directive aims to encourage innovation and competition by facilitating new market entrants, enhance the transparency and security of payment services and finally allows businesses & consumers to view and execute their banking and transaction activity in a unified manner across the European Economic Area (EEA). It promotes the new world of EU open-banking (access-to-payment accounts through real-time APIs) on 14th September 2019 and encourages greater competition in the bank space and a better collaboration between traditional banks and innovative fintechs.

Banks are very late in the implementation of their API hubs (shared or not) and have not much communicated on this new evolution with their corporate clients. So far open-banking didn't have a real impact on Europe's Corporate treasurers. This was confirmed during the EuroFinance International Treasury Management conference where 55% of the delegates responded that they didn't consider PSD2 to be relevant for their business, as the experience of wholesale or industrial businesses is quite different from real-time payments or application program interfaces (APIs) consumed by consumer mobile APPs. Most treasurers are still waiting to

see what new products and services their banks are able to deliver in the future.

One of the challenges forced by the PSD2 is that banks (AS-PSPs) need to implement an open API infrastructure, but no API standards, to connect, are imposed on Third Party Payment providers (TPPs, including banks) by the EBA Regulatory Technical Specification (RTS). TPPs and treasurers are facing the challenge of hundreds of standards from thousands of banks across Europe.

HOW CAN OPEN BANKING TRANSFORM THE FUTURE OPERATIONAL MODELS OF TREASURIES?

Open banking and APIs are speeding up innovation and help sorting out traditional pain points due to manual and repetitive tasks that can now be automated in a secure way through APIs. The API Economy allows to easily integrate with

one another and share data in real time. This functionality can be directly integrated with Enterprise Resource Planning systems (ERPs) or Treasury Management Systems (TMSs), allowing for a more streamlined the invoicing process (both paper and electronic invoices); The open banking APIs will allow corporates to get in real-time through a TPP (licensed by the national bank authorities: CSSF (L), ACPR (F), BAFIM (D), FCA (UK) ...) all Account Information (TPP-AISP) services like balance information and Payment Initiation (TT-PISP) services like initiation of "just-in-time" credit transfers. One of the topics to be addressed by Corporate treasurers is about the benefits of real-time payments and instant account balances to replace the MT940 bank account statements. Most treasurers pay out today on a weekly to monthly basis, not using real-time (for the moment), but are interested in real-time payment

CORPORATE TREASURERS HAVE TO LAUNCH NOW A STRATEGIC STUDY TO BETTER UNDERSTAND THESE NEW TECHNOLOGIES MADE AVAILABLE BY BANKS.

Jean Diederich, Partner, Wavestone

collections information through PSD2 bank APIs. Corporate treasurers have to launch NOW a strategic study to better understand these new technologies made available by banks and how to rethink their existing treasury solutions and review their overall business models.

WHAT ARE YOU CONSIDERING AS THE MOST EMERGING TECHNOLOGIES FOR TREASURERS IN THE COMING YEARS?

There are many emerging technologies that can make treasurers more performant in the upcoming years, one of them is "Cloud Computing" that is applicable across the corporation through a complete integration of a cloud-based Treasury Management Systems (TMS) or ERPs. A second one is to integrate with the "Application Programming Interfaces" (APIs) economy to obtain a real-time visibility of payment status & cash balances, streamline FX execution or confirmation and to propose real-time credit transfer initiations. A third one is "Robotic Process Automation" (RPA) that can be deployed across the corporation to obtain real-time price quotations & executing of FX transactions, creating accounting entries for inter-company netting & payments, preparing bank account reconciliations, as well as identifying and verifying information in payment advice emails for cash application. A fourth could be "Machine Learning" (not AI) that could be useful in the front office for forecasting cash receipts/incoming payments to address working capital issues, but also in the back-office to detect payment frauds and anomalies. The last one is about the "Blockchain or Distributed Ledger Technology" (DLT) which is still in an early stage of adoption because existing laws and missing business cases are often the main blocking factors. In the future the blockchain technology/DLT could simplify trade-finance, payments and information sharing, as it's a very open and transparent general ledger that connects all parties 24/7 to settle a deal. ■

Jean Diederich,
Partner, Wavestone

SERIES: RISK MEASURES

CORRELATION

IN FINANCE

In 1990, Harry Markowitz was awarded the Nobel prize for his theory on portfolio choice, where diversification plays a central role. Diversification is made possible through the fact that adding assets together – assets that are not perfectly correlated to each other in terms of potential evolution – allow us to reduce the total variability of a given portfolio. When correlation is lower than 1, it means that a fraction of the variability of an asset can compensate part of the variability of another one, instead of simply adding up.

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This concept is crucial because it allows us to quantify the added value of managers that do not “put all their eggs in the same basket”. This has consequences everywhere. For example, if a bank has a better asset diversification, the total dispersion of its asset value will be lower, potentially leading to a lower equity requirement, to act as a buffer. As a simple illustration, and as explained by Markowitz (1976), if we add securities with the same return volatility to a portfolio, but with a correlation of only 25%, with 10 securities, the total variability of the portfolio will be 57% of the volatility of any single asset in it. Still, the effect is very strong with the first ones, but decays sharply as more securities are added to the portfolio, as the table here below shows. And with a high correlation, the capacity to diversify by adding more assets is quickly limited.

Finally, taking the correlation for granted can give us a false sentiment of security about the

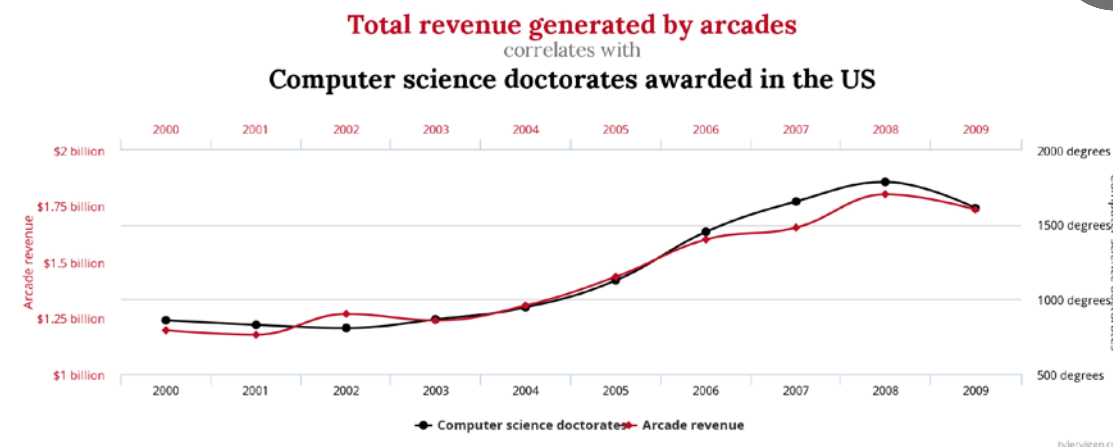
effective diversification we will benefit from in the future. First, in practice, the correlation is statistically estimated over past data. And nothing guarantees us that the future behaviour won't be different. Second, we might not be looking at the right correlation. Correlation in good times might well be different from correlation in critical times. We know that



STANDARD DEVIATION (VOLATILITY) OF PORTFOLIO RETURNS AS A PERCENTAGE OF THE VOLATILITY OF ONE ASSET

A value of 50% means that the overall volatility of the portfolio is half of the volatility of any asset in the portfolio. Each asset is assumed to have the same standard deviation, and the correlation is assumed to be the same across all pairs of assets in the portfolio.

Number of securities in the portfolio	Correlation between asset returns (unique correlation within the portfolio)				
	0	0.25	0.5	0.75	1
1	100.00%	100.00%	100.00%	100.00%	100.00%
5	44.72%	63.25%	77.46%	89.44%	100.00%
10	31.62%	57.01%	74.16%	88.03%	100.00%
30	18.26%	52.44%	71.88%	87.08%	100.00%
100	10.00%	50.74%	71.06%	86.75%	100.00%
500	4.47%	50.15%	70.78%	86.63%	100.00%
1000	3.16%	50.07%	70.75%	86.62%	100.00%



systemic phenomena in bad times can make correlations increase substantially, and the expected diversification will vanish away when we need it most. Relying therefore on risk measures that depend on correlation might lead us to the underestimation of exposures in extreme cases. Third, this is “human science” where a better understanding of behavioural economics can explain how our actions can have an effect on the effective correlation, killing the diversity. Let's illustrate this. In the past, asset allocations tended to praise emerging markets securities because of the diversification power they could add to the portfolio. Indeed, even if those markets were viewed as very volatile, their reduced correlation with our markets made them attractive, since only a small fraction of that volatility would impact the portfolio, being partially cancelled by uncorrelated effects elsewhere. But, as globalization increased, without yet producing the expected benefits of reducing the risk to invest in some of those markets, only correlation increased, killing the diversification benefit, producing a perverse effect (see Goetzmann et al (2001, “Long-Term Global Market Correlations”, NBER). Fourth, the way we compute correlation, tests for the linear dependence between two variables. But there are dependences that are

not linear, like: B doesn't necessarily go up when A goes up, but when A goes down, B surely goes down as well. We can see here that there is a dependence we can describe, but computing correlation might even return a null value in some cases. Finally, correlation is not causation or causality. We tend to confuse both. The fact that A and B are correlated means their behaviour seems to share some similarities, but we might have found just a statistical relationship in the data. That doesn't guarantee necessarily there is any direct causal relation between A and B, and if there is one, we don't know anything about its direction, i.e. that A drives B or that B drives A. Checking for that would require other tests. In the figure above, from Tyler Vigen, undue conclusions could be drawn like “the evolution of arcade revenues encourages more computer scientists to pursue a doctorate” or “having a doctorate make you play more arcade games”. But in fact, there is a trend in both time series and the correlation simply captures that trend. Sometimes, it is due to a hidden variable or reason, driving each of them separately. Here, the discovery of more powerful CPUs might have encouraged the development of more sophisticated and realistic arcade games, whilst encouraging more graduates to do research in IT. Correlation is a measure used in

TAKING THE CORRELATION FOR GRANTED CAN GIVE US A FALSE SENTIMENT OF SECURITY.

Hugues Pirotte, Professor of Finance, Solvay BS, ULB Partner, FinMetrics SA

finance and risk management to price complex portfolio products, produce risk measures for prudential reasons, and participates in fund allocations. In treasury risk management, understanding the co-behaviour of FX cross-rates for the optimization of currency flows can bring substantial insights, but remains a complex challenge, potentially dependent on many economic determinants, which cannot be fully appraised by a simple statistical measure. In conclusion, be careful about overconfidence in what measures are deemed to say. —

Next issue: Credit risk and Copulas.



Hugues Pirotte,
Professor of Finance,
Solvay BS, ULB
Partner, FinMetrics SA

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DAMIEN DEGROS (ING):

CROSS-FERTILIZATION

Damien Degros, Head of Wholesale Banking and Member of the Executive Committee at ING explains how the bank is developing “bridge financing” for funds, a facility that bridges the time between investing in the fund and receiving the proceeds from capital calls.

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Can you briefly describe ING's funds activity?

ING has a dual role: like other banks we are part of an international banking group in Luxembourg, but while our competitors only serve the local market, we combine local and international activities to meet the needs of Luxembourg's fund management industry. To do so, we have developed a franchise for the financial industry and PE/RE funds. We started more than ten years ago mainly with cash management and payment flows. As our clients increased their presence in Luxembourg, there was a business case for ING to insource parts of their activities. We did that for instance with forex transactions: if you manage payments, sometimes you have to manage currency exchange. So, based on the services provided by our local dealing room, we started offering favorable FX rates to our clients. In the same context, we have developed a dedicated approach for PE / RE funds on Custody and Depositary services based on our expertise in securities services.

How is ING helping PR/RE funds meet short-term financing needs?

We have extensive activities linked to PE/RE funds. Seven years ago, we saw clients decide to establish new securities-based activities in Luxembourg, so it was important for us to provide the services they expected. More recently, based on requests from clients who asked whether we could offer bridge financing solutions in Luxembourg,

we called on the expertise of colleagues in London to help us develop and offer the service directly out of our Luxembourg office. We sent staff from our department to join the ING team in London for six months to gain the necessary knowledge and expertise. The new activity grew much faster than anticipated. PE/RE funds start their business committing to a certain fund size, but there is a lapse of time until the investors' money is received. During the structuring phase, the borrowing base is constructed by analyzing the credit quality of the underlying investors and assigning relevant advance rates and concentration limits. The facilities are used to make investments in underlying assets whereby speed of execution, administrative ease or IRR enhancements are reasons to borrow rather than call down capital from investors. The client gains flexibility and

OUR WHOLESALE BANKING DEPARTMENT MIXES BOTH INDUSTRIAL AND FINANCIAL CLIENTS WITHIN THE SAME ORGANIZATION.

Damien Degros, Head of Wholesale Banking and Member of the Executive Committee, ING



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efficiency in terms of cash management. It allows the fund manager to better predict future fund cash flows.

How do you adapt your business model to your clients' needs?

At ING, wholesale banking serves two types of client. The first is the industrial sector composed of local SMEs and international corporates. The second is the financial industry composed of Private Equity actors, Real Estate Investors, alternative funds, banks and insurance companies. Our department is unique in Luxembourg mixing both clients within the same organization. We can successfully “copy and paste” ideas from one client to another. For example, in cash management there are simple and sophisticated solutions designed for international

corporates that we have successfully adapted to the financial industry. Another example is the securities custody business, familiar activity to both insurance companies and funds. It is now considered by some treasury centers in charge of the management of shareholdings for international corporates. In this case we can also transfer our experience from the insurance and funds sector onto international corporates and treasury centers. We see this cross-sell between departments as our “cross-fertilization.”

Damien Degros,
Head of Wholesale Banking
and Member of the
Executive Committee, ING

THE NEW INTEREST LIMITATION RULE – PITFALL OR OPPORTUNITY FOR FINANCING IN LUXEMBOURG?

THERE ARE NUMEROUS EXAMPLES OF DIFFERENCES IN LUXEMBOURG'S IMPLEMENTATION OF THE RULE COMPARED TO OTHER MEMBER STATES, HELPING LUXEMBOURG TO REMAIN ATTRACTIVE FOR FINANCING, EVEN IN AN INCREASINGLY COMPLEX ENVIRONMENT.

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Four months have passed since the new interest limitation rule has been introduced so it's a good time to look at the main pitfalls and potential opportunities.

WHAT HAS CHANGED FOR INTEREST DEDUCTIONS?

Before 2019, the tax deduction of interest expenses incurred by a Luxembourg company was assessed based on the arm's length principle and whether or not the expenses were linked to tax exempt income. This is still the case, but another layer has been added: the deductibility of borrowing costs is limited to 30% of taxable EBITDA or EUR 3m, whichever is higher. The threshold refers to a tax-specific EBITDA that is different from the usual financial understanding of this term. The new rule, which is based on the EU Anti-Tax Avoidance Directive ("ATAD"), applies equally to intra-group and third-party debt.

WHO IS AFFECTED? WHAT ARE SOME OF THE PITFALLS?

Taxpayers need to assess the impact of the new interest limitation to avoid surprises. If interest expenses are no longer fully deductible, that may have cash tax implications.

- The impact of the new deductibility restriction should, in principle, be very limited for companies granting loans to other group companies. However, such financing activities may still be adversely affected due to uncertainties in the interpretation of what constitutes borrowing costs and interest income or equivalent revenues. In practice, that can be very relevant for certain non-recurring income (e.g., a gain on the repayment of a debt instrument).
- In view of the remaining uncertainties on some of the definitions, the impact of the interest limitation also needs to be carefully considered in the context of certain transactions e.g. in connection with losses (gains) on instruments used to hedge a currency exposure.
- Cash tax implications may, in particular, arise when a taxpayer incurs annual interest expenses exceeding EUR 3m on debt that is used to finance e.g. intellectual property or operating activities

WHAT ARE THE OPPORTUNITIES THAT LIE IN THE NEW RULE?

Comparing the implementation of the ATAD within the EU shows significant differences with regard to the options taken by the various Member States.

- Some countries have introduced (de minimis) caps which are even lower than what is foreseen by the ATAD (e.g., Finland, the Netherlands, Romania, Sweden).

- The Luxembourg law contains a grandfathering clause in relation to loans concluded before 17 June 2016. Such a rule does not exist under the laws of e.g. the Netherlands.

Please note: to benefit from the Luxembourg grandfathering clause, taxpayers need to consider whether the underlying existing debt was modified in a way that could jeopardize the application of grandfathering. Also, the exact effect of grandfathering on the deductible expenses needs to be assessed on a case-by-case basis.

- Luxembourg companies forming a fiscal unity will, based on the draft budget law 2019, be given the choice to apply the interest limitation rule to each company individually or to the fiscal unity as a whole. Again, this makes use of the full range of flexibility offered by the ATAD.
- Other options implemented by Luxembourg include an equity escape clause, the carry forward of exceeding borrowing costs and unused interest capacity as well as the exclusion of financial undertakings and stand-alone entities.

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The differences in Luxembourg's implementation of the rule compared to other Member States can help Luxembourg to remain attractive for financing, even in an increasingly complex environment. If they haven't yet done so, taxpayers should analyze their finance structure in Luxembourg and throughout Europe now to avoid denial of interest deductions and potential (economic) double taxation. Such situations may often be avoided by upfront careful consideration. —



Elmar Schwickerath,
Partner, Tax -
EY Luxembourg



Daniela Hockelmann,
Director, Tax -
EY Luxembourg

ATAD TRANSCRIPTION INTO NATIONAL LAW

CORPORATE ISSUES

TO BE HIGHLIGHTED IN SOME COUNTRIES

For ATEL members it is particularly important to underline the potential issues raised by the way Luxembourg will translate ATAD prescriptions into its National Law.

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One of the main issues is the interest limitation deduction and the way it will be implemented by each State. It could give some countries a competitive advantage or disadvantage. In Luxembourg, we would prefer a German-like approach on tax pools. The abolition of art. 22bis (2) nr 1 LIR contained in the Luxembourg draft law implementing ATAD is a concern. While ATEL understands and supports the intention to discourage groups of companies from engaging in BEPS through excessive interest payments and to counter abusive practices, it fears that the current wording of the Draft Law goes beyond what is necessary to achieve these goals. ATEL would suggest avoiding situation where the Law is likely to affect legitimate

operations that are undertaken without the intention of achieving a tax advantage and may, therefore, have a negative impact on the decision whether to locate or expand treasury activities in Luxembourg.

ATEL has noticed to the Finance Minister its views and recommendations, to best protect the interests of its members. The first issue to consider is the application of interest limitation rule to fiscal unities. In ATAD, Article 4, paragraph 1, 2nd & 3rd sentences, Member States may apply the interest limitation rule at the level of a tax group, by treating as a taxpayer for these purposes "any entity which is permitted or required to apply the rules on behalf of a group, as defined according to national tax law"; "in such circumstances,

exceeding borrowing costs and the EBITDA may be calculated at the level of the group and comprise the results of all its members".

In Luxembourg, and potentially in some other countries, this option of treating the interest deduction calculation for the group (and not individually) has not been planned, so far. For a group of companies which fulfills the conditions to be treated as a fiscal unity, it implies that the limitation to deductibility of interest would apply to each entity separately and, from the group's point of view, cumulatively.

It could be an issue in countries where many companies have fiscal unities, as this system enables groups to organize their activities in separate companies for a variety of commercial, legal, regulatory and financial reasons, while fulfilling their income tax obligations almost as if they were organized as a single company.

The obligation to apply the interest limitation rules to each entity on a standalone basis could create situations where companies tasked with borrowing on the market to finance affiliates partly

through equity financing will be unable to deduct a significant part of their borrowing costs, even though affiliates may have net interest income which is taxable. In some case, companies are more likely to occasionally have non-deductible exceeding borrowing costs, if only because separate companies' performances tend to fluctuate more than the aggregate performance of the group, and such companies will also be less likely to benefit promptly from the effect of a compensating carry forward. Eventually, the standalone treatment will lead to

ONE OF THE MAIN ISSUES IS THE INTEREST LIMITATION DEDUCTION AND THE WAY IT WILL BE IMPLEMENTED BY EACH STATE.

François Masquelier, Chairman of ATEL

the equivalent of double taxation of the same group of companies. We should not forget that a country like Germany has been applying its interest limitation rules on a fiscal unity basis for more than a decade and we understand that France and the

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→ Netherlands, among others, also intend to apply their new interest limitation rules to fiscal unities. The inability to apply the interest limitation rules at the fiscal unity level could lead to a costly re-organization of activities.

Furthermore, the interest definition is also an item to be better defined. In line with the definition provided by ATAD, laws must define “borrowing costs” as interest expenses on all forms of debt, as well as other costs economically equivalent to interest and expenses incurred in connection with the raising of finance, and it provides a non-comprehensive list of examples of expenses which constitute borrowing costs. “Exceeding borrowing costs”, which is the item to which the deduction limitation applies, means the amount by which the deductible borrowing costs of a taxpayer exceed taxable interest income and other economically equivalent taxable income realized by the taxpayer.

ATAD does not propose a clear definition of “interest income” on which States could refer to. This leaves legal uncertainty about certain non-recurring expenses (or income), e.g. losses (gains) on the redemption/repayment of a debt instrument, provisions for risks (even if in relation to a debt instrument) and foreign exchange losses (gains) on instruments to

hedge a currency exposure (even if connected with the raising of finance). It is crucial to clarify whether the terms “interest expense” are to be interpreted in a wide or narrow manner and confirm that a symmetrical approach is taken when defining interest expense and interest income (i.e., where a specific item is considered as borrowing cost for the debtor, it would be considered as interest income for the creditor). Adopting the symmetrical approach (in line with Action 4 OECD BEPS report) also provides clarity to another common business fact pattern. Many corporates borrow funds in a currency that is not their functional currency and they use hedge agreements or forward contracts in relation to such debt to hedge foreign exchange effects. Upon repayment of such debt, the company is – on the one side – subject to foreign exchange exposure and realizes – on the other side – either income or expense under the forward or hedge agreement, resulting in a commercial and accounting net result of nil. Chapter 2 of the Action 4 report (page 30, paragraph 37) explicitly states that “foreign exchange gains and losses on instruments to hedge or take on the currency exposure connected with the raising of finance are not generally economically equivalent

to interest. A country may however wish to treat some or all foreign exchange gains and losses on these instruments as economically equivalent to interest.

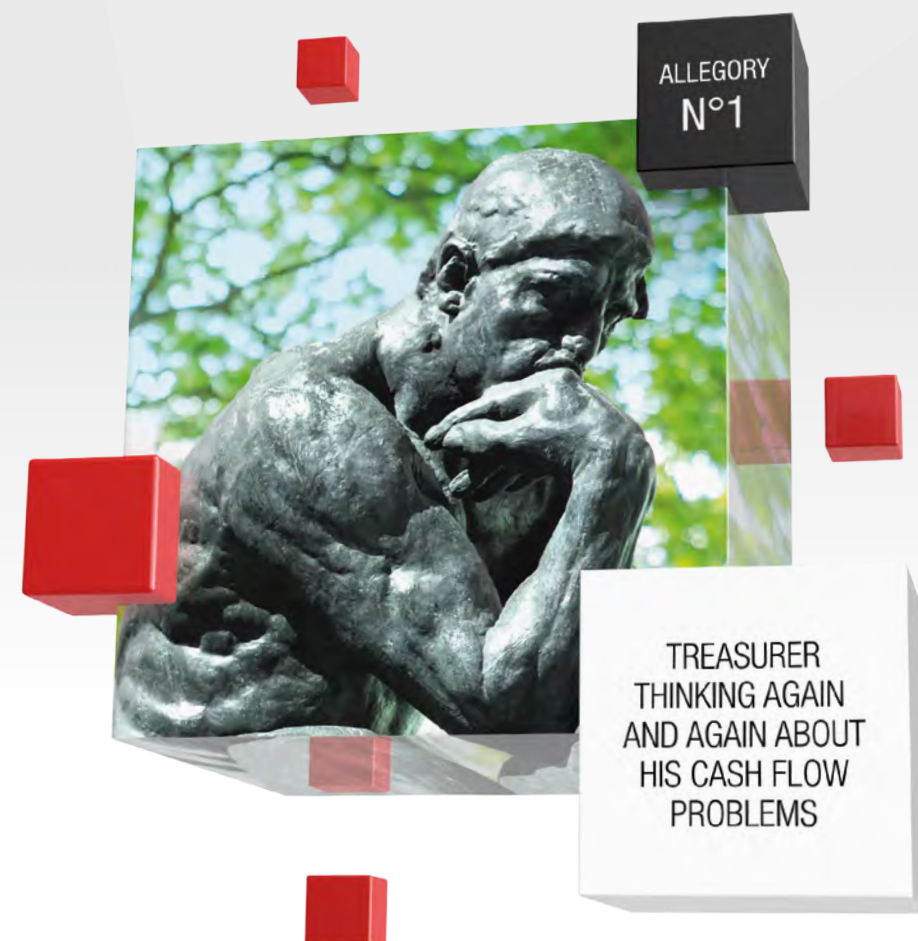
Corporate Treasurers in Luxembourg consider that it is important to make sure the transposition of this Directive into National Law will not penalize corporations and recommends adopting, when possible, a more advantageous option for MNC's. It also insists on definitions to more precisely delimit what must be included into calculation or not (without being too large because it could be at the expenses of deduction of interests).

As we can see the “translation” of a Directive into local law is not always easy and could result into very different situations. In some cases, when options are offered, it can give an opportunity to be on the “softer” side and to better preserve interest of treasurers. At the end of the day, it can make a country more attractive than another, on some tax issues. We should not forget that ATAD must be transposed into National Law by end of December 2018 and will be applicable starting on first of January 2019. It is tomorrow I'm afraid...

François Masquelier,
Chairman of ATEL

CORPORATE TREASURERS IN LUXEMBOURG CONSIDER THAT IT IS IMPORTANT TO MAKE SURE THE TRANSPOSITION OF THIS DIRECTIVE INTO NATIONAL LAW WILL NOT PENALIZE CORPORATIONS.

François Masquelier, Chairman of ATEL



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EMIR REFIT, BUT ALSO A RELIEF FOR CORPORATE TREASURERS

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To be honest, the coming “EMIR refit” is going further than what we treasurers were expecting. For once, I have the impression it went a step further than we were requesting. All treasurers asked for was a removal of the provision imposing to report intercompany derivative transactions. All what, we, as corporate treasury association, i.e. EACT and ATEL, requested has been obtained.

What have we obtained we were asking for?

The tainting rule of a portfolio threshold overtaking for non-hedging derivatives has been withdrawn. Therefore, if you are above one of the thresholds, it doesn't mean anymore you will have to collateralize all portfolios. In future, you will collateralize only the class of assets for which you

are over the threshold. The hedging exemption principle (without clear definition of what they meant by “hedging”) has been also maintained conversely to what they initially wanted. Although we still don't know how to define hedging, it is a great news. They wanted to exclude completely any notion of hedging and therefore to consider the whole portfolios. Even if not really defined, the hedging concept, in my opinion, is all what is qualified for hedge accounting. If you apply hedge accounting according to IFRS 9, it means it is clearly “hedging” and cannot be contested for this threshold assessment. Eventually, (to make it short), they propose to remove the reporting on intercompany transactions. Again, what a great news!

What I consider as a special “bonus” granted by European Union is the liability and responsibility that has been also removed. The reporting burden relief for NFC – through a move to a mandatory delegation reporting system in which the financial counterparty is legally liable and responsible for timely reporting of a dual data stream to the trade repository. In this context, we understand that some technical drafting will still take place to clarify the distribution of liability between NFC and FC to the extent of setting out that the NFC is liable for passing on some information that the FC cannot be expected to possess in a timely and accurate manner. If our reading and understanding is correct, it means EMIR reporting will be revolutionized.

What does it mean?

In practice, I guess all corporates will stop reporting intercompany deals directly to TR's. They will save fees paid to TR's. Why reporting bank derivatives (i.e. external deals) to a TR if the liability now rest on bank's shoulders? TR's will lose a huge part of their corporate customers if not all. Let's leave this obligation to financial counterparties which will have to report both deals (i.e. their deals with a corporation and the deal of the corporation with them). In my view, it completely distorts what was intended. However, it is a great news. It will also mean more work for banks which will have to consider this and potentially to charge customers for this service even if compulsory. We will see... Does it mean you still need

**IN PRACTICE, I GUESS
ALL CORPORATES WILL STOP
REPORTING INTERCOMPANY
DEALS DIRECTLY TO TR'S.**

François Masquelier, Chairman of ATEL

reconciliation tools? Yes, if you use it for controlling portfolios, to assess mark-to-market (rather than mark-to-model) and to get confirmations of portfolios for year-end closings. Therefore, it is a very good news. Nevertheless, be patient! We expect EMIR refit to be published by end of Q2, 2019. Then we need another couple of months before benefiting from these provisions. Sometimes, the regulations can be surprising and eventually reduce your workload. It is my understanding of this new EMIR2 provisions and I am astonished that no one has yet noticed such good news. Doing and undoing is working, isn't it? —

François Masquelier,
Chairman of ATEL

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HAVE WE MADE ENOUGH HEADWAY IN PREPARING TO ABANDON IBORS?



**LOTS OF CONTRACTS MAY
STILL REFER TO IBORS
AFTER 2021.**

François Masquelier, Chairman of ATEL

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By the end of 2021, the financial sector will abandon the IBOR. Focus on the legacy of this interest rate benchmark and the consequences of this transition.

NEW IBORS AFTER 40 YEARS?

Do you know that for more than 40 years interbank offered rates (including the better known as LIBOR, the London one) have been a fact of daily life of the whole financial services industry? They have been the benchmark for the lending on an unsecured basis, from bonds and loans to derivatives or mortgage-backed securities. Unfortunately, because of some scandals and rate manipulations, these IBORS are now upending. The bank scandals in 2012 have sealed the future of IBOR benchmark. In UK, the supervision has been shifted to IBA (i.e. Intercontinental Exchange Benchmark Administration). IBA has tried to strengthen the indices in a slowdown lending market (e.g. 3-month LIBOR USD the “reference index” is supported by less than a billion transactions a day). As consequence, it has been decided to move to an alternate reference rate (i.e. ARR IBOR benchmark) by end of 2021. Lots of countries will follow UK and USA, including EU and Switzerland). But it is tomorrow.

No one seems to be ready. It is always good to correct and solve problems. But the solutions must be relevant. It is clear to all treasurers that the up-coming phase-out of the Interbank Lending Rate (IBOR) means big changes to financial services. Nevertheless, we have the impression, maybe wrong, that just few firms are well prepared. The underlying market LIBOR measures is no longer liquid. This index was often used to hedge the general level of interest rates, for which it is inefficient given it includes a term bank credit component. The LIBOR submission won't be guaranteed after 2021. The problem resides in the fact that LIBOR is embedded in many operating models. This could impact many contracts dealt. Therefore, we need to understand the exposures and risks, to assess benefits of this migration, consider ways to mitigate risks and address regulation changes, to put in place contingency arrangements and futureproof documentation and, eventually, to contemplate strategy for after transition period and for new deals.

TRANSITION THAT WILL CHANGE THE WHOLE FINANCE

With such transitions, we have the legacy problem of old contracts. Lots of contracts may still refer to IBORS after 2021. The ARR's and IBOR's are structurally different. The old one is referring to unsecured and uncollateralized transactions fixed by expert judgement when the new one is based on actual transactions and secured by collateral. The firms will have to recalibrate a range of deals and risk

models behind in determining spreads to be applied. It is a huge challenge for both parties.

There are several potential issues including for example a certain regulatory uncertainty and lack of guidance on the IBOR transition which may slow down progress. Transitions are often complicate and may take more time than initially thought. Once inventories are done, it also may result in a system issue. The systems, whatever, must be updated to another reference rate. IBOR's are also used for general interest rate risk and discount factor in valuation, financial and risk modelling. As such a large range of models will need to be revisited and recalibrated because of the transition to ARR. Potentially they may lack historical sequence and asymmetry in timing of transition across products. Will we have a lack or a lag in derivatives products to hedge potential interest rate risks embedded in loans or other cash products? Maybe... ARR's aren't not yet eligible benchmark rate for hedge accounting purposes. We hope they will be eligible soon. The FASB has issued guidance on derivative hedging transactions. Other standard boards will have to amend rules to make ARR's referenced instruments eligible. For long-date contracts, firms may need to renegotiate contract language for the transition. Conversely to derivatives, it should be addressed contract by contract. The possible risk of IBOR discontinuation (sooner or later) obliges companies to review all contracts. It depends obviously of the number of contracts concerned. Do we have a risk of disputes to be resolved? It is possible

although we can imagine that it is in the best interest of both parties to find a common ground. The redefinition of spreads may of course cause problems. In my opinion, people exaggerate (especially lawyers) this risk. The lack of global coordination in the transition may cause issues in the different currencies. We could face discrepancies in IBOR's and ARR's, in case transitions are not coordinated between currencies. Initially, solely the overnight rate will be available. The term rates will have to be recalibrated too based on transactions in the derivatives market. As the future of IBOR's remain unclear (after 2021), some regulators and participants expect they will remain available beyond the deadline. It is not clear. On the other hand, without final “final” deadline, there are always players keen to keep the former reference rates. Extended deadlines only complexify the situations, in my view. Better to decide a final stage and to refuse extensions, as for SEPA, for example.

END OF IBOR, NOT A NEW ISSUE

The announced end of IBORS is not a new issue a treasurer could claim not being aware of. We still have time to prepare. Of course, it is another problem on top of many others. But in this case, I believe it remains “manageable”. Five new reference rates (i.e. SONIA, SOFR, SARON, TONAR & ESTER) will appear soon, with different attributes. They intend to be the response to widespread allegations of LIBOR manipulations and numerous fines on international

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→ banks. The idea imposed by regulators to refer to transaction data makes sense. The objective was to closely align benchmark rates to IOSCO principles. These new rates aim at strengthening existing IBORS by anchoring them in real transactions. This could be a pain point. They should be more robust and better suit for use in many applications. The new rates are backward-looking overnight rates when LIBOR's were forward-looking term rates for 7 tenors including a premium paid on longer-dated funds. It is therefore a rather different approach and publication timings. These differences raise some obvious concerns, as all new regulations would say the wise man. They will have specific implications for syndicated loans, for bonds, for floating rate notes or for derivatives. The corporate treasury associations in several countries have played an active role in defending treasurers' best interest in the definition of a new risk-free rate.

EONIA PROLONGED FOR 2 YEARS

The European Commission has agreed to prolong for two years the existing rate indices and the EONIA, which still one day will be replaced by ESTER. Some treasurers, like in France, were worried about the risk of a too short transition period with the preliminary deadline of 1/1/2020. We should as much as possible use benchmark rates based on real and effective transactions. However, in case of default of real transactions, we need a robust method to supply the absence of references. In future, supervisors will control rate indices administrators.

ESTER (i.e. Euro Short Term Rate) the new index for free risk rate, should reflect the cost of borrowing over night from a financial counterparty. The ECB will start publishing this rate as of October 2019. It has been suggested to EMMI (European Money Markets Institute) to change the method to calculate during a transition period a synthetic EONIA

from ESTER + 9 basis points. After a while systems and organizations will have to be ready for onboarding ESTER.

WHAT DOES IT MEAN FOR BANKS?

For banks it is just another regulatory issue to implement and to manage. It won't be that simple. It will represent a lot of work without real added value. I wonder whether IBOR changes is not another reform (although fully justified and necessary), which could "kill" banks. After numerous reforms (e.g. B3 & 4, Midif2, PSD2...), economic downturn, negative interest rates, AML quests from States, will

banks survive? Some of them are in difficult shape and another layer of mergers can be foreseen. Treasurers will certainly blame banks for all the scandals: money laundering, FX, LIBORS, etc. However, an

FIVE NEW REFERENCE RATES - SONIA, SOFR, SARON, TONAR & ESTER - WILL APPEAR SOON, WITH DIFFERENT ATTRIBUTES.

François Masquelier, Chairman, ATEL

economic system without solid banks won't be viable in the mid-run. I remain dubitative in front of all these changes and constraints. Aren't we going too far with bankers? Maybe. Nevertheless, recent AML scandals tend to convince the most conciliatory treasurers that eventually all these reg's are simply correcting excesses and cannot be criticized at all. I like to compare to doping, a never-ending story in sports. However, I remain optimistic and I do expect to see, one day, the end of the tunnel and to stop discovering in newspapers another financial scandal. —

François Masquelier,
Chairman of ATEL

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Le parrainage Pour un Sourire d'Enfant De la misère à un métier !

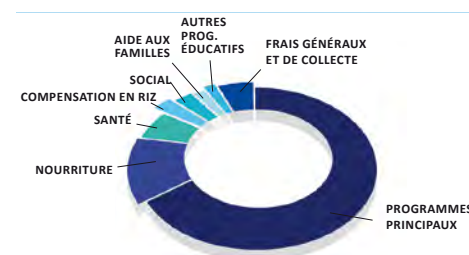
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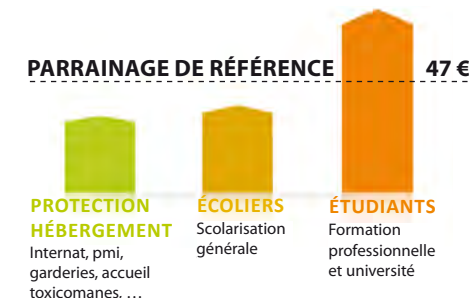
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KYC

FOR CORPORATES

THINGS EVENTUALLY MOVE

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No one in the corporate treasury community would dare to claim KYC's are not a growing challenge. For the whole financial industry, the Know-Your-Customer (KYC) processes are repetitive, lengthy, uncertain, never-ending and often highly manual. However, they are necessary to start and then to maintain a bank relationship.



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SWIFT has been backed by the success of its KYC register for correspondent banking. Therefore, it thought, couple of months ago to launch tests and pilots on corporates. Couple of months after the last pilots, SWIFT Board eventually decided to duplicate this service for its corporate customers and users, as well as for large MNC's. Treasury Associations can only applaud such a great initiative. Who else was better placed to serve the whole industry on KYC data exchanges? This "KYC registry" was launched in 2014 to enable banks to use a common platform. It seems that today



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5000+ banks across the world use this information platform. SWIFT board has now decided to offer this highly expected service to all large corporations and to corporate SWIFT users in the coming months. For the corporates which accepted to be pilots for this project it is a great satisfaction and it pays the efforts. It is fair to say that standardization is still lacking on KYC side. It is important to remind that the worst issue remains the exchange means used between parties to share pieces of information. It is precisely the way of exchanging documents, which is archaic, obsolete and risky, that causes problems. SWIFT can help standardizing documents, defining

THE WORST KYC ISSUE REMAINS THE EXCHANGE MEANS USED BETWEEN PARTIES TO SHARE PIECES OF INFORMATION.

François Masquelier, Chairman of ATEL

comprehensive lists of documents to be delivered, store them and exchange them via a secured SWIFT messaging system. It is the dream of any treasurer that may come true. For MNC's which deal with dozens of banks, across the world, in multiple formats and with specific demands, it would

be a significant improvement, a revolution in bank relationship management and a gain of time and money, for both sides (i.e. sell & buy sides). For corporates who want to learn about this project, please visit www.swift.com for more information.

EACT and other national associations are supporting this great initiative and decision. SWIFT has created a Working Group to participate to the design of the registry and to validate the solution. They also created an Engagement Group of Promoters to support the bilateral exchange of requirements and planned features between participants and SWIFT to enable a broader group to participate actively in the development of the KYC registry. Such a solution will bring more security in exchanging documents and give access to the same secure central utility, eliminating duplication and inefficiencies. We all hope to have a simplified KYC experience, even if some of our peers (i.e. large MNC's) are not (yet) SWIFT users. If we wanted to compare KYC's process to the space conquest, it would be like astronauts first step onto the Moon. To paraphrase Neil Armstrong, it would be a small step for the banking relationship, but a giant leap for the treasurers. —

François Masquelier,
Chairman of ATEL

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RETHINKING CAPITAL STRUCTURE

“The results of Duke University survey were reassuring in some respects and surprising in others. With respect to capital budgeting, most companies follow academic theory and use discounted cashflow (DCF) and net present value (NPV) techniques to evaluate new projects. But when it comes to making capital structure decisions, corporations appear to pay less attention to finance theory and rely instead on practical, informal rules of thumb.”¹

INTERCONNECTIONS BETWEEN COMMERCIAL AND FINANCIAL RISK

Corporate treasurers may have been spoilt in the immediate aftermath of the global financial crisis— as quantitative easing (QE) gives way to quantitative tightening (QT), treasury management is becoming increasingly challenging. This is further complicated by unprecedented geopolitical uncertainty (Brexit, trade wars) and heightened volatility across asset classes (foreign exchange, equity and fixed income) and regions (developed as well as emerging markets). Michael Anthony, Managing Director of Global Thought Leadership, Corporate Risk Solutions at HSBC, adds that another notable by-product of elevated turmoil is that financial risk fuelled by currency and interest rate volatility is becoming inescapably interwoven with commercial risk. In other words, the competitiveness of longstanding business models may be at risk of erosion from cost pressures driven by adverse

geopolitical trends. As Anthony says, today's is a fast-moving global environment in which few CFOs have the luxury of waiting several years to assess how their business models may be affected by Brexit, for example, or trade frictions between the US and China. It is essential that corporates adopt an integrated approach to risk management. This recognises the interconnectedness between key elements ranging from funding decisions to M&A, industrial production strategies and so-called financial plumbing, such as cash-pooling. In a recent HSBC Risk Management Survey²:

- 70 per cent of CFOs report that their company has been hit by unhedged FX exposures in the past two years that could have been avoided.
- 87% say that their treasury plays a key role in strategic decision-making;
- 38% indicate that risk management is the area in which they are most in need of developing further expertise.

BECAUSE THE WORLD KEEPS CHANGING, TREASURERS HAVE TO KEEP ON MEASURING AND ADAPTING.

SOLID FOUNDATIONS BASED ON DETAILED ANALYTICS

HSBC's Thought Leadership practice is well-positioned to respond to this requirement, using its analytical expertise to help its corporate clients build the solid foundations required to safeguard against geopolitical and financial risk. Anthony explains that this process begins with risk discovery and risk quantification, aimed at giving CFOs and treasurers enhanced visibility on the efficiency of their capital structure and ensuring that their key performance indicators (KPIs) are consistent with their short and long-term goals. As an example, Anthony points to the importance of analysing a company's capital structure from a holistic perspective. “We measure the efficiency of a company's capital



Shyam Sanker & Andrea Nini from HSBC Luxembourg Global Banking team can help connect treasurers in Luxembourg to HSBC's deep & global expertise on areas related to capital structure, markets risk management and working capital.

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structure as a whole by looking at volatility of earnings and debt from a currency and financing perspective, in order to identify where risk is being created and where it is being mitigated,” he says. This is not a simple one-to-one matching exercise. Analysis of volatility, correlation and accounting all has to be taken into account.

THE VALUE OF BENCHMARKING

Fundamental to risk discovery and quantification for corporates, says Anthony, is a process of benchmarking. This is a valuable way of helping CFOs to measure the efficiency of their treasury operations relative to their peers and competitors. Typically, this is based on an analysis of key variables such as volatility of cash flow, earnings and debt costs relative to those of companies in the same sector and with comparable credit ratings.

FILLING A NEED

Treasurers will need to adopt an increasingly dynamic approach to risk management in order to ensure that their capital structure has the robustness and flexibility it needs to respond to ever-changing external influences. Because the world keeps changing, treasurers have to keep on measuring and adapting; there is no longer any room for a ‘set it and forget it’ mentality. Like many other teams, treasury is being asked to do more with less. Using the analysis that HSBC's Thought Leadership provides fills a need that has not been resourced with the thinning of treasury teams. HSBC's Thought Leadership analytical output is often used as an objective way for CFOs and treasurers to validate or refine their risk management strategies and – if necessary – to align them with those of their competitors. We're not a group

that delivers execution strategies,” Anthony explains. “We identify risk parameters and provide guidance on risk quantification, but we don't tell clients what products they should use. We are confident, however, that if we demonstrate a consistent track record of giving candid, unbiased and valuable analytics to clients, it will help strengthen their relationship with HSBC.”

1. Source: Journal of Applied Corporate Finance (“The Theory and Practice of Corporate Finance: Evidence from the Field” by John Graham and Campbell Harvey, Duke University), originally published in the Journal of Financial Economics, Vol. 60 (2001), which won the Jensen prize for the best JFE paper in corporate finance in 2001.
2. 200 CFOs and 300 treasurers were interviewed globally.

Michael Anthony, **Murari Gattamaneni,**
Thought Leadership team, HSBC Global banking

THE TROJAN WAR WILL NOT HAPPEN

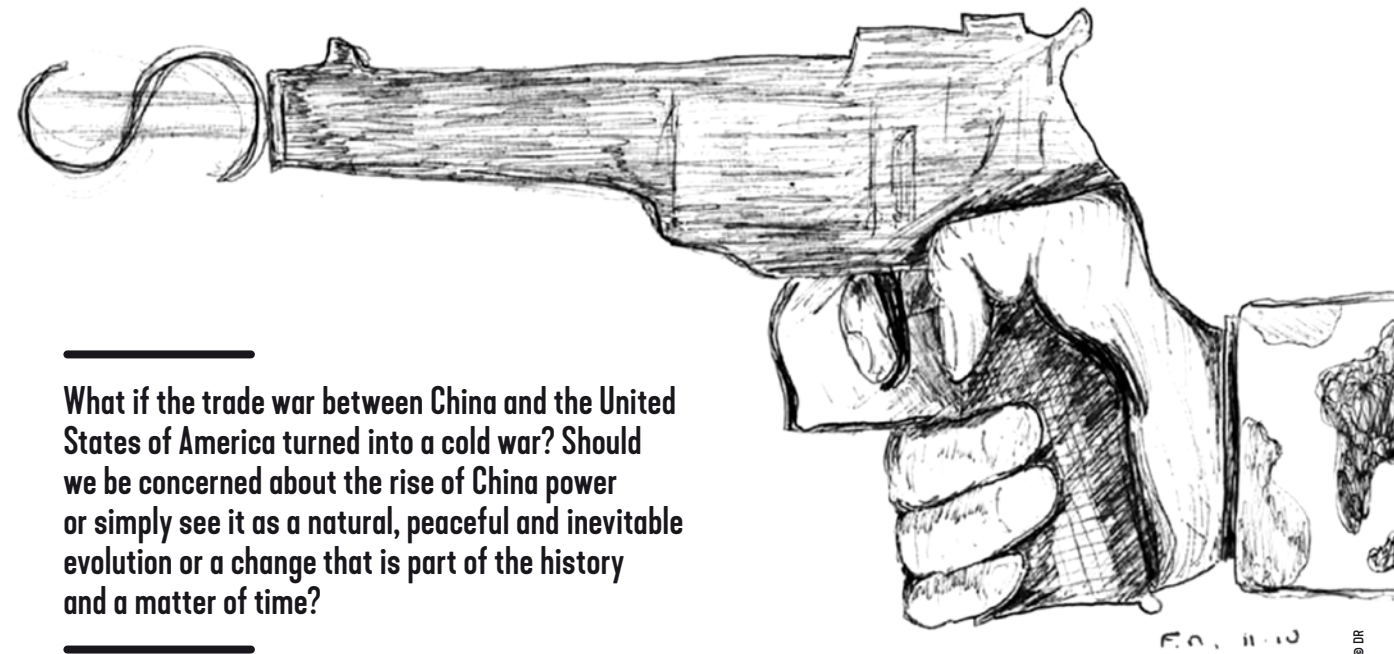
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FIG. 11.14

CURRENCY WAR ...



What if the trade war between China and the United States of America turned into a cold war? Should we be concerned about the rise of China power or simply see it as a natural, peaceful and inevitable evolution or a change that is part of the history and a matter of time?

The Chinese will tell you that we must not fear the “trap of Thucydides” (Greek phenomenon baptized by its author who explained that Sparta’s fear of the ascent of Athens made the war between the two cities inevitable). Is there not such a phenomenon with China, feared by the US? Perhaps for the most pessimistic of us. The question was rightly addressed by Graham Allison in his book on this hot subject. According to him, fortunately only 12 out of 16 historical rivalries led to a real war. Here I think I can say that it will not come to blows, but rather to a bitter and intense “commercial” war. However, Chinese have no interest at all in this war. The victory, whatever the winner, whatever the camp, would be a Pyrrhus’ one, to keep comparing to the Greek history. Even if it is a sort of war between the two largest superpowers, it would be likely be a “cold” one, as in the good old time.

China may not behave in the most loyal way, we can easily admit it. It allows itself not to respect many principles in the field of intellectual property, and it behaves voluntarily lax while it governs its own state from within Orwellian and strict way. Paradox, isn’t it? Both are protectionist. “The shepherd answered the shepherdess”, as we use to say in French. The US wants with the Huawei case, show that they protect their intellectual know-how. This technological war may prove that Huawei was a kind of Trojan horse launched from China, or simply a pretext for showing teeth. This is undoubtedly the first sign of “de-globalization”. Today’s China exports and must maintain good relations

with its partners where the USSR exported very little (at the time of the cold war), except its raw materials and weapons. The case cited above illustrates the risk of “splinternet” and the separation of two virtual worlds that are no longer connected.

China is fighting to impose its hegemony on Asia. The USA fight for keeping technological leadership. The US want to calm down China’s desire for economic power. The risk of cold war and merciless is obvious. To let China grow without doing anything is not an option. Does this mean that fighting

CHINA IS FIGHTING TO IMPOSE ITS HEGEMONY ON ASIA. THE USA FIGHT FOR KEEPING TECHNOLOGICAL LEADERSHIP.

François Masquelier, Chairman of ATEL

commercially is the best answer, no one knows. This war would have and already has impacts on the rest of the world. Neutrality in economic matters is not easy and we are not the Switzerland of the last world war. In addition to our central position, we European are affected by trade measures, exchange rates and taxes that undermine the world economy, when we are struggling to recover. This growing rivalry is disturbing but not surprising. Let’s hope we do not go to the uncontrollable escalation between superpowers. Economic life is just as cruel as war, but more nagging and vicious. —

François Masquelier,
Chairman of ATEL

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OF CLOUDS AND CLOCKS...

In April 1965, Karl Popper delivered his Arthur Holly Compton lecture of the same name at the Washington University in St Louis and it serves as a metaphor for modern Leadership styles and traditional behaviours of too many organisations.

FOR SOME ORGANISATIONS THE LEADERSHIP STYLE AND MANAGEMENT CULTURE IS THE EQUIVALENT OF THE COMPANY INJECTING ITSELF WITH A TOXIC VIRUS...

David Holland mba
Founder and CEO
Results Rules OK

PEOPLE HAVE BEEN TREATED AS CLOCKS – PREDICTABLE, MEASURABLE, LOGICAL AND CONSISTENT...

David Holland mba
Founder and CEO
Results Rules OK

organisations value attendance over attainment and quantity over quality. Try leaving the office at 13.00 on a Friday or rolling in at 10.30 on a Tuesday without a great excuse and you'll see how far Theory Y has come.

AND WHAT HAS THE EFFECT BEEN...?

Low engagement – around 70% of employees are disengaged with their work, high staff turnover, poor attendance, high stress and resulting sickness and poor productivity, efficiency and customer care. We have even labelled these people – they are the Snowflake, Millennial

and Generation Z's being led and managed by increasingly grey-haired predominantly male Baby Boomers and Gen X'ers more interested in command and control than spirit and culture. But secretly of course – we are just jealous... We have developed Managers and Leaders that know exactly how to measure people but are woeful at understanding them.

TREAT PEOPLE AS CLOUDS AND IT ALL STARTS TO MAKE SENSE...

People are unpredictable, unique, changing and emotional – the complex contributors to performance, mood, state of mind and motivation is so complex that rational management doesn't work; it never did, but people didn't know any better. Compounding this state, there has been a seismic shift in society – and it's called the internet. While we all secretly thought working flexibly, travelling, and having the freedom to live our lives on our

terms was just a crazy pipe dream; through social media, connectivity and gadgetry linked to Apps, however, it has become reality. The difference is, the Boomers and Gen X's have a lifestyle based around stable career progression based on longevity, loyalty and debt – the Gen Z's and Millennials value independence, freedom and choice. The differences between the expectations of the new entrants to the workforce and the leadership structures they are expected to get excited about have never been more pronounced. Once we expect people to behave illogically, think creatively and work instinctively – guess what they do; exactly that.

SO, WHAT CAN BE DONE ABOUT IT...?

Simple – change the Leadership and Management Culture – well at least the phrase is simple... A UK client wanted to adapt their processes to be more attractive to its people, raise productivity and profitability whilst reducing staff turnover and absenteeism.

Step 1 – Learning... We researched contemporary ideas, read about the new concepts and looked at case studies for evidence and guidance.

Step 2 – Communication... Bizarrely and unique in business, they actually sat down and talked to their team, asked them what they wanted, listened to their feedback and sold the vision.

Step 3 – Design. The team – not the "managers" presented their ideas to each other and the whole company and the ideas included;

- Unlimited holidays
- Pay and Benefits determined by the employees
- Flexible working and home working
- Company Car scheme for everyone
- Bring pets to work.

Step 4 – Get it Done. And they did, Sales up, Service up – counter intuitive leadership wins the day. That won't work in my business – my business is special... Then you are right, but as you sit in your German made Silver or Grey saloon car dismissing the inevitable, as you commute to your Monday to Friday 9 to 5, desk bound hamster wheel – the world of Leadership is moving on without you, and so is all your finest talent. —



David Holland mba
Founder and CEO
Results Rules OK

AT TREASURY, WE CARE (TOO)...

The environment is very much back on the global agenda, as climate change continues to be a major source of concern and the cause of numerous natural disasters & extreme weather events. At the same time, the push for Corporate Social Responsibility is gathering pace, as the new generation “Z” demands the implementation of its core value of sustainability. It is a perfect moment for us, as corporate treasurers, to ask ourselves how we can also do our bit towards this sustainability. And the answer lies firmly in our management choices.



**EFFICIENCY CAN BE IMPROVED
SIMPLY BY AMELIORATING
THE WORK ENVIRONMENT.**

François Masquelier, Chairman of ATEL

CSR AND SUSTAINABILITY

There's no disputing the fact that “sustainability” and Corporate Social Responsibility are now central concerns for businesses and as such, they also affect the treasurer's role. What the English also call “Environmental Social Governance”, or “ESG” for short, is fast becoming an obligation and an integral part of internal processes. Digitization is enabling further enhancement of the efficiency of these processes, whether operational, environmental or social. But companies need to truly embrace the idea that it's the responsibility of all firms to chip in, as it is not only by deploying “clean” funding

SUSTAINABILITY NOW CONSTITUTES A DUTY IMPOSED BY A EUROPEAN DIRECTIVE.

François Masquelier, Chairman of ATEL

or “green bonds” that they can contribute (even if such funding is clearly desirable). In fact, there are plenty of other (smaller) actions that can help

support their claim to be responsible. The objectives are manifold: to reduce costs, risks and travel, to go paperless, to automate processes, to improve well-being at work, to respect diversity and lastly to add value. And the need is more pressing for the fact that rather than still being a mere fashion or trend, sustainability now constitutes a duty imposed by a European Directive (Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU), which obliges firms to produce reports on this subject. Then there's

the perspective of the new generation of “millennials” and Generation “Z”, with their expectations more attuned to social values. Clearly, any failure to adopt this approach would be demotivating or off-putting for these younger groups, who are on a quest for a more “responsible” society. And since this momentum towards corporate social responsibility is likely to be beneficial in all respects and for all stakeholders, buying into it is becoming a no-brainer. CSR needs to become part of our genes, a central plank of thought process and actions. At their own level, treasurers can contribute positively to the drive towards sustainability, but currently, only 78% of the top 250 companies communicate on CSR. So, there's still a very long way to go, which explains why the European Union has decided to impose reporting on this topic rather than merely recommending it. Because at least some CEO do believe is important for corporations to fulfil a socially relevant task and the responsibility must become the DNA of the company.

CSR A FACTOR IN ATTRACTING FRESH TALENT

When it comes to enhancing appeal for recruitment, promoting a company's socially responsible approach is a definite asset. As we've already underlined, millennials”, generation Z and so on are highly sensitive to this aspect and prioritise it when choosing an employer. A treasurer who can demonstrate his/her “socially responsible” credentials can enhance the appeal of his/her department. They may not be able to change or revolutionise anything on their own,

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but via small tweaks and day-to-day actions in their work or private lives, they can still do their bit to help make the world a better place. What's more, such an approach can also boost the sense of belonging among the employees already in place. In any case, investors are also increasingly seeking this type of investment and favouring companies that present a responsible and sustainable approach. Such actions might involve inclusion in an ad hoc index (e.g. DJSI, FTSE4Good...) or even a detailed report or excellent communication on the CSR theme. Larry Fink, CEO of BlackRock, summed it up nicely as follows: “Every company must not only deliver financial performance, but also show how it makes a positive contribution to society”.

PAPERLESS PROCESS

It's also a good idea to move towards becoming paperless at any level. For instance, let's consign analogue faxes, snail mails and reams of paperwork to the past. Instead, we can introduce ratios or KPI's that show, for example, our reduced paper consumption. Let's ditch our waste paper baskets

and encourage clean desks and tablets and PC screens rather than actual paper print-outs, wipeable brainstorming boards, presentations given on giant screens, etc... We can also recommend ideas such as virtual and centralised or digitized KYC procedures. In addition, let's make paying by cheque a thing of the past and instead encourage electronic payment, which is in any case faster and safer. Immediate payment by mobile phone should be favoured over sending cheque and even over cash. After all, the new “e-payment” methods all seem to have been designed to aid us in this initiative.

WELL-BEING AND A BETTER WORK-LIFE BALANCE

The new generation is clearly keen to have a better balance between their work and private lives and for this, process automation will help reduce the risks, leaving them free to be able to focus their efforts on value-adding activities and to spend less time at work. Corporate social responsibility also encompasses this commitment to an enhanced work environment, as driving people towards burn-out never pays in the long term. Efficiency can be improved simply by ameliorating the work environment and in this respect too, numerous studies indicate that well-being and productivity are not incompatible. Far from it, in fact.

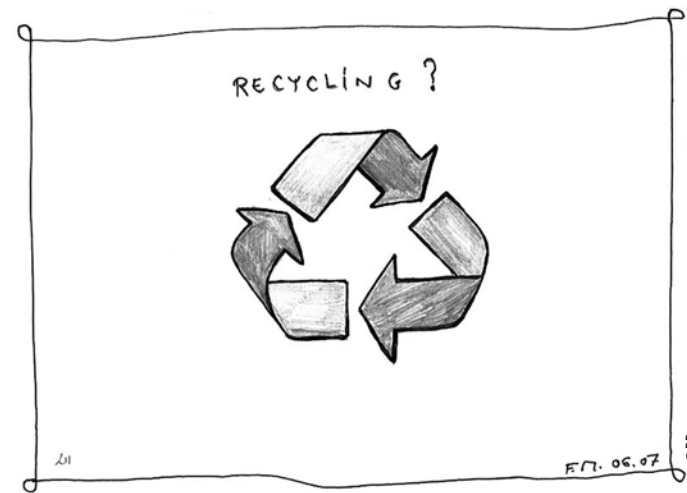
ZERO CO2 EMISSIONS: THE “LITTLE THINGS” WE TEND TO FORGET

Everyone wants a healthier world with more breathable air. The reality of global warming is pretty much proven and →

→ the need for action clear. Here too, there are many small ways that we can help create a better world. For instance, we can opt for telephone or video conferencing to avoid unnecessary or repeated travel. And in the same vein, we can favour e-learning over courses held here, there and everywhere. Moreover, by promoting public transport, we can encourage our teams to travel via the most sustainable means rather than using their private cars. If they prefer to drive, car-sharing is another useful alternative, while we can also encourage home-working to a certain extent. Furthermore, we can make use of virtual servers, cloud solutions, IT solutions and machines that limit the waste of time and energy. Treasurers can encourage staff to use less paper (the production of one sheet of A4 requires 10 liters of water, a frightening stat), to recycle, opt for (more) responsible banks and encourage solutions based on block chain technology or its derivatives (i.e. DLT – hyper ledger – Smart contracts). The use of platforms, the Internet, virtual solutions, etc. all amount to beneficial actions. We can be part of the solution at our own humble level, however “minimal” these actions may be. While treasurers can’t make their companies become “Global Compact” (i.e. United Nation certification) participants, incorporate green indexes such as the SEDEX, or impose the “one report” approach (which at the end of the day will soon be compulsory for all), they can at least recommend such initiatives.

DIVERSITY IS GOOD FOR ALL!

The most fashionable concept is undoubtedly diversity, and there’s no denying that the treasurer profession remains primarily a male domain. Having said that, there are more women in the role than in the past and certain qualities which they tend to possess make them excellent treasurers. But all forms of diversity should be encouraged, not merely in gender terms: we also need to favour a greater variety of nationalities, races and, most trickily in my view, ages, which is surely the most discriminatory area of all. I wouldn’t say that we don’t need to do anything on gender parity, but it’s fair to say that things have changed and that within a few years, via a natural process rather than any form of compulsion, there will be as many women as men working as treasurers, maybe even more. I myself am an advocate of gender equality and my own team contains a lot more women than men. But I believe that this needs to



be achieved without the use of mandatory measures. It’s up to us to change mentalities within our community. In the era of #MeToo, absolute respect for all colleagues, irrespective of their sex or their social or ethnic group, is essential to set the right example. As they say, we need to “walk the talk” and, in any case, diversity is said to increase productivity (even if this remains to be proven due a shortage of relevant studies).

CSR: A WHOLE NEW WAY OF LIFE

All these measures and ideas need to be incorporated into our modus operandi and our day-to-day management. CSR is in a sense a lifestyle choice, a virtuous philosophy. Even the IFRS standards will soon include a non-financial performance reporting section in their accounting standards. By adopting a more responsible attitude,

treasurers can play a full and useful role in enhancing sustainability in the wider sense within their company. For instance, they can set a good example by behaving responsibly. This constitutes a fully-fledged philosophy which,

CSR IS IN A SENSE A LIFESTYLE CHOICE, A VIRTUOUS PHILOSOPHY.

François Masquelier,
Chairman of ATEL

in near future, will be demanded by investors looking for “sustainability”. The much-talked-about concept of fiscal transparency also exists in relation to CSR. Stakeholders are actively seeking socially responsible companies and assets which respect their global environment, and I think we can all echo the view of Richard Branson when he says that: “Social purpose should be embedded in the business model as much as any other value proposition”. —

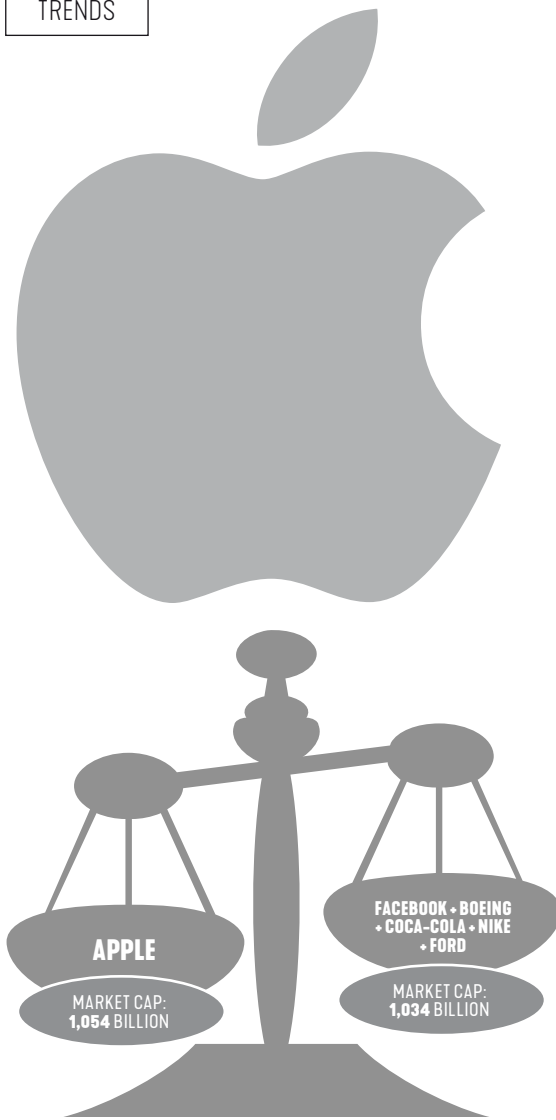
François Masquelier,
Chairman of ATEL



“Every family
business has a story.
Many people help write it.”

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Apple

IS CASH REALLY « KING » ?

APPLE BECAME WORLD'S FIRST TRILLION COMPANY IN AUGUST 2018 BEFORE A STRONG CORRECTION AT ROUGHLY 700 BLN.

- Its shares reached \$232,07
- It means a market cap of amount with 13 figures and 12 zeros !
- A positive sign for the markets at a moment when economic news and political uncertainties are high
- It proves the importance of the technologies and IT within the US economy as APPLE is bigger than EXXON MOBIL, P&G or ATT (APPLE market cap = reached 4% of S&P 500)
- Company co-founded by Steve Jobs in 1976
- **Achievement: To be compared to US Steel which became in 1901 the first company to reach \$1 billion market cap. Nevertheless, we hope its future value will remain better than US Steel's**
- The top product remains the I-phone (i.e. > 50% of the total turnover)
- Treasury of the group = USD 244 bln !!! They could buy anything...
- One of the most profitable company in the world and a safe haven for investors
- Credit rating at S&P: AA+ (stable) & at Moody's: Aa1

STOCKS



APPLE'S SHARE PRICE DROPPED

After reaching the biggest market capitalization ever, Apple shares have been falling from \$232 in October'18 to \$142 in January'19 (-39%). The reasons for such decrease are:

- Lack of confidence on iPhone sales. The market has been disappointed with September 2018 new line-up of products
- Apple invested in the services business with a goal of \$50 billion by 2020. Still the investors are not yet confident about
- Apple significantly increased iPhone's price which is contradictory with consumers demand (highest demand remain the cheapest iPhone around \$750)
- In the era of tension with China, Apple shares fall into bear market where other big players such as Facebook or Amazon have suffered

CASH IS KING !

USD in thousands	30/06/2018
Cash and cash equivalents	31,971,000
Short-term investments	38,999,000
Long-term investments	172,773,000
Other current assets	44,791,000
Property plant and equipment	38,117,000
Other assets	22,546,000
Total assets	349,197,000
Current liabilities	88,548,000
Long-term debt	97,128,000
Other liabilities	48,572,000
Total liabilities	234,248,000
Total stockholder equity	114,949,000

Cash represents 70% of the total assets!

244\$ BLN OF CASH, BUT FOR DOING WHAT?

- One of the challenges is to define how to invest these funds with low interest rates (less an issue in USD)
- The Trump huge tax reform helped large MNC's to consider cash repatriation in the US
- Among solutions, there are the classic ones: (1) share buy-back program; (2) investments in new businesses; (3) jumbo dividend payments or (4) financial investments in short term money market funds or in longer term placements
- APPLE has launched an important Share Buy-Back (SBB) program with a new one launched in May of USD 100 bln. Unfortunately it made substantial losses (circa 40%) and eventually burnt cash in SBB's

APPLE SHARE REPURCHASE

Apple Return of Capital and Net Cash Position

Fiscal Periods	Buyback			Dividends and Equivalents	Net Share Settlement	Capital Returned	Net Cash		
	Open Market	Accelerated Share Repurchase	Total				Cash ¹	Debt ²	Net Cash
FY'12 - FY'15	\$63.0	\$41.0	\$104.0	\$35.7	\$3.8	\$143.5	\$206	\$64	\$141
Q1'16	\$3.0	\$3.0	\$6.0	\$3.0	\$0.6	\$9.6	\$216	\$63	\$153
Q2'16	\$7.0		\$7.0	\$2.9	\$0.2	\$10.1	\$233	\$80	\$153
Q3'16	\$4.0	\$6.0	\$10.0	\$3.2	\$0.6	\$13.8	\$232	\$85	\$147
Q4'16	\$3.0	\$3.0	\$6.0	\$3.1	\$0.2	\$9.3	\$238	\$87	\$151
Q1'17	\$5.0	\$6.0	\$11.0	\$3.1	\$0.6	\$14.8	\$246	\$88	\$159
Q2'17	\$4.0	\$3.0	\$7.0	\$3.0	\$0.2	\$10.2	\$257	\$99	\$158
Q3'17	\$4.5	\$3.0	\$7.5	\$3.4	\$0.9	\$11.7	\$262	\$108	\$153
Q4'17	\$4.5	\$3.0	\$7.5	\$3.3	\$0.2	\$11.0	\$269	\$116	\$153
Q1'18	\$5.1	\$5.0	\$10.1	\$3.3	\$1.0	\$14.5	\$285	\$122	\$163
Q2'18	\$23.5		\$23.5	\$3.2	\$0.2	\$26.8	\$267	\$122	\$145
Q3'18	\$20.0		\$20.0	\$3.7	\$1.1	\$24.7	\$244	\$115	\$129
Total Return through Q3'18	\$146.6	\$73.0	\$219.6	\$70.8	\$9.5	\$299.9			

Apple strategy to buyback shares turned out to be a bad investment.

The repurchase of shares in 2018 made a loss of \$9 billion for Apple due to the fair value decrease (\$157/share as of 31/12/2018 vs \$232/share as of 03/10/2018).



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AA+

WHAT'S NEXT: INVEST IN A DISRUPTIVE TECHNOLOGY

- In a probable "deconsumption" era where consumers tend to fix instead of buying, Apple is in need of diversification.
- After several investments in business services such as Apple Care, iTunes, App store and ApplePay, Apple is investing in a new growth driver. The Cupertino firm already invested more than \$1 billion in video on demand.
- The video on demand is a market almost saturated with Netflix, Amazon Prime, Disney and HBO. Is it not too late for Apple usually pioneer in the industry to start from scratch?
- Will Apple buy Netflix, the only player "affordable"? It sounds very unlikely, Netflix's CEO, Reed Hastings call his company "the anti-Apple"



Mikael Pereira,
ATEL



François Masquelier,
Chairman of ATEL

WACC

ARE YOU TALKING ABOUT?

WACC is a concept often cited but perhaps under-applied by treasurers. “WACC are you talking about?” is the question we should be asking ourselves. How can capital structure be optimised while at the same time maximising debt ratio (with negative rates, even if floored)? Companies have been cleaning up their act and have slashed their debt levels in recent years, but to the detriment of the dynamic management of their capital structure. However, interest rates remain negative within the eurozone.

A FORGOTTEN CONCEPT?

It's sometimes useful to refocus on certain overused concepts in order to clarify their utility and purpose. We're all familiar with them but we might have forgotten what their point is and how to use them. WACC very much belongs in this category, as all companies want to have a capital structure that's as efficient as possible in order to facilitate sustainable growth and a sustainable dividend policy. It's common for international groups to define a target debt

WACC COMES INTO PLAY TO HELP VERIFY THAT THE LEVEL OF CAPITAL AND DEBT FOR A STRUCTURE IS FULLY OPTIMISED.

François Masquelier, Chairman of ATEL

ratio (i.e. the “Debt/Equity ratio”, also often known as the “gearing ratio”) in order to limit maximum indebtedness in relation to the reported EBITDA or EBITA level (i.e. operational income before

taxes, depreciation and amortization). Even if the rules are made to be bent according to requirements, it's still essential to define this ratio, as it will serve as the basis for defining the company's appetite for risk and its resulting transfer price policy. The key question to be asked is whether the capital structure, as defined by Modigliani & Miller, is in line with the

level targeted by the company. Does it have a suitable and efficient capital structure and debt versus capital ratio? There is sometimes room to optimise the gearing level and therefore the structure of a firm's capital (beyond the cyclicalities inherent in any business). It's here that the level of WACC (i.e. Weighted Average Cost of Capital) comes into play, to help verify that the level of capital and debt for a structure is fully optimised. Admittedly, this is a matter of figures and so doesn't tell the whole story, in contrast to what we were always taught at university. But this concept is useful nonetheless and deserving of special examination when reviewing a company's appetite for risk and transfer price policy.

WACC IS CALCULATED USING THE FOLLOWING FORMULA:

$$WACC = E/(E+D) * K_e + D/(E+D) * K_d (1-T)$$

The capital cost (i.e. K_e) needs to be calculated using the traditional CAPM (Capital Asset Pricing Model) formula.

$$K_e = R_f + \text{Beta} * (R_m - R_f)$$



realistic data and to try to determine the ideal and optimum level of capital structure. The trick here consists of increasing the debt level to its maximum without penalising the cost of the debt (which should increase with the latter's level) and the credit rating being affected. So it's a matter of adjusting the debt slider in order to maximise its level. The cost of a debt doesn't always increase automatically with that debt's amount. There will be thresholds and tiers

THE WACC IS DEPENDENT ON THE PROPORTION OF DEBT AND AS IT IS LESS EXPENSIVE THAN CAPITAL, THE HIGHER IT IS, THE BETTER THE WACC WILL BE.

François Masquelier, Chairman of ATEL

which, when crossed, may increase the cost or adversely affect the credit rating (i.e. credit rating downgrading) due to the rise in indebtedness. Here too, the amount and the thresholds are key. The

key point is therefore knowing how indebted a firm can become on the capital markets or via bank loans without increasing the cost and thereby even reducing the Weighted Average Cost of Capital.

The WACC is dependent on the proportion of debt and as it is less expensive than capital, the higher it is, the better the WACC will be. The knack consists of shrewdly balancing the proportion of both ingredients up to the maximum level, without massively raising the cost of the debt. The capital cost is also dependent on the group's beta, which is not entirely under its control. Finally, interest rates also affect the interest risk-free rate and the medium-term debt ratios. The size of the delta between one and the other rate will affect the level of WACC.

**POORLY HANDLED FIGURES
COULD BECOME TIME BOMBS
WHERE WACC IS CONCERNED.**

François Masquelier, Chairman of ATEL



AN ECONOMIC INDICATOR

This weighted average cost of capital is first and foremost an economic indicator representing the average annual profitability rate desired by the shareholders and all creditors in return for their investment. It measures the company's capacity to pay a return on the equity entrusted to it by its shareholders. It also constitutes the vital parameter for confirming future investments (by valuing them). This indicator expresses the average cost of the equity and of the company's external debt, i.e. all of its financial resources for investment purposes. Used to update and evaluate the profitability of an asset, this rate is specific to each company and will depend on the industry, country, activity type, etc. Ideally, the internal profitability rate should be at least superior to the WACC, so that the updated net value is positive and increases the value of the company or generates it. This enables shareholders to assess the investment opportunity and creditors to measure the risk they are taking by granting credit to this company. And it's hard to argue that this is not the basis for the company's whole mainspring: to create value for its shareholders.

VALUATION OF ASSETS USING M&A OPERATIONS

This concept of capital cost is used to select investment projects (to discount cash flows), value assets or carry out ex-post valuations in order to measure the performance of assets. Given the relativity inherent in this type of exercise, it's important to try to be consistent and coherent in the hypotheses and methodologies used. These concepts need to be mastered but the practical aspect needs to be kept in mind. Poorly handled figures could become time bombs where WACC is concerned. One attractive idea is to share the ideal volume between securities and debts. The theories of Miller & Modigliani start from hypotheses which are not always proven in practice (e.g. perfection of the markets, no transaction cost, borrowing at risk-free rates, etc.). The key point here is simply that a WACC rate which is low (and therefore "optimised") enables the underlying value to be increased during valuations.

FINANCIAL THEORY OR ECONOMIC REALITY?

The financial theory is one thing; applying it within the economic reality is another. Let's not forget that the

economic context and the post-financial crisis have driven numerous groups to greatly reduce their debt levels and to build up oversized cash reserves. Isn't this just a case of "once bitten, twice shy"? Despite negative interest rates (although floored to zero), companies are paradoxically borrowing less than before, despite the fact that this would be a good time to optimise their debt structure. The ratings agencies, meanwhile, have a degree of power that is sometimes not compatible with the ideal capital structure (e.g. structural subordination, off balance-sheet restatement of commitments, economic debt including pension obligations, etc.). Assets which could be reinvested in remain at valuation multiples that are much too high. The stock markets are leading the way and everything is exorbitantly priced, which is not encouraging reinvestment. Companies too have already abused share repurchases and jumbo dividends. The time will come when they will have to ask themselves the right questions and follow the recommendations of their treasurers. At the same time, let's not forget that the latter have worked to improve working capital requirements, thereby reducing indebtedness into the bargain. The alchemy is therefore not as simple as Modigliani stated and, on the ground, a number of factors need to be taken into account. The most recent of these applies to US companies, in the shape of a fiscal reform of the century that will allow the repatriation of funds to the country under enhanced taxation conditions. At the end of the day, these are only figures that we're trying to bring to life and, sometimes, they are being fiddled with to the point of making them say something we want to hear. With this type of formula, everything will depend on the hypotheses and benchmarks adopted. It's reasonable to conclude that the theory is not always applicable as such. However, it's worth keeping in mind the financial principles that should guide our search for the most optimum structure. We need to accept that the economic reality is sometimes very far removed from the best financial principles. As Mark Twain said: "Truth is stranger than fiction, but it is because fiction is obliged to stick to possibilities, truth isn't." Now there's some food for thought... —

François Masquelier,
Chairman of ATEL



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**NAVIGATING IN A POST-BEPS WORLD –
ADOPTION OF THE LAW APPROVING
THE MULTINATIONAL INSTRUMENT (MLI)**

The law approving the MLI has been adopted by the Luxembourg Parliament and published in the Memorial. The MLI will apply in parallel to the double taxation treaties concluded by Luxembourg and modify their application to ensure the application of the Base Erosion and Profit Shifting (BEPS) measures. The entry into force of the MLI will depend on the date of the deposit by Luxembourg of its instrument of approval. The provisions of the MLI with respect to a determined double taxation treaty will have effect after Luxembourg and the other party to the relevant treaty have deposited their instrument of ratification, acceptance or approval of the MLI and a specified time has passed. This could be as early as 1 January 2020.

**EXCHANGE OF INFORMATION UPON REQUEST
IN TAX MATTERS – COMPLIANCE WITH
ECJ CASE LAW**

Following the decision rendered by the Court of Justice of the European Union in the *Berlioz* case (C-682/15) and to comply with this decision, the law of 1 March 2019 amends the procedure applicable to the exchange of information upon request in tax matters. It reintroduces up-front verification by the competent tax administration that the requested information is not manifestly devoid of any foreseeable relevance for the purpose of the tax investigation. Furthermore, the law restores the right for the holder of the information to lodge an appeal against the injunction decision in front of the administrative tribunal.

**ANTI-TAX AVOIDANCE DIRECTIVE –
NEW PROVISIONS APPLICABLE
SINCE 1 JANUARY 2019**

On 21 December 2018, the Luxembourg law implementing the European Union Anti-Tax Avoidance Directive (ATAD) was published in the Official Gazette. The law introduces a limitation to interest deductibility, Controlled Foreign Company (CFC) rules and rules countering hybrid mismatches within the EU. It also amends the existing exit taxation regime (including provisions relating to inbound transfers) as well as the General Anti-Abuse Rule (GAAR). The Law also amends two existing domestic provisions regarding the tax-neutral conversion of debt into equity and the definition of permanent establishments (PEs). The provisions of the Law apply to tax years starting on or after 1 January 2019, except for the provisions regarding exit taxation that will apply to accounting years starting on or after 1 January 2020.

Elmar Schwickerath,
Partner, EY

Daniela Hockelmann,
Director, EY

**WHITE SMOKE FROM BRUSSELS
ON EMIR REFIT?**

EMIR (the European Market Infrastructure Regulation) was adopted in 2012 as a response to the financial crisis to better manage and monitor the derivatives and related risks. However, in recent years, the EU Commission carried out an important assessment of EMIR to see whether it would be possible to amend it and to potentially simplify it, while maintaining enough degree of security around financial derivatives. The objective was to amend some provisions to eliminate disproportionate costs and burdens on certain derivative counterparties without compromising global aim of this regulation.

On 4th May 2017, the EU Commission proposed a regulation (the so-called "EMIR refit" – Regulatory Fitness and Performance program) to address these issues (e.g. disproportionate compliance costs, transparency, insufficient access to clearing for some counterparties, ...).



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François Masquelier,
Chairman of ATEL
April 2019, Luxembourg

**PRIVATE EQUITY FUNDS (PE) FOLD
UNDER THE WEIGHT OF CASH**

The PE's have piled up lots of cash over the last months and years for different reasons. After a fantastic decade of growth and success, they realize that (according to a BAIN & CO study) the assets and targets remain rather expensive, time to recover or to generate return may be longer than in the past (or returns lower in same period) and competition fiercer than before. In the meantime, the low and negative interest rates, combined with toppish stock exchange markets and absence of real alternative investments have increased the size of available liquidities to be invested in these funds. There were lots of delisting operations and big deals negotiated, although in number deals are declining. The over-performing PE's have attracted number of new investors. Unfortunately, it will be difficult over time to maintain former level of returns given the above listed elements. It remains a good business with good returns, relatively to other classes of assets. If you want to sell an asset, better to wait as multiples keep increasing because of the scarcity of cheap and available assets rather than because of their intrinsic performances. Investors seem to be more cautious than before and more reasonable in terms of return expectations. Lower returns could be compensated by shorter holding of assets and higher turnover of investments. We will see but can imagine it. The fact that PE valuation was higher than stock-exchange valuations, before 2008 financial crisis and again now could be viewed as a sign of the next crisis by the most pessimistic investors. It has been estimated at roughly 2.0000 billion of Dollars of liquidities available, the highest level in history (close to 2008 level). Given the young age of these funds and the quantity of cash accumulated, we can expect larger deals in future and bigger targets. Industry, health and technology seem the most popular sectors researched by PE's. We can imagine that these funds will keep growing. As cash return becomes an issue with negative rates and pressure from banks to charge positive balances, we can also easily imagine that PE's will sophisticate further their asset management strategies in future and potentially use similar vehicles as corporates, like money market funds. They will also revisit organizations and processes to become more efficient and reduce all-in costs to compensate lower returns. They will need to be more optimal in cash management and fund calls to reduce noise caused by negative rates. This industry, like in Luxembourg, will certainly reach a further level in professionalism of the liquidity and payment management to optimize investors return. Luxembourg LPEA is well placed to provide this kind of support to its members and is doing a great job in developing the industry in the country and abroad.

François Masquelier,
Chairman of ATEL
April 2019, Luxembourg



IFRS NEWS

**THE INTERNATIONAL ACCOUNTING
STANDARDS BOARD TO ADDRESS THE IBOR
REFORM IMPACTS ON IFRS REPORTING**

The IBOR reform continue to progress as regulators are pushing to replace IBOR with Risk Free Rates by 2022. The uncertainties of the reform impact hedge accounting. Under current IFRS requirements, if forecast IBOR cash flows become no longer highly probable, cash flow hedge accounting must cease. To allow hedge accounting to continue despite the uncertainty resulting from the IBOR reform, the International Accounting Standards Board (IASB) tentatively decided on March 2019 to develop amendments to IAS 39 and IFRS 9, including supporting examples on how IBOR-related contractual terms of instruments should be amended for the uncertainty to end.

**LATEST ENDORSEMENT OF IFRS
BY THE EUROPEAN UNION**

The European Union has formally endorsed the amendments of IAS 19 Employee Benefits and the Annual Improvements to IFRS Standards 2015–2017 Cycle in March 2019. The amendments of IAS 19 are bringing clarification on measurement assumptions and asset ceiling rules for the amendment, curtailment or settlement of a benefits plan. The Annual Improvements to IFRS Standards 2015–2017 Cycle bring minor amendments to IFRS 3 – Business combination, IFRS 11 Joint-arrangement, IAS 12 Income Taxes, and IAS 23 Borrowing Costs. They are applicable for financial periods starting 1 January 2019 or later, for entities reporting under IFRS as endorsed by the European Union.

Renaud Breyer,
Partner, EY

Simon Rembry,
Manager, EY



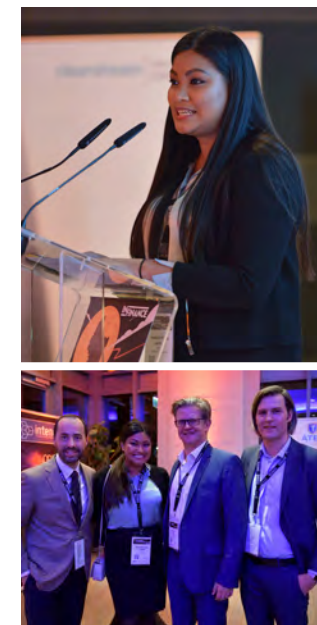
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LUXEMBOURG FINANCE AWARDS 2018

Organised by Farvest, The Luxembourg Finance Innovation Summit was held on Thursday 15th of November. The event included a conference focusing on the evolution and transformation of finance and rewarded individual and firms for their contribution to the industry.

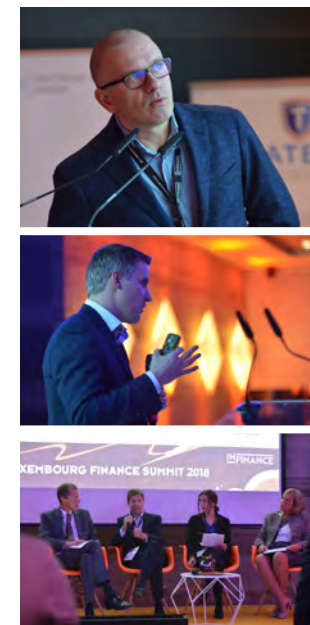
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EACT SUMMIT 2019

The EACT Summit 2019 was held on the 7th and 8th of March in La Hulpe in Belgium. The event brought together 150 leading European treasurers to discuss benchmarks, best practices and exchange on the future of Treasury.

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