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Luxembourg Association of Corporate Treasurers

MAGAZINE #108

TREASURER

THE CORPORATE TREASURERS' COMMUNITY MAGAZINE

THE FUTURE OF PAYMENT

TREASURER
The Corporate Treasurers' Community Magazine

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#108

IMPACTS OF THE TRANSPOSITION OF **BASEL III RULES INTO EUROPEAN LAW**

No one can dispute the importance of appropriate prudential rules to ensure the stability of the banking system and the fight against systemic risks. However, as always, the best can become the enemy of the good and it is important to ensure that the adoption of prudential rules by the European Union does not penalize European companies and banks. This is what is at stake in the project of adoption by the European Commission, to which we must pay close attention. The Commission is trying to transpose into EU law the agreements adopted by the Basel Committee dating from December 2017. Some measures raise concerns for banks and their corporate clients, i.e., the «real economy». The impacts could be direct and indirect and penalize European companies compared to others, imposing a competitive disadvantage. This is certainly not the EU's goal. It is therefore important to remain vigilant and to ensure that the prudential rules, which no one will agree are beneficial in protecting banks against systemic risks. We can mention a few points on which, among other things, this transcription could be penalizing e.g., the financing of non-listed companies or SME's, trade finance or the cost of hedging which would increase. For example, trade finance and the issuance of advance payment guarantees, or performance bonds would be subject to a risk conversion factor of 50% instead of 20%. The change in weighting would affect the debt capacity and the costs of issued guarantees. More expensive guarantees would affect the profit margins of European companies and their competitiveness, or their ability to bid for private or public contracts. Moreover, the obligation imposed on European banks alone to provision their non-performing loans after 4 to 8 years, even when they benefit from a guarantee or credit insurance issued by a quality issuer, such as the State or credit insurance, is likely to call into question or reduce their participation in certain operations deemed to be riskier, such as the financing of long-term export contracts. Imposing regulatory provisions when a bank has no prospect of defaulted credit losses, and no accounting provisions are required seems absurd. We can all welcome the Commission's efforts to faithfully implement the international Basel III rules while considering the potential specificities and features of EU banking sector. Obviously, it is important that the amendments to the capital requirements regulation strengthen the resilience of the banking sector without resulting in significant increases in capital requirements. Treasury community supports the idea of financial market stability. We don't want to adopt rules that would result in a competitive disadvantage for EU banks compared to international peers. And similarly, we do not want to have such disadvantages compared to our peers outside the Union. The previous changes in capital requirements have restored the confidence in banks and made them more resilient. After a long pandemic, it is essential that banks play their role and do not come under further pressure. The economy must pick up and banks must respond positively to corporate's funding requirements. The rules, whatever their aims, should not penalize corporations with additional financing costs or discourage hedging because of cost increases. The small and medium size companies or non-rated ones should not be penalized either. The Commission proposed to maintain the Credit Value Adjustment exemption. With current provisions, regulator recognized specificities of non-financial companies and why they need to use derivatives to mitigate risks. The uncollateralized exposures to derivatives with NFC used for hedging purposes are exempted from the own fund's requirements for CVA risks. We treasurers fought for this exception. Without being too technical, the removal of the alpha multiplier for banks using internal models is welcomed by banks but it is only granted until 2029. It won't be applied to banks using the standard model. The risk for end-users and the real economy is to see hedging costs increasing over time. Circa 80% of corporates in Europe are not rated by agencies and draw the largest part of their indebtedness from banks using internal models to determine their risks. The standardized approach to measuring risks is severe under B3. The output-floor would lead to an important increase of capital requirements, even if the Commission proposed to temporarily limit these increases. The recourse to rating agencies could also be reconsidered and supported by other types of ratings from other sources. Eventually, as already mentioned above, the trade finance, among other areas, is one of the parts that could be hit. They plan to use 50% in credit conversion factors instead of 20%. The proposed unfavorable treatment of off-balance sheet items (i.e., Unconditionally Cancellable Commitments) is also underline. The proposed provisions could result in a deterioration in conditions for export companies in Europe. This area is highly technical and seems to be more a bank issue. However, banking prudential rules may have huge and undesired indirect impacts on our businesses. These useful prudential rules should strike the appropriate balance between financial stability guarantee and the necessary support to companies funding needs. We are facing a recovery period and a digital transformation which both will require huge financing needs, from banks. It is as always with such key rules to properly assess the potential impacts for non-financial companies to avoid too stringent rules which could become counterproductive and penalize EU groups.

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François Masquelier,
Chairman of ATEL

ACCOUNT-TO-ACCOUNT PAYMENTS PLACE TREASURERS AT THE HEART OF THE **DIGITAL PAYMENTS REVOLUTION**

With non-cash payments on the rise, a jump in e-commerce business models, and real-time payment clearance systems increasingly prevalent, innovation is thriving in the retail payments space. A recent TMI webinar explored account-to-account payments to analyse how they can help treasurers support the digital transformation of their organisation.

The retail payments arena is in the middle of a golden age of innovation. The already transformative sector was supercharged by the Covid-19 pandemic, as companies raced to offer e-commerce stores and online payment options to retain and grow their customer base. As a result, the decrease in cash usage also accelerated during this time. In 2020, for example, data from trade association UK Finance shows that the number of cash payments made in the UK fell by 35%.[1]

Neil Pein, Global Head of Axepta and Head of Payments Transformation, BNP Paribas, notes that there are three key drivers of this payments revolution: "The first trend is the role that technology is playing, particularly with regard to immediacy. Payments used to take one day, and even more for cross-border, and now you can verify them through instant notifications. Then there is the digital revolution in smartphones, which have made payments almost invisible. This creates a high-quality integration for banks and payment service providers with the client. Finally, there is the evolution of regulation, through developments such as open banking, allowing startups to provide specific payment services."

Todd Clyde, CEO, Token agrees with Pein, particularly on the immediacy point, noting that developments such as the adoption of real-time national clearance systems, such as Faster Payments in the UK or SEPA Instant in Europe, have had a tremendous impact.

"SEPA Instant was a major upgrade to the national clearing systems in Europe, bringing instant settlement to banks," Clyde says. "And PSD2 [Payment Services Directive 2] has been an amazing catalyst to how banks provide APIs that allow consumers to access data or initiate payments from their accounts."

These two trends have created a tremendous inflection point, enabling account-to-account (A2A) payments to emerge as an alternative form of payment. In fact, Clyde believes we will now start to see A2A payments challenging the dominance of cards and digital wallets. What's more, A2A payments are helping to challenge the boundary between the in-store and e-commerce shopping experiences.

BRINGING ONLINE BENEFITS TO THE OFFLINE WORLD

The 2021-2022 edition of Journeys To Treasury,[2] the annual report from BNP Paribas, PwC, SAP and the European Association of Corporate Treasurers (EACT), highlights the need for unified commerce – the blending of the physical shopping experience with the benefits of online retail.

"The unified commerce world is all about the experience," affirms Pein. "Not only are payments becoming almost invisible but the frontier between what happens in the physical world and what happens online is also disappearing. Ninety percent of all sales start with a Google search, for example. For merchants, unified commerce offers the potential to recognise a customer, track their customer journey and offer them specific services. This makes shopping easier for consumers, which is key for merchants."

Another example of the power of unified commerce can be seen in how the in-store shopping experience can be improved. The challenge for traditional shops is to bring the online warehouse directly within the physical store, to increase the space to display items, and to decrease the number of cash desks.

"This is exactly what we've done with Axepta, for instance, for FFT [Fédération française de Tennis] in Roland-Garros last June," explains Pein. "We revisited the complete customer experience at the store so that, now when you enter the Roland-Garros store, there is a salesperson with a shopping tablet. You could either buy directly in the store and take your items home or buy on the tablet from the salesperson and have it delivered to your home. Many companies are investing in this, as they realise that digital transformation is vital for their business."

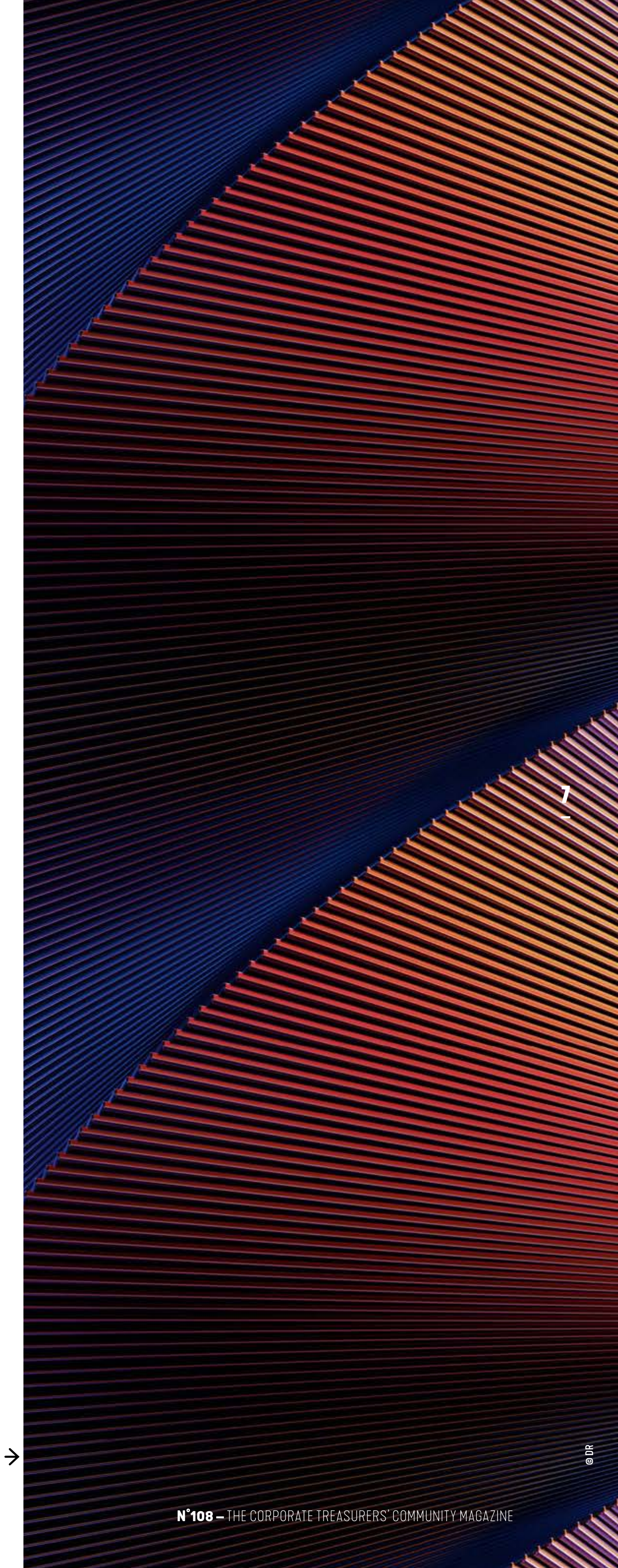
For corporate treasurers, this matters because the payment is a vital element at the centre of such a digital transformation. The importance of the payment in every customer journey presents a great opportunity for treasurers to be at the centre of their own organisation's digital transformation.

BRIDGING THE GAP

A2A payments can also play a crucial role in bringing about the unified commerce vision outlined earlier, supporting the shift from physical to digital transactions.

"We can bring offline payments into online payments," explains Clyde. "We accomplish this by using a QR code, a 'pay by link' or a 'request to pay' to bring the payment from an in-store point of sale to the shopper's mobile device for the payment. You could be in a warehouse store configuring a large purchase, and right there at the checkout you're prompted to your phone or to your email to push a payment, rather than pulling out a card."

This highlights how A2A payments put the bank right at that point of sale, enabling them to offer new services to customers. BNP Paribas and Instanea is already live with that capability in France. As Clyde explains, there have been →



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a few challenges to negotiate in getting to this point.
"We faced a couple of challenges, the first being the availability and usability of APIs," Clyde says. "It felt like we were building a payments network by connecting 3,000 pieces of technology that we didn't build. There were certain delays in the regulation that delayed availability. The quality and usability of the APIs were initially very unfit for purpose, but we're getting there now. The user experience has improved, conversion rates are starting to exceed those of cards in certain countries. The second challenge is the adoption of SEPA Instant. It's a big priority for the European Payments Council, but there is still a long way to go for SEPA Instant to be universally adopted in Europe. We need to continue to advocate for that."
Corporate treasurers have the potential to obtain the same benefits from an A2A solution as consumers in terms of low-cost payments, faster settlement times, and the ability to reach anybody with a bank account. But the corporates also have the challenge of reconciling payments. To solve this issue, Token has blended A2A with another recent development in the payments world: Request to Pay (RtP).
"RtP simply enables a supplier to encode a transaction with the details of both the purchase and other beneficiary account information, and then when the payment is initiated those same details are combined with the payment and travel with the payment," notes Clyde. "This solves the major headache of reconciliation. It is an excellent example of how A2A payments can be tweaked to accommodate the corporate needs and solve a big problem in B2B payments as well."
RtP is also shaping up to be a critical tool to drive traffic away from cards and towards A2A payments.
"It helps to move commerce from physical to digital, and it's much more convenient for consumers as it lets them schedule if they don't want to pay now after receiving a prompt," adds Clyde.

CONTINUED ADVANCEMENTS IN RETAIL PAYMENTS TRENDS

A number of the trends in retail payments seen today will continue to unfold and deliver innovation during the years to come. This is the case with unified commerce and with the emergence of A2A payments as a mainstream payment mechanism. A further trend to look out for is the unbundling of services traditionally seen around credit card payments.
"If you think about a credit card payment, it is a 30-day loan, a loyalty programme, cashback and purchase protection," says Clyde. "Those services are now being unbundled from that form of payment and are being rebundled around A2A payments."
Elsewhere, the concept of Buy Now Pay Later (BNPL) services has grown exceptionally over the past year or so, mainly thanks to the boom in e-commerce, which looks set to continue into 2022.
"BNPL is a great way to increase the value of a consumer's basket," says Pein. "For some large marketplaces that have completely integrated this kind of payment, BNPL can represent 30% or even 40% of their sales. This means that it's no longer just one form of internet payment – it is the payment method that e-commerce websites rely on. But not all merchants are equipped yet, so there is even more growth ahead for this."
For Clyde, BNPL is just one example of a more significant trend: "I expect to see lending at point-of-sale, and purchase protection being offered at a point-of-sale, particularly around airline ticket purchases," Clyde says. "I see the loyalty offers at point-of-sale. This is why banks need to compete in that new layer, because it puts them behind that payment while enabling them to bundle new services for customers."

A CHANCE FOR TREASURERS TO SEIZE THE DAY

For corporate treasurers, developments such as A2A payments represent a chance to actively drive a digital transformation within their own organisations.
"What we are seeing from our clients, corporates, and merchants is that it's time for investment," Pein comments. "After Covid, we see many companies investing in unified commerce and their own digital transformation. The treasurer is the perfect candidate to realise that transformation and to be at the centre of this project, thanks to the role that payments will play in those transformations."
Clyde agrees, concluding that: "A2A is emerging as a very promising payment method, and I would encourage corporate treasurers and payment professionals to take a look at that as a payment mechanism. We see it providing lower costs, improved conversion rates, and we've solved the challenge of reach by using PSD2 APIs."

CASE STUDY OF A BANK/FINTECH PARTNERSHIP: BNP PARIBAS AND TOKEN

For banks that service the rapidly evolving retail landscape, partnering with fintechs and other third-party providers offers a way into the innovation fast lane to service client needs swiftly.
"The only way to move forward in such a world is to be very open and focus on our clients and merchants," says Pein. "The strength of BNP Paribas Group is our client franchise and the trust they put in us. Innovation also relies a lot on this trust. If there's ever a case where we don't have the precise service a client needs, we look for a partner to help our client. It's not a case of offering that client to somebody else, rather we're building the client relationship and they put even more trust in us because we took action to solve their issue."
Partnerships that focus on client needs are a way for banks to be agile enough to navigate the fast-growing and innovative world of retail payments. One such partnership that BNP Paribas has actively engaged with has been with Token, an open banking payments fintech.
Clyde recalls: "I first met BNP Paribas about three years ago, when two different parts of the bank were looking to use account-to-account payments through open banking. I met with Neil and heard about his vision for payments capabilities. He was looking for a technology partner, not just to provide access to payment initiation capabilities, but for a complete software application capability for BNP Paribas to launch and manage."
The bank selected Token to partner with on this venture, and the result of this collaboration was the launch of BNP Paribas Instanea. This is the first SEPA Instant payment solution for merchants to be offered in Europe. As a result of the successful collaboration, the bank also decided to invest in Token. Instanea delivers account-to-account payment capabilities to enhance the speed and increase the security of transactions for merchants across Europe.

THIS IS ONLY THE BEGINNING OF PAYMENTS INNOVATION RELATED TO OPEN BANKING, THERE WILL BE MUCH MORE TO COME.
Neil Pein, BNP Paribas

Clyde continues: "A2A payments settle over national clearing systems like UK Faster Payments, SEPA Credit Transfer, and SEPA Instant. As such, there are no intermediaries like cards or wallets to add cost and friction. For corporates, merchants and consumers, this means they are significantly lower cost than debit and credit that settle over card rails. They are also lower cost than wallets like PayPal. What's more, A2A payments settle instantaneously, giving better liquidity and almost instant access to funds, while the conversion rates are certainly starting to exceed those of cards."
There are several use cases for such a solution, from topping up a wallet to paying off a credit card balance, as an e-commerce payment option or for traditional bill payments. For business-to-business (B2B) payments, an account-to-account payment link can be embedded in an invoice to simplify the payment.

Neil Pein,
BNP Paribas

Todd Clyde,
BNP Paribas

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FUTURE-PROOFING YOUR TREASURY MANAGEMENT

Stakeholders increasingly expect Treasurers to become change agents, long-term value stewards, and somehow technology leaders. Which operational adjustments can leverage their capacity to keep up and reinforce their role as strategic partners to the management? Brice Lecoustey, Partner and Pierre Mynard, Treasury Consulting Manager at EY Luxembourg share some tips.

APPROACH CHANGES WITH CONFIDENCE

Unexpected currency movements, rising interest rates, tax and reporting reforms or the surge of virtual currencies are among current challenges to be faced by corporate treasurers.

A clearly defined corporate treasury function, and a forward-looking governance framework have proven critical when leading transformation projects in this uncertain environment. Exploring possibilities to enhance or set up an inhouse bank, a cash pooling or payment factory for example, could help treasurers to approach changes with confidence.

The decision of setting up a new tool or upgrading the current one will depend on a company's change mindset, the maturity of its treasury processes and its talent. Trained staff, ready to work on improvements, sets the basis for embracing a new tool's added value – lowering the risks linked to its implementation and allowing a reliable calculation of the return on investment, based on the real productivity gain.

IMPROVE OR TRANSFORM?

The decision of improving or transforming the existing should start with a review of your treasury processes, together with your strategic partner. Evaluating among others your cash flows, reporting and 13-week cash forecast will give you an overview of how collections timing and payments impact your working capital.

Also, identifying and tracking cash collection patterns will offer a better granularity to your analysis. It will provide an assessment of your current reporting methods and a view on manual operations to improve and better organize your cash reporting publication.

In global companies, headquarters can also support subsidiaries in consolidating their position and better evaluate funding needs to reduce external market pressure. For instance, should a company have to support a growing strategy by taking over new brands, the company group would have to build a consequent long-term debt. A strong and automated analysis of the reimbursement capacities over the years would require to using as much of the group's internal funding capacity as possible.

In addition to keeping track of their debt portfolio, the company would have to work around their guarantees and make sure their credit rating is not downgrading by offering high quality collaterals. To perform such complex reporting, companies need to ensure that strong policies and procedures are in place to set controls and limits.

Typical controls start with a precise policy on steering methods of the group's liquidity and financial transactions to cover the five main financial risks: Market, Liquidity, Credit, Settlement and Operational risks. Each policy must establish clear management risk control rules and set risk limits with delegation of duties depending on the managed amounts. Once a solid frame and tools are established, your organisation will be able to put limits in place for transaction on a yearly basis.

From left to right: Brice Lecoustey, Pierre Mynard.

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NURTURE YOUR TALENT

As a result of taking the previously mentioned optimisation steps, companies will be able to manage and execute deals in the most efficient and future-proof way with relevant reporting, policies, and a performing system as enablers. Technology and treasury optimisation most importantly go hand in hand with human resources. Another important building block of overall success are well-trained employees, educated to change, ready to perform crucial tasks and execute deals efficiently with banks and financial partners. In the current war for talent, technology will also serve as an advantage in attracting analytical and skilled treasury professionals.

Brice Lecoustey,
Partner, Consulting at EY Luxembourg

Pierre Mynard,
Treasury Consulting Manager at EY Luxembourg

PAYMENTS

BENJAMIN DEFAYS (KOCH ENGINEERED SOLUTIONS):

HOW TO MAKE CASH FLOW FORECASTING EASIER **AND MORE RELIABLE?**

Treasurers are at pivotal moment and keep asking the question - How to make cash flow forecasting easier and more reliable? This topic is still amongst top priorities for treasurers, especially with the new normal, unstable environments of today. Many treasury departments were forced to reinvent their cash forecasting process in the recent years, leveraging both technology and creativity at higher speed. Benjamin Defays, Senior Manager – Treasury/OTC at Koch Engineered Solutions shares his experience.

SHORT, MID, OR LONG TERM FORECAST: DEFINING SUITABLE SOLUTIONS

For longer term forecasts, you definitely need a close collaboration with your business group (sales, controllers, tax) and an efficient & regular communication. You also need to apply stewardship when it comes to utilization of resources. I remember few years ago, I was asking so many people to participate in the elaboration of a monthly cash forecast, with lots of detailed information to be provided, taking at least 2 days to get ready, and by the time it was consolidated the forecast was already highly inaccurate. This was a waste of time and resource with no value creation. Instead, you need the right individuals involved, with high level information about net cash flows, where everything is automatically consolidated.

For shorter term forecasts technology can help get probably up to 80% of it more accurate. Ideally, you have a software (e.g. a Treasury Management System - TMS) implemented whereby AP and AR flows are flowing from your ERP automatically. Therefore, we all know customers don't pay on time, especially in crisis times like now, so this process will be inaccurate if you don't apply judgement by adjusting the AR forecast received from the ERP – you could have a TMS that will, for example, adjust due dates based on the average DSO, or exclude particular big suppliers where you encounter issues, etc. When I tested it, I started to analyse the variances a bit deeper, it wasn't showing good results. I therefore thought about adding to the average DSO adjustment, also a weighted average of AP/AR flow combined with historical cash flows from the last 2-3 years. This was a big mistake of mine, because of our business model not being suited for this. This can work eventually if you have seasonability in your cash flows.

I would say that for short-term forecast, and actually very short-term (i.e. the one you would use for daily cash positioning), having this connectivity between the ERP & TMS will allow you to know which forecasted cash flows are going to hit your bank account in real. That will at least give you a realistic view of your outflows. Ask your TMS provider what they can offer in that area. For longer-term forecast, it would be interesting to try and rely on your company's consolidation tool forecast. You can then merely ask your business groups to make adjustments to it as necessary, so it eases their work and avoids duplication.

THE RIGHT MINDSET

If treasurers have a mindset of contribution, vs being activity focus, they'll naturally reach out to the business groups for support and get the right level of information and knowledge, with a good and wise level of utilization of resources. Without regular communication, without creativity, without seeking continual transformation, an accurate forecast today can quickly become inaccurate a few months after. Treasurers need to be on the hook of new technologies, benchmark practices here and there, and assess how those can fit into their business. Constantly challenge yourself, your boss, processes, policies… and brainstorm frequently. Think also about the upfront process. One could be wise to increase its credit and collection capabilities, to remove silos across its various businesses to leverage expertise and get stronger teams, stronger & more efficient processes, workflows, to assess customers' credit risks better, and efficiently chase them, with strong collaboration with the project and sales teams. Maybe thinking also in terms of ownership, and developing a cash culture within the company, i.e. an good order being negotiated with agreed upon terms, and collectable, with project & sales teams to be held accountable for it, in order to change their mindset and being incentivized to help us collect on time.

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WITHOUT REGULAR COMMUNICATION, WITHOUT CREATIVITY, WITHOUT SEEKING CONTINUAL TRANSFORMATION, AN ACCURATE FORECAST TODAY CAN QUICKLY BECOME INACCURATE A FEW MONTHS AFTER.

Benjamin Defays, Senior Manager – Treasury/OTC at Koch Engineered Solutions

In parallel, treasurers need to increase education over the importance of working capital across the group, and not just once a year. Besides, what you don't see, you can't control: treasurers need to have a good set of KPIs, good ways to measure the performance and regular reviews of their customer portfolio, take strategic decisions on some of them, in collaboration with their sales & project teams. They need to invest in educating their credit and collection teams, invest in tools helping automate reminders, defining common strategies of collection, using tools available such as rating agencies, build their own rating model, etc.

PRIORITIZE TO BE EFFICIENT

Now, let's make sure we spend our time on the right things. If you ask me, forecasting precision would be a waste of time. It is nearly impossible to get because there are so many external factors & dependencies. Then, how would this help make better decisions? Accuracy in cash forecasting is enough to make sound investment/funding decisions, and can be achieved with a combination of several capabilities: good customer onboarding process, with a strong credit team engaged upfront to provide a proper risk assessment on customers and negotiate payment terms of quality vs just accepting terms which the customer will never be able to meet and play with the forecast in a negative fashion. Then, a strong collection team, to avoid invoices becoming overdue or falling under bad debt quickly. Those two capabilities can also benefit from technology to automate reminders, gain better visibility on portfolios, prioritize, and align collection strategies. Finally, as said earlier, strong collaboration between treasury & the business groups. All of this with the help of technology. We also need to be humble, intellectually honest: analyse your forecast, look at the variances, what is driving those, then correct and adjust your process as needed. And most importantly: understand your business.

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Benjamin Defays,
Senior Manager – Treasury/OTC at Koch Engineered Solutions

TREASURY TRENDS : WHAT IS TODAY'S PICTURE?

Every two years, PwC issues its global survey on trends in treasury. The 2021 edition reflects the views of 340 treasury departments based in over 30 countries, across 22 industries and in companies with median annual revenue of $4 billion.
At the time of the publication of PwC's 2021 Global Treasury Survey report survey, we had identified five priorities for corporate treasurers. Those priorities focus on business partnering, digital acumen, ESG, optimisation of cash and the management of financial risks.
Since then, inflation and recent geopolitical events have of course modified the short to medium term agenda with a pressing need to comply with sanctions and find a way to repatriate cash for some. Nevertheless, unpacking the implications behind each trend can help treasurers demonstrate the value of their function during a time of substantive organisational and business model change.
In our view, treasurers have a significant opportunity to maintain and expand a new position of influence.

DELIVERING ON THE PROMISE OF BUSINESS PARTNERSHIP

44% of survey respondents say this is a priority for their CFOs, ranking third on the list of top topics. It's therefore not surprising that the skill sets needed are changing. Strategic thinking and business partnering capabilities rank high on the list of expected skills from the treasurer of the future.
These findings show the value (and need) for treasury to become a predictive and proactive partner that can move at the pace of business and in a way that supports the immediate needs and longer-term vision for company operations…on top of the required responsiveness in time of crisis, whatever the form it can take.

RAISING DIGITAL ACUMEN TO ACCELERATE TECHNOLOGY ADOPTION

The 2021 survey revealed that CFOs and treasurers are focusing more on technology improvements and digital innovation compared with results in our 2019 edition.
The primary investment targets — gaining efficiency and generating more impactful insights — point toward organisations laying a foundation to support an ultimate vision of enabling treasury-on-demand services.
Obviously, not everybody is ready or equipped for an on-demand treasury and a lot of work is probably undertaken on the data quality, but even before that, with the increase in the job description of the treasurer, automation and digitisation can be a way to create the time needed to partner with the business, analyse scenarios or participate to the ESG agenda for instance.

SUPPORTING BUSINESS LEADERS TO EXECUTE ON ESG

The rising interest in sustainable business practices is undeniable. Given their position as financial stewards, treasurers should understand not just the reporting implications of ESG but the financial ones as well.
CEOs around the globe are increasing commitments to ESG in numerous ways, and Treasury can play a role in moving the needle to address these commitments and broader sustainability strategies.
While we believe it is key for treasury to be part of the taxonomy and ESRS budgeting exercise, other means may include investment in ESG labeled portfolio, use of ESG-related trade finance schemes and or ESG-linked funding for example as we see these product offerings growing.

RESPONDING TO DEMANDS TO OPTIMISE CASH

Bank rationalisation and advanced liquidity techniques such as In-house Bank, payment factory, etc…offer treasurers more options to streamline cash management processes. Such improvements have the potential to not only improve the treasury team's experience, but the customer experience as well through the easier facilitation of payments. In this latest area, rapid evolution in the payment world is an additional topic for treasury as they may have to enlarge connectivity of their TMS or other banking / payment platform with new forms of payment.

SHARPENING THE FOCUS ON FINANCIAL RISK

Last but not least, financial risk management remains a top three priority for treasurers dealing with pandemic-driven disruptions and the resulting pressure on margins. That underscores the importance of efficient FX risk management and capitalising on digital advancements. Moreover, interest rate risk remains high on the radar for treasurers, registering as the second most impactful risk to their business. Considering inflation impacts on rates level, treasurers should monitor carefully now and plan ahead, if not yet done.
Surprisingly, only 23% of treasury teams say they meet with business counterparts regularly to understand economic exposures. In the absence of regular meetings or communication, digital capabilities can help bridge the gap. Organisations are leveraging system capabilities rather than bespoke solutions to measure their exposure and execute risk management activities.
Additionally, findings show that data analytics and visualisation, RPA, AI and APIs are becoming increasingly prevalent in exposure management capabilities. Several of our clients, for example, already leverage AI capabilities to generate projections for cash flow and non-functional currency risk, as well as to highlight anomalies.
AI is also being used to calculate the reliability of forecasts ranging from one month to one year by running algorithms to compare past forecasts against actuals.
All in all, those various trends converge to teams not willing (or not having the time anymore) to deal with repetitive tasks. A lot of initiatives will be around digitisation and data, so it is fundamental today to understand, clean and clear data to allow automation, predictive analysis, better execution and quicker response to business needs.
Cash still being King, we may have data as Queen.

Top treasury priorities for CFOs

Q: What treasury topics are a priority for the CFO of your organization?

1	Funding/capital structure
2	Cash and liquidity management
3	Relationship with the business
4	M&A
5	Technology and digital innovation
6	Fraud risk and cybersecurity
7	Talent management
8	Tax implications

Top priorities for treasurers

Q: What treasury topics are a priority for the treasurer of your organization?

1	Cash and liquidity management
2	Funding/capital structure
3	Financial risk
4	Banking management
5	Technology and digital innovation
6	Working capital
7	Fraud risk and cyber security
8	Relationship with the business

We identified five priorities for corporate treasury in 2021

1	Business partnering
2	Raising digital acumen
3	Driving ESG
4	Optimize cash
5	Financial risk

Philippe Förster,
PwC Partner - IFRS, Treasury and payment leader

ERIC CRABIE (BEARING POINT):

EAMS AND CUSTODY BANKS, **AT A CROSSROAD**

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The External Asset Managers (EAMs) market represents around 2.500 companies in Europe with a total of 430 billion US Dollar AUM. It is a dynamic market with an increasingly significant weight in the financial market.
With this evolution, the number of EAMs with more than 1 billion AUM are increasing (about 100 in Switzerland and 10 in Luxembourg) with an increase between 2020 and 2021 of their AUM (+19%). Today, assets managed by EAMs represent 11% of all assets held by private banks in Europe. With this significant size, EAMs are more and more organized and equipped with an investment of between 1 and 2 bps/AUM on IT (CRM/CLM, PMS, …).
The question is, how banks can serve this market seen as more and more professional and equipped?

AFTER THIS TWO LAST YEARS, WHAT IT THE EVOLUTION OF THE RELATION?

In this period marked by covid-19, by many changes in working methods, the introduction of teleworking and new digital tools we found:
For the onboarding subject, that EAMs gets authorized by the regulator to perform remotely the client onboarding with conditions. This movement put pressure on bank and EAMs in client relation perspective. On the other hand, banks are also putting pressure on the EAMs due to the position of delegate provider with a direct client access.
This difficulty is amplified by the client onboarding specificity of the EAMs' industry (double process for the client) and as a major paint point.
Furthermore, the appearance by some banks of a categorical refusal of certain customers who did not meet their new quality criteria has further deteriorated the relationship between these two actors.
We can notice a double impact from the Covid and from the EAMs specificities on onboarding process with also a direct impact on client life cycle.
Moreover, for the products and services quality side, we noticed a degradation of services availabilities (eg: access to trading room, Tables of execution, Wealth management team, etc…) by the choice of some actors to restrict access to their services with a direct impact on time of execution. This situation is even more particular due to EAMs professionalism and their capacity to send FIX protocol. They are now expecting an immediate response from the bank in return. EAMs get now the capacity to send orders by second on STP such as they were internal to the bank.
On the credit aspect, we see conditions of access changing from the bank. This is more important as EAMs are unable to deliver credit, but as the main lever for client's financing. This point is critical on the relation between these two actors with a direct impact on EAMs' chose of a custody bank.
All these movement put in light the EAMs' capacities to managed by distance the relation with both the bank and the client and the difficulties for the bank to do it on their side.

ARE THERE NOT STRUCTURAL REASONS OF THESE MOVEMENT?

Beyond the situation of covid-19, these structural reasons are based firstly on an uneven distribution of revenues, apart from credit, on a portfolio of 80 to 90 bps, only 10 of it go to banking services and the ¾ to the EAMs. Yet, EAMs do it with limited capital requirements and reduced complexity as 3rd party banks bear most of the risks and regulatory costs.
Secondly With this model, EAMs are cutting off private banking from its core business and makes it difficult to deploy their product and service value propositions.
Last but not least, these banks are caught up in other movements of industrialization with overall business models reviewing (Nearshoring, Activities externalization,) which may have an impact on the overall quality of services and proximity. For example, a trading room nearshoring, or other sectors are increasing the difficulties of keeping of proximity and service quality.
All these reasons have a direct impact on the EAMs demands and relation model.

THE CHALLENGE IS TO FIND A BALANCE BETWEEN SERVICE FEES AND QUALITY LEVEL

The following criteria ensure that the situation is balanced and win-win for actors of this market.
On this fact if more EAMs' customers will match with the bank's business strategy and risk policy (client risk scoring), easier it will be to implement similar compliance practices and services proposal.
In addition, Banks have always considered this type of customer as a strategic axis and are investing in their own platform to open it up to EAMs in way to provide the most complete service (Onboarding, dedicated platform on transaction and positions, Portfolio consolidation, FIX protocol order management).
On the other side some banks are also focusing their offers dedicated to EAMs on specific product such as credit as very specific product for them.
Finally, like attract like and future will show a distortion between players who have specialized and others who will simply lose interest in the EAM market.

Eric Crabie,
Partner Asset
& Wealth Management,
Luxembourg & Geneva,
Bearing Point

DIGITALIZATION

FROM PREDICTION TO ACTION – HOW AI IS **CHANGING TREASURY**

The sheer quantity of data now available means that it is too much for the human brain to analyze. At the same time, the need for such analysis to be done at high speed has never been greater. Artificial intelligence (AI) can improve the ability to forecast future liquidity, but a more important development will be the ability of AI to support confident decision-making using the output from those predictions. Jean-Baptiste Gaudemet, SVP Data & Analytics at Kyriba, explains how AI is improving liquidity planning for corporates.

Artificial Intelligence (AI) has two rather different applications in the treasury world: machine learning to improve the prediction of future liquidity, and optimization of the actions arising. There has been – quite rightly – a lot of focus on the former, but in our view the latter is where the long-term benefits of AI for treasurers will really lie.
"Prediction" means the ability of a treasury team to forecast future cashflows over time with the help of statistical machine-learning algorithms. That timeframe can be short term (less than one month) or long term (typically one to three years ahead). Such prediction is important because successful forecasting enables treasurers to minimise their excess liquidity and then make best use of that surplus in a variety of ways. However, currently prediction beyond the short term is possible for only a tiny minority of companies. According to research by consultancy IDC, less than 5% of corporates can forecast cash reliably beyond three months, and less than 20% can forecast liquidity beyond one month[1]. That is a particular problem when CFOs are under pressure to increase access to liquidity but have reached the limits of manual cash forecasting and intuitive, human decision making.

Furthermore, those current, limited forecasts are often inaccurate. According to the Association of Chartered Certified Accountants, 90% of Excel spreadsheets contain errors, but over 90% of users are convinced that their spreadsheets are error-free![2] What's more, when the owner of the spreadsheet leaves his or her job it is often hard (even impossible) to maintain that spreadsheet. In November 2021, a record 4.5 million workers left their jobs in the US, according to the US Labor Department's latest Job Openings and Labor[3].

The global economy has also entered a period of price inflation. The all-items index rose 7% for the 12 months ending December 2021, the largest 12-month increase since the period ending June 1982, according to US Bureau of Labor statistics[4]. This situation will inevitably force central banks to restrict access to liquidity, making this resource even more strategic for companies. In this context the ability of CFOs to make the most of their data to optimize liquidity is becoming a major competitive advantage.

The only solution to scale accurate performance is to rely on assistance from AI and to leverage the exponential volume of data accessible to compagnies. IDC forecasts that by 2025 the global datasphere will grow to 163 zettabytes (that is a trillion gigabytes). That's ten times the 16.1ZB of data generated in 2016[5]. To understand the contribution that AI can bring to prediction there is a useful comparison with weather forecasting. Meteorology has developed from saying whether it is going to rain (or not) on a given day to forecasting the probability of rain at a given time of the day. In a similar way, thanks to AI, treasurers are increasingly able to forecast their group's liquidity at a particular moment in time based on the probability of the various cashflows throughout the business. Using output from the company's TMS and ERP systems, AI can analyse historic cashflows train the algorithm and measure the confidence level of the output predictions.

So far so good. But prediction is only half the story. Once a treasurer has more confidence in the team's forecasting capability, she can predict how solvent the business will be, then decide how to invest any excess liquidity, whether in traditional Money Market funds or in alternative products such as dynamic discounting (etc). She can also accurately decide the best facility drawdown to finance a cash shortage and optimize payment runs. These decisions have huge potential impact on the company's P&L as well as its ability to manage risk efficiently, plan its debt issuance programme and allocate to short-term investments

HOW KYRIBA CAN HELP

The Data Analytics team at Kyriba has developed a full portfolio of products to provide treasurers and CFOs with solutions for better decision-making – all to be launched in 2022.

The first is Liquidity Dashboard. This product brings together in a single Business Intelligence application all the cash, debt and risk information of a client. It allows treasurers to analyze their Net Debt and Net Free Cash available bank by bank. The tool also allows Treasurers to stress test the forecast with various "what-if" scenarios including worst-case, full-business lockdown.

The second is Cash Predictor. This is an AI service to forecast short- to mid-term cash flows and cash budget. The predictive algorithm automatically learns the cash flow seasonality and customer payment behavior from the historical time series of cash flows (across all banks) and confirmed receivables (across all ERPs), enriched with public (e.g. bank holiday weather) or business (e.g. marketing campaign) data. With the Liquidity Planning module, treasurers and CFOs will also be able use the financial planning inputs to extrapolate the cash forecast to the long term.

The third new product is Invoice Selector. This is an actionable, decision-support tool to optimize payment runs against the cash budget. It allows the treasurer to specify payment priority rules to ensure invoices are systematically paid on time and within budget.

In terms of benefits, our own studies (in association with Value Engineering) show that with a Liquidity Optimization tool a CFO can save up to 50bp of financial cost without compromising access to liquidity. That saving comes from a lower loss-of-opportunity cost on cash deposits; a higher return on financial investments; and a reduction of fees and financial costs on debt facilities. Obviously, the actual gain will vary customer by customer.

But there is also a more general benefit. By using AI to solve problems like liquidity forecasting, the treasury team can free up much more time to spend on the business, As AI takes over a lot of routine tasks, treasury professionals can focus on higher value-add and frankly more rewarding tasks!

1. Kyriba Enterprise Liquidity Management Survey, IDC, July, 2021
2. https://www.accaglobal.com/an/en/student/sa/features/talking-technology---spreadsheet-solutions.html
3. https://www.bls.gov/news.release/jolts.nr0.htm
4. https://www.bls.gov/news.release/cpi.nr0.htm
5. https://www.import.io/wp-content/uploads/2017/04/Seagate-WP-DataAge2025-March-2017.pdf


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Jean-Baptiste Gaudemet,
SVP Data & Analytics at Kyriba

ALAIN GOEBEL AND DANNY BEETON (ARENDT & MEDERNACH):

TRENDS IN TRANSFER PRICING DISPUTES AND HOW TO RESOLVE AND AVOID THEM

The inclusion of a financial transactions chapter in the 2022 version of the OECD transfer pricing guidelines reflects the increasing tax focus on treasury transfer pricing policies. Fortunately, there are various tools for managing and avoiding challenges.

Transfer pricing is an important tax risk for treasurers – what are the trends in transfer pricing litigation?

Transfer pricing cases commonly relate to loans and cash pooling, with challenges typically concerning the amount of debt, the terms and conditions of loans including the interest rate, the appropriate reward for a cash pool leader and the interest rates on cash pool credit and debit balances.

A recent landmark caselaw in which we were involved constitutes a good illustration of the kinds of challenges that can be made and how the courts may decide on the matter. In this case, a Luxembourg company financed a participation in an Irish company partly by equity and a profit participating loan in a 15-to-85 debt-to-equity ratio. The profit participating loan had a fixed and a variable interest rate corresponding to max. 99% of the net profits. The Luxembourg Tax Administration argued that as the investment was 85% debt financed but the PPL extracted 99% of the profit, 14% was a hidden dividend subject to 15% withholding tax. The interest rate benchmarking however justified that the interest that had effectively accrued on the profit participating loan was not above the usual range of a comparable fixed interest market rate. On 13 July 2021 the Administrative Tribunal of Luxembourg confirmed this conclusion.

It has also to be noted that the number of transfer pricing disputes have significantly increased before the Luxembourg courts.

What are the options for resolving a transfer pricing dispute?

In order to develop a proper transfer pricing defence strategy, the following steps should be followed:

- The first step is to understand the local tax audit process and to respond to the tax administration queries in an appropriate manner for the jurisdiction.
- The second step is to determine the procedures available to resolve transfer pricing disputes and eliminate double taxation. These procedures include the Mutual Agreement Procedure (MAP) and in some cases Advance Pricing Agreements (APAs).

According to Article 25 of the OECD Model Tax Convention, a MAP case must be presented by the taxpayer within three years from the first notification of the action that gives rise to double taxation. The second stage is conducted between the contracting States, and consists of resolving the dispute by way of an agreement between the competent authorities (within a two year time limit). 75% of the transfer pricing MAPs concluded in 2020 fully resolved the issue, but on average, transfer pricing cases took 35 months.

This being said, having robust transfer pricing documentation in place from the outset is a must, even if the courts accept that such documents are established at a later stage. The documentation must be complete, up-to-date and correctly reflect the legal arrangements between the affiliated parties.

What can be done to avoid transfer pricing controversy?

Transfer pricing controversy can be avoided by a) robust documentation and procedures and b) APAs.

We notice that a lack of defined internal process results most of the time in (i) errors in the application of transfer pricing policies, leading to mismatches in the financial results of companies in an international group and (ii) inconsistencies between the content of the transfer pricing documentation and the information publicly available on the company's website.

An APA can be used to avoid transfer challenges and in some cases to resolve an existing controversy (by accepting that the agreed policy will be applied to both the future and the immediate past periods).

In the EU, the great majority of APAs remain unilateral and purely within the EU, although the proportion involving a non-EU tax administration is growing fast. They take on average 32 months.

In conclusion, there is more focus on treasury transfer pricing, but checks for internal consistency combined with use of the MAP and APA options can greatly reduce the risks.

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

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

EMANUELE VIGNOLI AND NICK ASHTON (HSBC):

NAVIGATING THE NEW UNCERTAINTY

What are the key factors of this new uncertainty?
Very few people had predicted the changes in the political situation in Europe and the fast-growing inflationary pressures that would lead many central banks to raise rates much more swiftly than envisioned. Last week, we met someone working in the treasury department of a UK based company, established in 2012, who told us this is the first time they had ever experienced an interest rate as high as 1%! In addition to inflationary pressures, potentially higher interest rates, disrupted supply chains and logistics, foreign exchange and commodity markets have become much more volatile, making life much less predictable than this time last year.

How are your clients adapting to this new context?
Many clients are still trying to understand whether this is long-term change of direction or a temporary switch. Corporate treasury has already faced so much change and disruption due to the covid pandemic, that for the time being, some clients are delaying their decision making and prefer to wait-and-see, while others are taking a more proactive approach and continue their cash transformation programs to effectively manage their liquidity, should a more «normal» rate environment return in the long term. We think it is fair to say that we are seeing clients returning to some 'back to basics' approach around obtaining more visibility and control of their liquidity positions, now that interest rates become a pressing topic. Obviously, we would recommend to adopt a proactive attitude and take advantage of products and services to effectively manage liquidity. We are also seeing a renewed interest in hedging and other risk management products, so our Global Markets teams are increasingly asked to provide options to mitigate potential downside risks.

OUR OBJECTIVE IS ALWAYS TO BE HERE TO HELP CORPORATE TREASURERS OPTIMISE THEIR END-TO-END TREASURY LIFECYCLE; STARTING FROM THE TRADE RECEIVABLES, ALL ASPECTS OF DEPOSITS AND LIQUIDITY, AND PAYMENTS EXECUTION.

How do you see this going forward in the future?
From a cash management perspective, we believe that there has never been a better time for Corporate treasurers to take advantage of some of the technical developments that have been made in the last. We have an expanding range of APIs, launched SEPA Instant in Luxembourg and developed and launched our Liquidity Management Portal. We are really seeing the benefits of combining 'traditional' cash management products with the newer Digital and Real-Time Payment options to maximise liquidity. Many customers are still manually pushing and pulling cash between operating accounts which is time consuming and inefficient. Cash concentration remains a really effective solution to actively manage cash positions automatically to avoid additional cost and risks. This solution in Luxembourg sits on our Global Liquidity Service platform which allows great flexibility and many options. With interest rates rising and additional volatility in FX markets, we can see Multi Currency Notional Pooling becoming an even more attractive option for clients than it was just 12 months ago. Our objective is always to be here to help corporate treasurers optimise their end-to-end treasury lifecycle; starting from the trade receivables, all aspects of deposits and liquidity, and payments execution.

Emanuele Vignoli,
CEO, HSBC Luxembourg

Nick Ashton,
Country Head of Global Liquidity & Cash Management, HSBC Luxembourg

From left to right: Emanuele Vignoli, Nick Ashton.

PAYMENTS

JEROEN KOK (J.P. MORGAN LUXEMBOURG):

FORGET SOFTWARE – PAYMENTS ARE NOW EATING THE WORLD

J.P. Morgan's Jeroen Kok introduces the bank's POWER+ framework for understanding why payments are eating the world.

Back in 2011, tech investor Marc Andreessen made a prediction. He claimed that by 2021, 'software will eat the world'.
Andreessen was right. 2021 is here, and software controls both our physical and digital worlds. We don't hail taxis on the street, we order them through our smartphones. We don't rent films or buy box sets, we stream them. Food arrives at our door via an app. All of these industry disruptors are software platforms. Crucially, the ability to move and process payments anytime, anyplace has become the rail upon which virtually every software platform we use relies on. So it should be no surprise that as global economies contracted in 2020, fintech grew. In Europe alone, fintech apps adoption and usage jumped by 72% last year, according to deVere data[1]. In Africa, there are already at least six payments and fintech unicorns, and these $1 billion+ start-ups are only going to grow in number[2].

That's why we believe that, post-software, the next big thing 'to eat the world', will be payments.

FINTECH IS REDEFINING PAYMENTS AND MEETING A SOFTWARE-BASED SOCIETY'S NEEDS

In today's on-demand era, where cars, meals, childcare, entertainment, employees – basically every facet of everyday life you can think of – are ordered and accessed within seconds from the palm of your hand, these services must be paid for at the same speed and with the same levels of convenience.

It's clear that fintech is accelerating payments innovation at speed. At J.P. Morgan, we have been tracking economic, social, technological and political shifts and watching how they play out in payments. We have created a framework for business to understand changes in financial technology and payments – and to survive and thrive within the new payments paradigm. It's called POWER+.

POWER+ : PLATFORMS, ONLINE, WALLETS, EMBEDDED AND REAL TIME

POWER+ identifies the overarching mega-themes driving change today in the payments industry – Platforms, Online, Wallets, Embedded and Real Time – and the micro-trends within them. These are fast-growing and deep value pools that are early-to-mid stage in terms of maturity: in 2020, of the $240 trillion in global payment flows, approximately $54 trillion could be attributed to these five themes.[3]
The + represents the integration of Valued-added Services (+), which will bring these payment flows to life for consumers and merchants.

EVEN MORE CHANGE IS COMING

The whole point of innovation is to make payment feel seamless, integrated and natural, and perhaps that's why it can be easy to forget just how much change we have witnessed over the past decade. More is coming. With rising adoption of artificial intelligence, quantum computing, bitcoin and stablecoin, and 5G – to name a handful of the technologies identified in our report – payments innovation in the next decade is going to move even faster.

Today, APIs mean any software company can offer payments and banking products and services directly to its customers under its own brand. Adding payments products is not only an additional revenue stream, but it has become central to software companies' brand and profitability. Embedded finance enabled by banking-as-a-service (BaaS) could be worth $3.6 trillion by 2030[4]. For customers, this means that payments and banking products and services can be embedded deeper into customer journeys, at the point of need.

Just as software disrupted and redefined the way we utilize physical industries, we predict fintech will fundamentally disrupt payments. Payments, in turn, will become the connective tissue between people, devices, homes, cars, and avatars spanning physical, digital and virtual worlds.

Every revolution is powered by something. For the industrial revolution, it was coal. For the digital revolution, it was software. We believe payments will power society's next major technological advancements. Our POWER+ framework, and our deep-dive accompanying report, outlines how we got here – and where we're headed next.

You can access J.P. Morgan's Payments are Eating the World report here

1. Forbes, March 2020. Coronavirus Drives 72% Rise In Use Of Fintech Apps.
2. DIGNITED, Africa's Tech Unicorns: Here's a Look at All Six of Them.
3. Credit Suisse, January 2020. Payments, Processors, & fintech If Software Is Eating the World…Payments Is Taking a Bite.
4. Simon Torrance Analysis, August 2020. "Embedded Finance: a game-changing opportunity for incumbents."

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J.P. Morgan Luxembourg

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PAYMENTS

SOLVING THE CONUNDRUM OF SENDING EXOTIC **CURRENCY PAYMENTS**

Treasurers tasked with sending payments in exotic currencies are all too familiar with the hurdles that such transactions often pose. To help overcome these pain points, treasury teams might want to examine the benefits of using a specialist partner rather than their usual bank.

Cross-border payments between Western countries are usually straightforward, relatively quick and safe – and fast thanks to SWIFT gpi. However, the situation is very different when dealing with exotic currencies and regions where making a payment in the local currency may be much more complex or even impossible. Transferring money in the local currency in those countries can be a significant challenge for corporate treasurers, and even global banks may not always be able to help.

What is the solution? How does one make a payment in an exotic currency? How can one be certain of the speed of the transfer and the net amount received? Sometimes it is vital to be able to pay local suppliers, workers, taxes and so on in the local currency in order to gain the business. And it's also cheaper to pay in those local currencies rather than hard currencies.

CHALLENGING BUT VALUABLE

It is an interesting challenge because if you manage to pay in local currencies, potentially hedging those currencies, you can enhance your cash management while reducing all-in costs.

Global banks are usually in a position to cover all countries and all currencies, as long as the country concerned is not subject to any embargo or international restrictions.

Unfortunately, even the largest financial institutions may not be able to cover all your counterparties' countries and currencies, and certainly not to hedge them. Transferring funds to the developing world and providing customized foreign exchange (FX) hedging and treasury services to customers worldwide is a job for a specialist. A good financial supplier, and there are only a few real specialists, should offer competitive and transparent pricing along with guaranteed and secure delivery. Their performance and capacity can be assessed by the number of countries they cover, potentially about 150-plus countries and 125-plus currencies, and a full domestic payments capability.

First, compare the benefits of working directly with specialists. The limited number of partners able to offer such services usually have a local presence and years of experience in these countries. They aim to provide clients with single solutions for their local currency needs. That means providing highly specialized foreign exchange and treasury services as well as electronic payment capabilities through proprietary foreign exchange execution platforms.

SUCCESS FACTORS

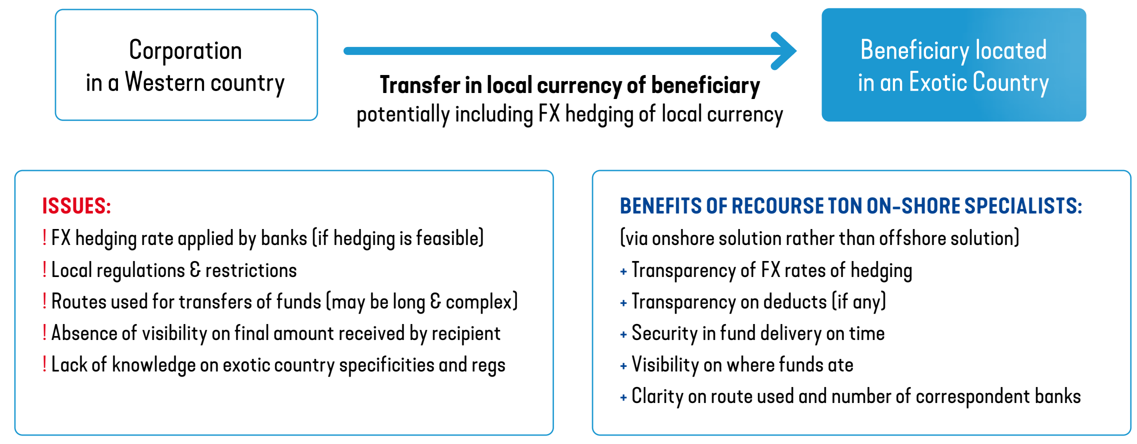
Solid relationships with a network of correspondent banks are key to the success of these suppliers. These robust connections enable them to engage in price discovery in more than 100 local markets, which provides pricing transparency for local currency payments to their clients and the benefits of remitting local currency over converting hard currency. They may leverage the strength of their partner relationships to guarantee timely and secure delivery of payments – to the full amount. Transparency, net amount guaranteed (without deductions) for the beneficiaries and the possibility of hedging are the key features of such bank-alternative solutions in cases where an international bank cannot execute payment in local currency in a specific territory.

This type of challenge is frequently faced by NGOs and supranational organizations (e.g., Médecins Sans Frontières, the Red Cross and the Red Crescent societies, and the UN), which may have to transfer significant amounts of money to these exotic and more complex countries. It is important in developing such international cross- border payment expertise to base services on trust, service quality, transparency, smooth processes, and efficiency. Executing payments in countries such as Uganda, Egypt, Kenya or Brazil can be extremely problematic for corporates (see Figure 1).

CHOOSING A PARTNER

Specialist partners should be able to demonstrate the ability to execute these complex transfers in virtually all locations and in countries not covered by your bank. In some cases, an

ISSUES WITH EXOTIC CURRENCIES TRANSFER



international payment partner will act on behalf of the bank. Such partners should have a solid track record, historical local presence, strong correspondent networks and excellent credentials, as well as access to FX platforms (e.g., 360T, FXall) and to the SWIFT network.

But the solution goes far beyond the payment execution. The next issue is how to hedge these local currencies properly. Partners in this sector can execute via FX platforms or their own proprietary platform, which enables clients to view real-time market rates for various currencies, execute and manage orders in real time, and view the status of their payments through a user-friendly portal. Additionally, they may offer a competitive advantage if they enable a customer to generate a variety of analytical reports. The security features to maintain the integrity of the data in the system and ensure a clear audit trail are also important elements to check, and platforms and solutions should be interfaceable with customers' treasury management systems (TMSs) or enterprise resource planning (ERP) software.

HARD VERSUS LOCAL CURRENCY

Institutions often debate the benefits and drawbacks of remitting payments in hard currency versus local currency in developing countries. Experienced and senior treasurers believe that local currency payments serve their counterparties best.

By sending hard currency directly to the beneficiary bank for conversion locally, an organisation potentially opens itself up to uncontrolled loss and relies on the local bank as its sole rate source. In many cases, the bank then converts the funds at the rate of the day, which is usually far less favourable than can be attained by soliciting competitive bids. In fact, it is not uncommon for the difference to be as much as 5%.

In addition, there are added fees associated with sending hard currency to be converted locally. As a result, it is more advantageous to fund in the local currency, ensuring access to competitive rates and maximum levels of funding for field projects. The financial markets and banking systems in many developing countries are inherently volatile and can be negatively impacted by political instability, corruption, and perpetual underdevelopment. The regulations in some of these countries are constantly changing, generating uncertainties and risks. Therefore, maintaining large sums of hard currency in-country leads to many potential complications including misappropriation of funds, substantial country and credit risk, and an overall lack of accounting transparency. By transacting in the international market in local currency, the funding and accounting process is made more secure and accurate while reducing the potential for corruption and fraud.

SEIZING THE BENEFITS

Global compliance standards have been raised significantly in recent years. With the introduction of new laws and regulations in many countries, organisations must be aware of and adhere to current regulations regarding international currency transfers. By actively monitoring the currency exchange process from head office, a group treasurer can ensure not only that he/she is compliant but also that all financial dealings are undertaken with approved counterparties. A corporation needs not only cost-efficient processes and competitive rates but also fast and reliable services. A good service provider should guarantee delivery within two business days or earlier to all locations.

The pandemic has made us all aware that time is the key issue in business, and that resilience is paramount. Given the complexities of some regions and currencies, outsourcing these specific payments to specialised financial partners is the best solution. It enables us to seize all the benefits and competitive advantages of paying in local currencies whatever the location. It is certainly a best practice in corporate treasury and one that perfectly complements a global group bank strategy.

François Masquelier,
CEO, *Simply*TREASURY,
and ATEL Chairman

TRENDS

IS THE PRESTIGE

OF A CAR BRAND THE BEST INDICATOR OF ITS STOCK MARKET VALUE?

Does luxury have a higher value when it comes to automobiles? The case of the Ferrari equities, listed on the stock exchange, is interesting because it is quite unique and perhaps a good indicator of the potential success of the future listing of Porsche, its German rival. François Masquelier, CEO Simply Treasury Luxembourg, examinates the question of the stock market valuations of luxury sports cars and states on what worked and what failed.

ENVY REMAINS A DRIVING FORCE WHEN IT COMES TO CARS

Ferrari envy remains a driving force in the motor industry, despite electrification moves of all brands. This attractiveness for certain models of sports cars comes from their history, their mythical, sporting character, their results in competition, their rarity, their beauty, or the noise of their engines and what they represent for the common man: an often-inaccessible dream, that only the 6 good numbers in the Lotto would enable to concretize. Ferrari is of this race and certainly the most envied of all cars.

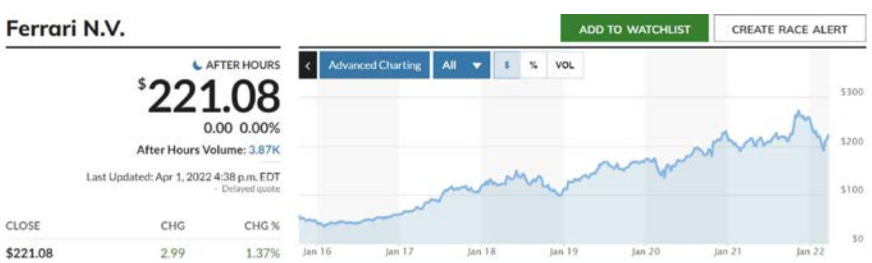
IPO'S, THE REVELATION OF THE REAL VALUE OF A BRAND

When Ferrari announced its intention to go public, many were skeptical. History has proven them wrong. Today, the Italian carmaker is valued at 39 times its expected earnings over the next 12 months against 26 for LVMH and 7 for Mercedes! This alone shows that not everything is valued equally by the markets, despite its undeniable qualities.

ENVIED CARS AS ITS BUSINESS

No one could contest that Ferrari's are designed to be envied. The same is true, it turns out, of the business.

When Ferrari announced an IPO seven years ago, many smiled and were skeptical. It has risen above competition. Competitors are seeking a major place in the luxury car niche. Some were incredulous and thought that luxury was reserved for leather goods and bags, fine wine, or other "haute couture" brands. Yet Ferrari would not look out of place in a portfolio like that of LVMH or Kering. Didn't LVMH buy Pinarello bikes to complete their range of luxury products? However, as we know, the shareholders of high-end car brands have sometimes been disappointed. After having all mocked Ferrari in 2015, they all wanted to imitate it, with more disappointment than success. Not everyone is Ferrari. Porsche and Lotus are only trying to imitate Ferrari. We can logically think that Porsche, very typical, should be able to succeed. VW wants by this IPO to raise funds to finance its transformation to electric vehicles and other software. McLaren could also be tempted soon. It is true that the failure of the Aston Martin IPO in 2018 is scary. However, we would have seen a Richmond, Kering, LVMH or alike invest in this prestigious British brand. The shares once listed, fell like stones.



FERRARI	PORSCHE	
11.155	300.000	Cars produced/Y.
37	90	Market cap. In bln
39	20	Multiple
0,43	4,57	Operating profit
38.129	15.240	EBIT/car

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ASTON MARTIN IS NOT FERRARI ON MARKETS

Yet four years and one bailout later, Ferrari's share price remains Aston Martin's north star. Lawrence Stroll led rescue of the business in 2020. He will try to restore Aston's luxury sheen. As the differential of market cap was from 1 to 50 billion (Aston versus Ferrari), Stroll thought that if he could close the gap, even a little, it would lead to a more acceptable valuation and huge capital increase. Ferrari's fans would say that their brand is unique. More than cars, they are collectible treasurers. Every car that is released is sold, and every model is sold out before production starts. Analysts look more at order books rather than previous sales. No other vehicles increase in value when they are driven off the forecourt. Ferrari is at cars, what Rolex is at watches, unique. But as Patek-Philippe is another success story.

FERRARI IS VALUED AT 39 TIMES ITS EXPECTED EARNINGS OVER THE NEXT 12 MONTHS AGAINST 26 FOR LVMH AND 7 FOR MERCEDES!

François Masquelier, CEO, *Simply*TREASURY

WILL PORSCHE'S IPO BE AS SUCCESSFUL AS FERRARI'S?

Porsche may be the second successful high-end car manufacturer to succeed its IPO (planned in last quarter of 2022). It is fair to confess that Porsche, run high-price models that sell out before release. Nevertheless, they still have core businesses that do not perform at the same level. The strength of Porsche vis-à-vis Ferrari is its advance and success in electric cars, like Taycan, which went beyond their expectations. By 2025, half of the range will be electric or hybrid and by 2030, 80% electric (versus 20% combustion engine models). It is fair to say that Ferrari is far from such a level. The second strength over Ferrari is the SUV (i.e., Sport Utility Vehicle) where it excels. At the end of the day, with an expected market cap of 90 billion, proportionally Ferrari is uncatchable and remains the supercar king in class.

EVERYTHING REMAINS QUESTION OF PERCEPTION

This shows that perception is everything and that sometimes markets are not always so rational as to apply similar multiples to peers. Nevertheless, we must admit that the car industry, even the sports car industry, is changing to electric and hybrid vehicles for obvious reasons. The races also become electric or hybrid, like Formula-E or endurance races. This transformation is also necessary in the high-end segment. Tesla has shown that it is possible to change a whole sector by innovating and even be perceived as a "tech" company rather than a car assembler. Porsche, for its part, has demonstrated an ability to produce enviable and hyper-performing electric models, which will guarantee its future and make its future IPO a foreseeable success, just like Ferrari.

François Masquelier,
CEO, *Simply*TREASURY

MYTHS AND BASICS OF RFPS

RFPs are one of the less attractive parts of projects, although a necessary evil. Treasurers hate them because to set up this huge document and organise the necessary stakeholders it takes time and effort, while remaining highly manual. Let's break down the myths around tenders and see what alternative solutions exist to facilitate this process and help make the treasurer's life simpler and more enjoyable, allowing him/her to allocate his/her precious time to higher value-added tasks. One such innovative solution is by Treasury Delta, a fintech which solves a lot of these problems when it comes to an RFP project.

WHAT ARE THE BENEFITS OF RFP AUTOMATION? BASICS AND MYTHS

Automation is now everywhere. We need to address basics and myths to analyze what is possible and should be done. The finance world and treasury are becoming increasingly automated. Moving away from manually managing tedious and time-consuming tasks appeals to almost every treasurer. The processes treasurers should first automate are those which are not yet at all automated and still fully manual. Priorities must be placed on tasks consuming a lot of time, effort, and human resources. It explains why RFP automation is on the rise.

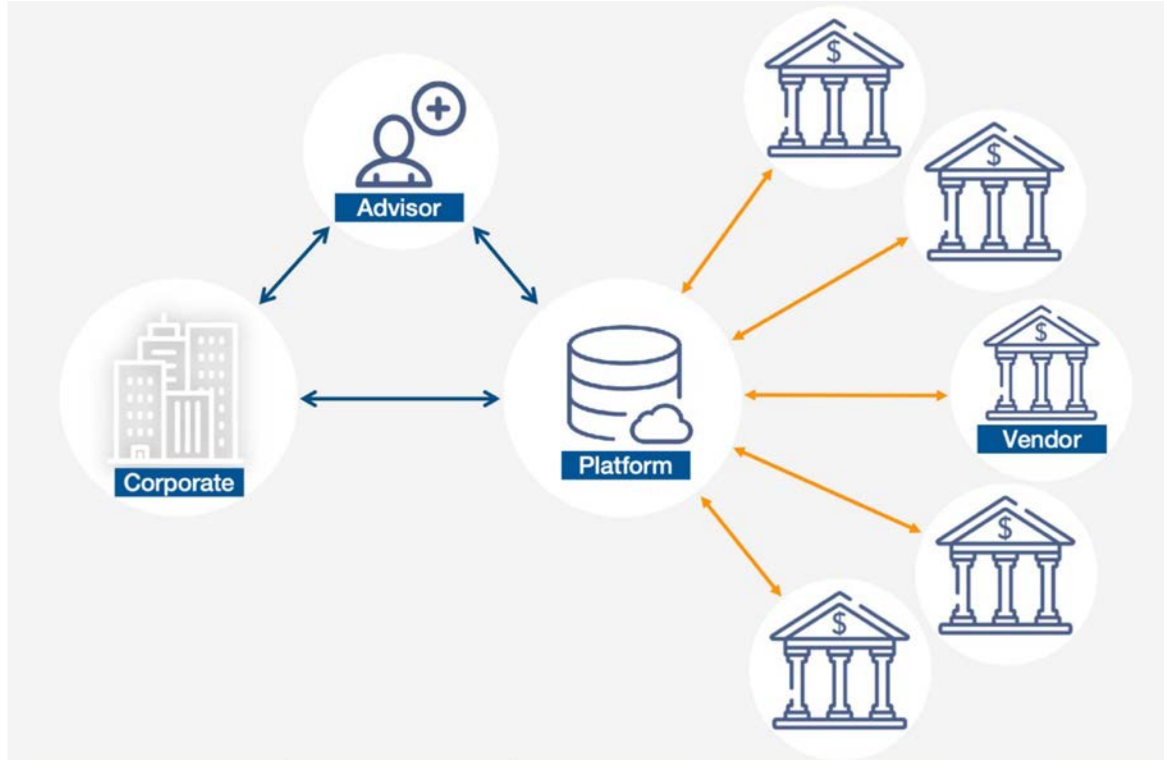
Benefits of an automated RFP process in treasury:

- Time and human resource saving
- Process standardization drives to faster consolidation of data received and easier comparison
- Treasury appears more professional and rigorous (vis-à-vis banks and IT suppliers), pushing for better responses
- Audit trails available for external/internal controls to prevent risks of fraud and bribery in the selection
- Automated feeding and one single source of feeding (implying more consistency of data)
- Easier to respond for the selected respondents
- Reinforcement of internal controls around procurement processes
- More secured way of transmission and exchanges with the sell-side

PLATFORMS, THE SOLUTION TO ALL PROBLEMS?

These days, platforms are used for almost everything. There are solutions to compare offerings that are available on the market. They enable platforms, like a Booking.com or Airbnb, to compare offers in an outsourced, secured, and organised model. There are also some digital solutions, like Treasury Delta, to run RFPs

TRI-PARTIES INVOLVED IN SELECTION PROCESS



and ensure the security of the information exchange and process is simplified and streamlined. Such a digital solution will evolve over time however, it now allows for pre-formatting and a structured process to facilitate the design, based on the classic bases and key questions, even if everything can be adapted and modified. Finally, and more importantly it offers the "score card" to determine the best choice to be made by the treasurer.

It is a guide to make sure you are complete and don't forget anything. When more treasurers use them, they will become a market standard, I have no doubt about their potential as this is where the market is going.

RFP or RFI processes usually involve three main stakeholders: (1) the suppliers (i.e., IT vendors or financial institutions); (2) the advisors (i.e., the advisory firm, which often help the treasury department in the selection process); and obviously (3) the buyers (i.e., the treasury department, potentially supported by procurement and IT departments).

SIMPLIFYING THE SELECTION PROCESS TO ENSURE THE BEST POSSIBLE CHOICE

The idea of a platform remains to simplify the process of pre-selection and identification of the best choice to make for your organisation. As technology advances, procurement teams and treasurers can benefit from improved efficiency, data insights and better selection process driven by automation. This automation and significant evolution enable reduction in procurement costs by streamlining strategic treasury sourcing and by making life easier for all stakeholders involved in the project. Here we'll start with RFP automation basics and background. Then, I'll share how technology works to make issuing RFPs faster, more optimal and easier. Finally, we can dig into some automation myths that do not ring true. Treasurers, often under-staffed and under time pressures, seek maximum automation to allocate their scarce skilled resources to higher value-added tasks and, for example, to analysis or more strategic tasks, requiring brain. What is manual and repetitive must be automated, without any doubt.

THE BASICS: WHAT DO WE MEAN BY RFP AUTOMATION?

RFP automation is the use of digital technology to complete the tasks required to create, manage, and evaluate a treasury RFP response. Automation has come a long way in the last decade. Such tools will be able to leverage on AI and machine learning in the near future. Automation is at its best when it takes repetitive tasks that waste time and executes them for you. Once adopted, automation works in the background and frees up your time to focus on →

other value-added projects that are much more intellectually attractive for young talents. You cannot retain these young talents by asking them to manually process such RFPs. Motivation also comes from what you give to your teammates. Indeed, both you and your company can only benefit from RFP digitisation and operational efficiency. Treasurers always try to adopt best practices and drive efficiency across the organisation. A digital RFP is one of them to ensure best selection process and respect of internal corporate governance.

AFFORDABLE TECHNOLOGIES MAKING LIFE OF SELL AND BUY-SIDES EASIER

These new digital technologies, like Treasury Delta's platform, make RFP automation now more affordable, accessible, and impactful. Treasurers that will take advantage of RFP automation will save time, reduce costs, and improve desired outcomes. By grouping of questions, by structuring the need precisely, comprehensively, and consistently, the RFPs will generate value for the whole organisation and become a model of best practices in terms of corporate governance. Treasurers can save individual questions and categorise them based on the type of services or solutions, to facilitate responses and analysis afterwards. They can also track vendor proposal progress. We all want to know who is responding to our RFP and who did what, where they were strong/weak and so on… I think that RFP solutions and a proprietary platform that is "customisable" are the best solutions for both treasurers and vendors to interact with. They may empower you to just check a dashboard in real-time rather than manually inquiring with each vendor that is invited to bid for the business. With time, you will be able to use these pieces of information and data to optimise and shorten the RFP timeline, again driving operational efficiency using digital technology.

PRICING TABLE CALCULATIONS

With pricing tables, the calculations are automated so you can review an apples-to-apples comparison of your options albeit vendors have huge flexibility on how they price each bespoke solution. The key benefit of this feature is that it eliminates the risk of an organisation or an advisory firm mis-calculating a vendors annual pricing. This is normally done manually via spreadsheets and is prone to error given the complexity and contrasting pricing models' vendors use. The team needs, of course, to define the scoring and weighting of each criterion and desired features which is all customisable within the platform. Engaging the right stakeholders and various departments in the RFP scoring process has historically been tedious. The steps are time consuming as many other priorities and demands are happening within their departments. To start, you must break down each proposal to the relevant sections and send them out to the correct individual scorers. Then, you must collect and collate feedback. Finally, you spend time resolving questions, averaging scores, and clarifying inconsistencies. It remains a painful, time consuming and cumbersome exercise. However, with a few clicks, using a solution like Treasury Delta's, you can automate the process entirely and review the results with minimal effort. The management of weighted scoring is important as it determines the providers to be short-listed and then later chosen. Prioritising purchase considerations and key features and functionalities are simple with RFP platforms. Just indicate the weights of questions and sections and the technology takes care of the rest. Weighted scoring calculations and visualisations are updated in real time, transparent and easy to understand. As these common RFP tasks, when done manually, may take hours each time, any ways to accelerate processes are welcomed by treasurers, who consider themselves as financial experts rather than procurement support. However, using digitisation makes them almost instantaneous so you can move on to more important things and use technology to do the work for you.

WHY RECOURSE TO AN RFP PLATFORM GENERATES VALUE?

1. Time savings and productivity

Time savings and productivity is where procurement managers most feel the impact of automation. Spending less time completing routine, mundane tasks allow treasurers focus on other higher-value projects and tasks. In addition, when the RFP automation can manage questionnaires for RFI's, RFQ's, DDQ's, etc…, automation can be applied to these projects as well. The hours you save can then be spent tackling that list that treasurers never seem to have time for i.e., the value add for the organisation.

2. Consistency and compliance

Much of the inefficiency in the RFP process is traceable to a single core issue — siloed knowledge. Manually issuing RFPs often involves using countless emails, messages, phone calls, word documents, pdfs and spreadsheets. When processes are siloed and knowledge too,

the risk of sending inaccurate RFPs, discouraging vendor participation, and investing in the wrong solution may arise. By centralising knowledge into one single platform makes RFPs more efficient and comprehensive. It also creates a collaborative environment where contributors can work together on the RFP templates, requirements, questions and more.

3. Data capture and analytics

Many specialists believe that data and analytics are the future of procurement, including treasury. Data empowers cost optimisation, process efficiency improvements and more accurate analysis. With Treasury Delta's solution vendors receive the right information, in the right format which presents a clear overview of the organisation's treasury operations and more importantly their buying requirement and rationale for the RFP. Furthermore, banks will receive data on the overall corporate treasury wallet to assist them evaluate their bespoke RFP response.

RFPS CUMBERSOME AND BORING PROCESSES, BUT A NECESSARY EVIL

The RFP processes are very cumbersome. There are lots of manual interventions when it came to aggregating data. With automated processes, data is more easily captured and analysed. If the data points are more reliably and widely collected it could predict supply chain risks, track trends, better evaluate procurement costs and evaluate vendor's performance.

PROCUREMENT AUTOMATION IS VIRTUOUS

RFP software is a tool, not a replacement for people — procurement and supply chain management are still very human. While RFP software can help issue and manage RFPs there are some things it can't do. For instance, it can't verify the accuracy of your RFP templates, interpret stakeholder requests, or determine which vendor is the best fit, nor analyze subjective and qualitative elements (if any). Many procurement software solutions use a metric called Time to Value (i.e., TtV) to quantify the speed of adoption. TtV measures ROI and quantifies the time from a user's initial engagement to reaching the "ah-ha" moment. That moment is when the user realises the value and possibility of the technology. Consequently, this quick-value imperative means that customers regularly enjoy new features, innovative functionalities, updates, and enhancements. Treasurers can have access to the latest, greatest tools at a predictable price. By delaying automation, the process can become more expensive. Employees who are not equipped with the right selection tools and using excel worksheets may be overloaded by workload and becoming significantly less productive.

WHY AUTOMATION MATTERS …

In conclusion, we can say that automation is interesting and useful because it is beneficial for all parties involved in the operation, including the external treasury consultants who are often called in to help and guide the treasurer through the process. They are solicited and even they use classic templates that are worn out and reused repeatedly, and that each client finally pays and re-pays several times. The virtue of these proprietary platforms is therefore complete. Automation makes everyone's life easier, in the interest of the project and its final cost for the client. I can only advise rethinking one's approach to RFPs and considering an automated and standardised solution, like that proposed by Treasury Delta, as the panacea of the RFP process for the treasurer. If there is a way out, this is it and I strongly recommend it!

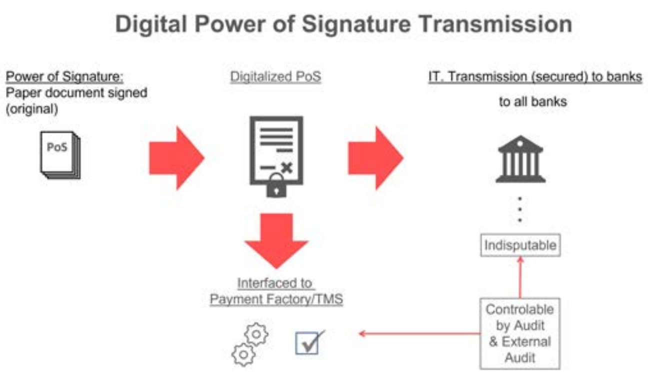
François Masquelier,
CEO, *Simply*TREASURY

TECHNICAL PROBLEMS, LIKE WEEDS, ALWAYS COME BACK...

When a corporate treasurer is asked what the main pain points are and technical issues they encounter in their day-to-day work that consume resources, time, and energy, they often answer, invariably, KYC procedures and signing authorities (among a few others). At a time when technology is sending us into space and cars are flying on electricity, isn't there a gap? How do you explain to a young treasurer that nothing could be done? Yet, solutions are finally emerging, and we don't talk about them enough.

MAINTAINING BANKING RELATIONSHIPS REQUIRES THE EXCHANGE OF DOCUMENTS

You cannot maintain a banking relationship without being in order in terms of KYC and signing authorities. Without this, if you are missing an LEI or UBO, you will be blocked or even banned from dealing with your banker. In the digital age, what a nonsense it is to exchange paper documents by mail or at best by email, right? Why should certain activities or tasks remain manual and risky? This is the question to ask, as solutions emerge. Compliance for various reasons, such as banking relationships, auditing, risk of prohibition to deal, risk, etc... is vital for everyone. No one doubts it anymore. But why not automate what can be automated and which causes so much trouble, without bringing any added value to the business, unfortunately? The problem comes from the risk of error, from the repetition of requests and the sending of information, for example, in the context of KYC, the signing powers. In large groups, they change very (too) often, creating unnecessary stress for any company treasurer. What if the Messiah had finally arrived without you knowing it? Miracles also happen in treasury...



DIGITIZATION OF SIGNING AUTHORITIES, THE LONG-AWAITED SOLUTION.

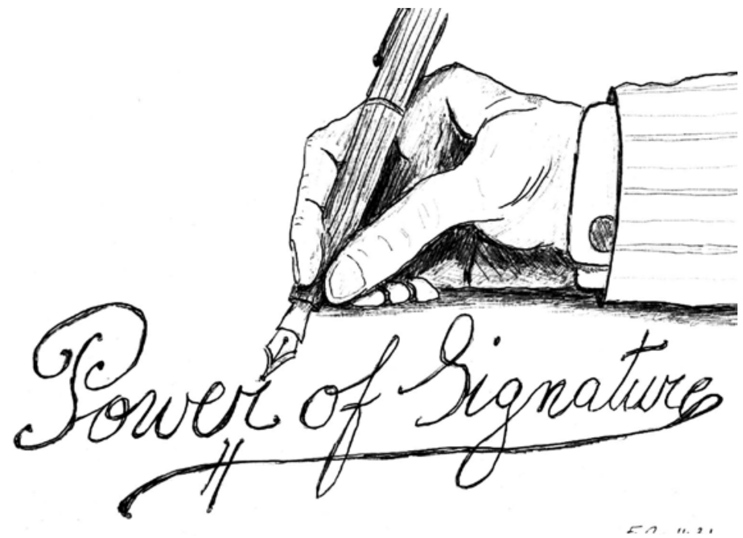
Why would it be so expected? Simply, let's think about the very low added value of this repetitive and laborious, yet risky activity. While every CFO expects his/her treasurer to increase productivity by digitizing and transforming his/her department, and additional human resources cannot be considered, we continue to favor the manual for a vital (even if boring to death) process. Paper-based processes are still costly, risky, inefficient, and potential sources of human error. Teleworking has only crystallized this need to change the way we work digitally if we are no longer in the office. As is often the case, the manual nature of the process implies the repetition of data entry without guaranteeing completeness. Why repeat computer entries when you could do it once, guaranteeing the segregation of duties and the four-eyes principle? The fact that the banks each apply different processes and procedures, depending on the network or country, adds to the complexity of the exercise. Keeping powers of signature up to date and being sure that they have been communicated to your banking partners (and others) in due time is never a given nor a certainty. This adds an avoidable layer of stress to the treasurers' work. The archaic or too basic transmission methods add another layer of risk, which modern technology and the subject matter do not allow to be tolerated.
The more centralized the treasury activity and the more you operate as an In-House Bank or Payment Factory, the more complex this subject becomes. The number of entities included in the scope can make the task, if centralized, simply impossible, or inhuman. In addition, it generates enormous risks that are too often underestimated by management, internal audit, and the CFO. And yet...

NEVER SURE TO GET THE FULL PICTURE

One never has the full picture nor the assurance that all records and accounts are in order. It is the risk and uncertainty that creates this stress for the treasurer, who is ultimately held responsible if the accounts are not in order from a signature point of view. However, when you think about it, it's like a certain bus, train, or plane ride, you get the impression that it takes and has always taken the same amount of time, as if technological progress had stopped there. What a frustration, no? It's the same with KYC and signing authorities, a desolation that some feel they must endure forever. This is a point that we often hear from the treasurers we meet in Europe. A kind of insolvable fatality...

STANDARDIZATION AND DIGITALIZATION

The worst risk is for a corporate to have forgotten to notify a bank of its changes in signing authority. However, even if perfectly organized, it remains a risk when it is done manually. To have a solid, robust, exhaustive, and up-to-date database (re. PoS/Power of Signature), the process must be digitized and systematized. This means standardizing and then digitizing the signature powers and their secure transmission. Moreover, let's not forget that this will greatly facilitate the external audit, at the end of the accounting year. The keystone is digitization, the only way to finally solve an age-old problem for treasurers. Ask a "Z gen" member of your team and they won't understand that the problem hasn't been solved yet, and they'll think you're backward. Let's also remember that beyond the obvious gains for your company, there are also significant gains for your banking partner. It's time to tackle a recurring problem and get ahead of your peers. A solution like DELEGA seems to me a "no-brainer". If you are wondering how to be more efficient and effective, this point must be addressed. Start with what costs you the most, brings you the least and bores you deeply. Do not fear change, because here it is beneficial and virtuous. I believe that this process of digitalization is integrated with the adoption of (e)BAM (i.e., electronic Bank Account Management) and KYC solutions. Human nature is such that we don't tackle the things that make us angry and upset first. Yet, that's what we should do. I have sometimes thought of an ideal treasurer's world in daydreams, and guess what, among other things, I had imagined, an automated and digitized KYC (including signature powers). The dream seems closer than ever to reality.



THE PANACEA

When credentials change, for whatever reason, speed is of the essence. The sooner the bank updates the credentials, the safer the position of the corporate client. Fraud has only increased in recent months, perhaps exacerbated by COVID. Even more reason to protect yourself further, isn't it? Moreover, treasurers too often forget that banks could only be happy, prefer and value this type of approach, thanks to the savings they will be able to make and get from it. Banks (all of them without exception) have started to select their customer portfolios and one of the criteria is and will be digitalization. Any bank will prefer a fully digitalized customer to a partially or not digitalized one, because of the intolerable costs involved. There will come a day, not so far away, when banks will demand it or charge the right price for not digitizing. You must be aware of this and explain it to the C-level. The treasurer is also tired of depending on the bank. Furthermore, it takes time to banks to adapt required changes. This latency can lead to many problems, even if the treasurer claims and proves to have transmitted the information on signing powers in due time. The risks also come from the different processes and requirements from the banks (it differs from bank to bank) making its life even more complicate and increasing risks of lacks. The bank fragmentation complexifies the tasks of treasurers (i.e., 45% of companies in Europe have 3 to 10 banks and 25% have more than 10 banks). It seems undeniable that a virtuous, win-win solution is advisable, anyway. Tell me what CFO would be foolish enough not to validate a solution that has only advantages, on both sides (i.e., buy & sell sides)? the key element is the risk and the possibility to mitigate it strongly for a process that is high risk, by its very essence. I love it when cash flow shows real technological advances that revolutionize everyday life.

François Masquelier,
CEO, *Simply*TREASURY

TREASURY DIGITAL JOURNEY OF SMALLER ENTITIES WITHOUT TREASURER IN CHARGE

Treasury should be accessible to everyone, not just large multinational companies. Treasury management is like accounting, everyone does it, but sometimes it is ignored. Sometimes we do cash flow operations without knowing it. But because we do them (too) manually, we are exposed to risks of fraud, errors, inefficiency, unnecessary exaggerated costs, rejections by the banks (which no longer want this type of customer), etc... It is time to reconsider the treasury, to reposition it. If you can't have a treasury (department) worthy of its name, why not Uberize it, by taking advantage of digitization, even without a full-time treasurer?

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WHY NOT ME?

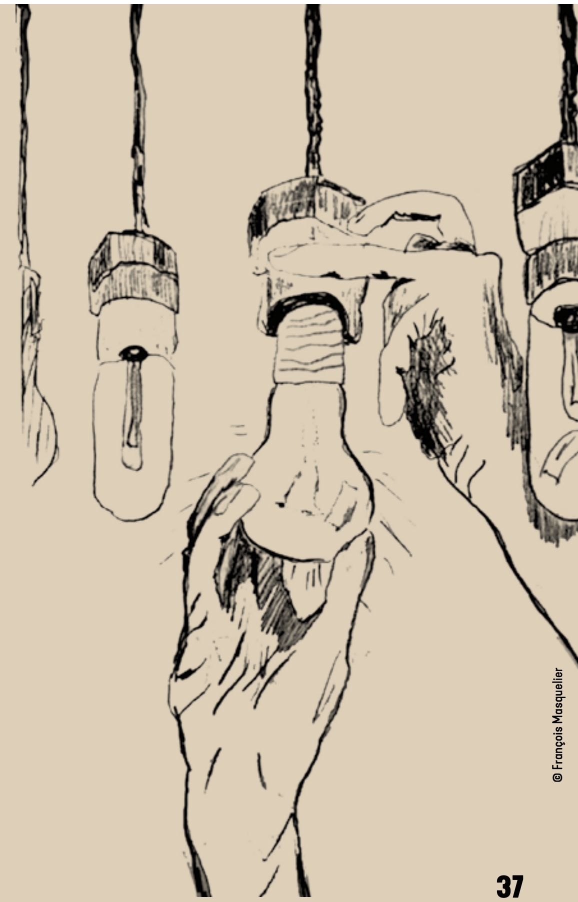
Why should a smaller company (i.e., SME's), a hedge fund /alternative fund, or a family office be deprived of cash/treasury management? This is a legitimate and crucial question. Isn't treasury a common concern for any form of business of a certain size? If your answer to this question is that you don't have the minimum size to manage your treasury through a dedicated department with a real treasurer, using ad hoc IT (professional) tools, you are probably stuck on your preconceived ideas of the past and the idea that this luxury would only be the prerogative of the big guys, then you are wrong. Technology and dedicated outsourced services allow today what yesterday was probably not possible. Let me show you that what you thought was impossible may not be so impossible.

RENTING WHAT YOU CANNOT BUYER

I always find it difficult to arbitrarily define the size of a dedicated treasury department. When a student asks this question, the answer depends on several factors. What I have noticed in the last few years is that thresholds have been lowered thanks to technology, like ERP's, which have become less prestigious for some. Technological advances allow the unthinkable. The Uberization of the economy through technology and the idea that we can outsource what we don't want to do or can't do is what generations "Y" and "Z" or millennials are all about. We no longer want to own, we rent, and likewise we no longer want to own the solution on our servers but share it or not on those of the software publisher. The magic of technology allows so many things and cash management through tools worthy of the name would be impossible? However, a small company could use a fiduciary company or fund administrator to do its accounting until it has the structure to internalize it. Similarly, why not rent what you can't do? And if we rent this type of services, we might as well do it with qualified tools and people, but not necessarily at a loss. You can also have the resources (part time) on your payroll (for control and substance reasons). The most critical point to be efficient is the banking connectivity, which depending on the channels used (e.g., SWIFT, EBICS, open banking Host2Host, ...) will be more or less good and efficient. The risk is to have other more archaic, cobbled together and not robust enough modes, although supposedly automated. The quality of the bank connection allows for the automation of all (financial) payment operations through a single bank gateway (i.e., often wrongly named "payment factory"), regardless of the source of production/initiation of the payment, and for the repatriation of bank statements in complete and efficient formats, to facilitate reconciliations. The richer the information at the source, the smoother the reconciliation at the output.

POWER OF NEW TECHNOLOGIES FULLY NATIVE SAAS

Today, technology gives access to a lot of functions and things that we couldn't do before. Youtube alone has revolutionized the autonomy of people who now know how to do things that seemed to be difficult before. The digital revolution is also about access to information. The time will come when young people look for a tutorial on internet to level accounts, make a multilateral compensation (i.e., "netting"), hedge a currency exposure, calculate swap points or interest to be paid, fill out a KYC, etc. .... Young people will be budding treasurer apprentices who, like DIY or gardening, will improvise themselves as "treasurers" thanks to accessible and magical basic applications. I think that the professional treasury will no longer be the sole preserve of the heavyweights but also a playground for the smallest structures, mid-caps, and SMEs. I think that treasury will fortunately be democratized for different reasons: generation change with the arrival of the "Z", the "full native SaaS" technology is there and very cheap, one can rent services if one cannot occupy a full-time specialist, and finally, banks call for more automation to keep their customers and want them to organize themselves better in treasury to become more resilient. For example, solutions like FENNECH "F3" platform should revolutionize the treasury landscape. In a changing world, the approach to finance must also change. With API's, Fintech's, open banking, neo-banks, new regulations, PSD2, among other things, the context is favorable for a new approach to cash and treasury management that is more accessible to (smaller) organizations. This is great news for everyone.



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Simply Treasury

WHITE PAPER

FOCUS

OPTIMIZING WORKING CAPITAL

IN SHORT

DEFINITION OF NET WORKING CAPITAL (NWC)

It is the difference between company's current assets and its current liabilities. It measures the company's operational efficiency and short-term financial health. Net working capital should be calculated on a consistent basis, so that the results generated can be tracked on a trend line. To calculate it, we must use the following formula:

+ Cash and cash equivalents
+ Marketable investments
+ Trade accounts receivable
+ Inventory
- Trade accounts payable
= Net Working Capital

HOW TO INTERPRET NET WORKING CAPITAL

If the NWC figure is substantially positive, it indicates that the short-term funds available from current assets are more than adequate to pay for current liabilities as they come due for payment. If the figure is substantially negative, then the business may not have sufficient funds available to pay for its current liabilities, and may be in danger of bankruptcy. The NWC figure is more informative when tracked on a trend line, since this may show a gradual improvement or decline in the net amount of working capital over an extended period. NWC can also be used to estimate the ability of a company to grow quickly. If it has substantial cash reserves, it may have enough cash to rapidly scale up the business. Conversely, a tight working capital situation makes it quite unlikely that a business has the financial means to accelerate its rate of growth. A more specific indicator of the ability to grow is when accounts receivavble payement terms are shorter than the accounts payable terms, which means that a company can collect cash from its customers before it needs to pay its suppliers.

HOW TO OPTIMIZE WORKING CAPITAL?

Working Capital is the money a company use to fulfil its day-to-day financial obligations and keep its operating cycle running. This capital is essential in each step of the business cycle, from purchase of materials, production of goods or services and sales to receipt of payment. If there is a problem in any step in this cycle, such as a need to produce more inventory than planned or more invoices being paid later than 30 days, the company will need more working capital. A deficit in working capital can mean the company lose out on growth and new business opportunities. In a simplified form, working capital provides a snapshot of how much the current assets exceed the current liabilities. Every business can benefit from understanding its working capital and how to optimize it. A working capital needs improvement project should be a permanent quest, or at least frequently revisited to maximize the financial situation of the company.

CONTEXT

We all faced a certain disruption of SCF (Supply Chain Finance) over the last months for various reasons. The first one is the COVID crisis which disrupted the supply chains, increased prices, deteriorated credit conditions, caused government funding schemes. The second one is ESG new focus which gained in importance. The third one is technology innovations (e.g., SaaS, API, DLT, cloud native). The fourth one is the electronification of commerce and e-commerce emergence, with e-invoicing, interoperability, more powerful internet connections). The fifth one is the customer evolving expectations (seamless, digital, and integrated). The last one is regulations and accounting which also evolved (e.g., reputational risk, open banking, new definition of default, disclosure requirements and new IFRS rules).

INFOGRAPHICS

Corporate **spend on SCF (Supply Chain Finance) has been growing** over the past 5 years, remaining resilient despite 2020's unprecedented economic turmoil.

(source Oliver Wyman survey)

↑ 5Y

WorkCap financing needs are expected to grow over the next 3 years with a continued acceleration in payables finance.

(source Oliver Wyman survey)

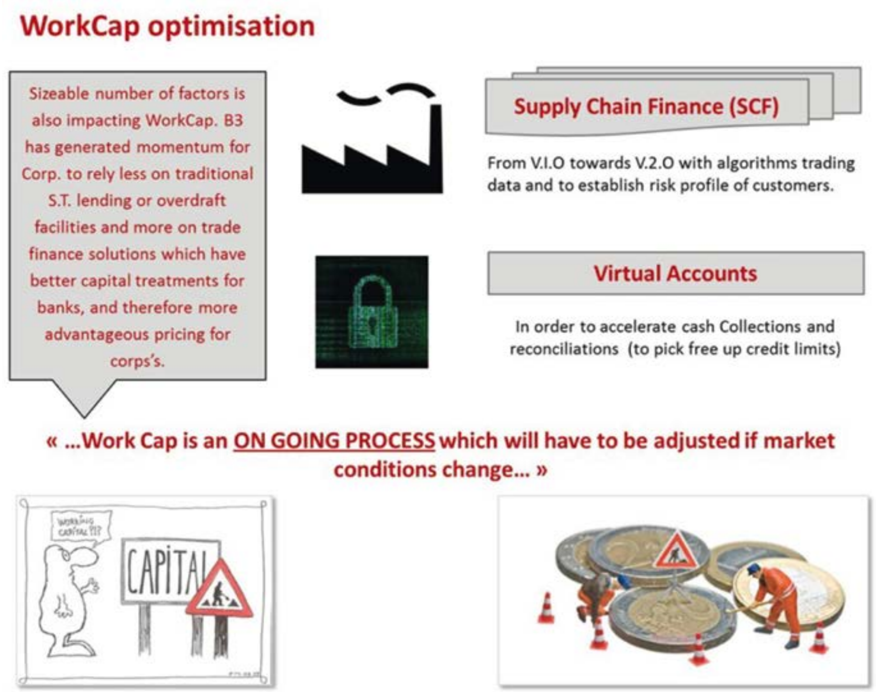
↑ 3Y

Companies are increasingly looking for working capital financing solutions embedded in their D2D tools

Dynamic discounting is growing

ESG becomes a top priority

Inventory finance is a key focus with limited solutions



THE IMPORTANCE OF WORKING CAPITAL

There are many reasons motivating companies to improve working capital. And even if your company is "cash rich", there remain a range of good reasons to contemplate ways of optimizing it.

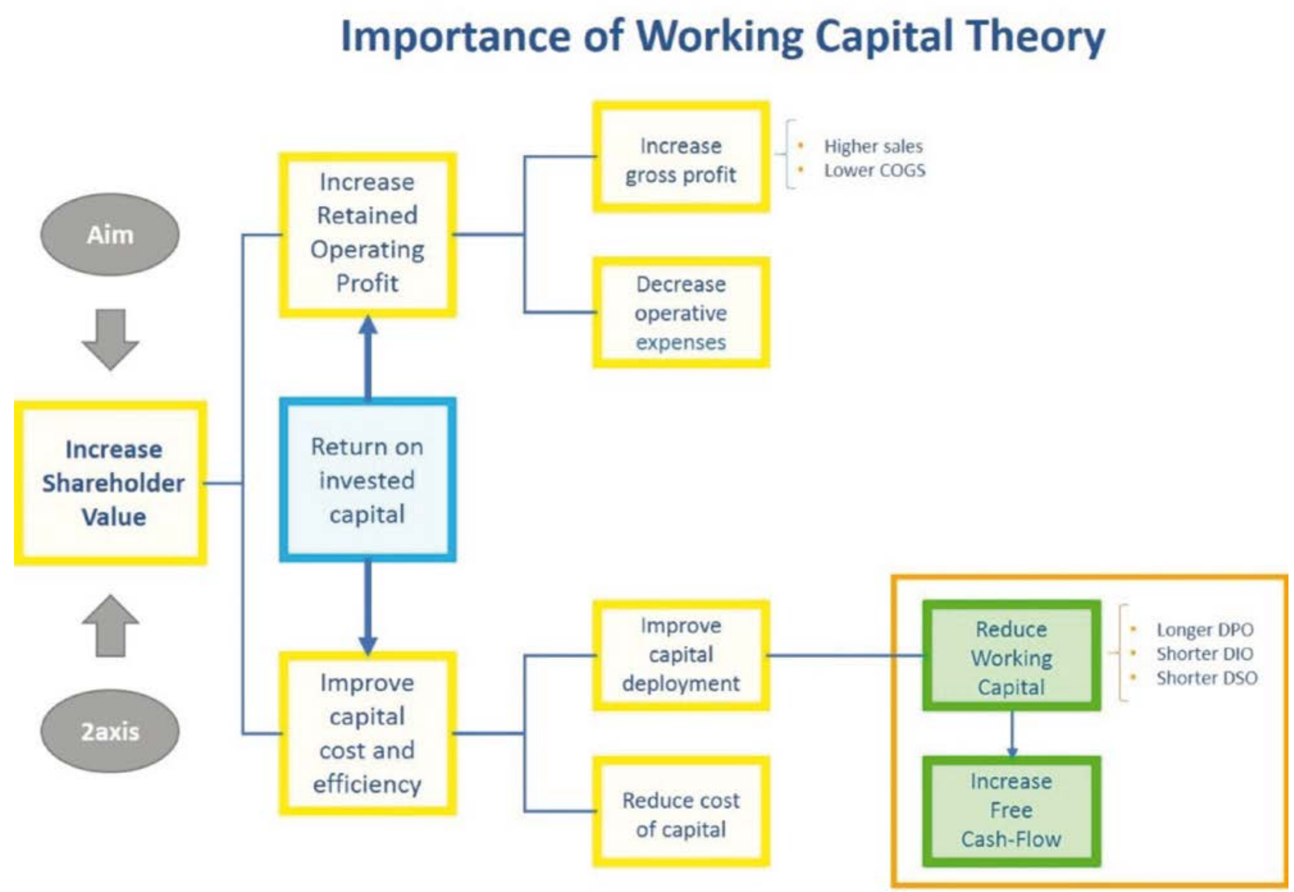
- **Self-fund transformation:** Often initiated alongside other transformation activity to self-finance change.
- **Good discipline:** Cash-performance is a measure of business efficiency (how lean) and effectiveness (how well do different functions combine to drive performance).
- **Leverage:** Leveraged operations will often focus on working capital to reduce indebtedness
- **Stakeholder focus:** Suppliers, customers, JV partners, investors, credit rating agencies, shareholders and analysts are focusing on cash and liquidities, as well as cash conversion capacity.
- **Business value:** Improving cash and Free Cash-Flow helps improving company valuation and mitigating risks.
- **Cheap capital:** Working Capital remains one of the cheapest forms of capital. Improving workcap can also enhance credit ratings, which may result in cost of borrowing reductions.
- **Regulatory environment:** Changes to capital rules (e.g., Basel rules), liquidity and leverage ratios have increased importance of cash. Furthermore, changes to the rules and ratios are probably impacting the cost of bank lending and bank's risk appetite.
- **Acquire, invest, or/and distribute:** Working Capital is being used to ensure that the investment agenda does not suffer in tougher times.

HOW DO SUCCESSFUL COMPANIES MANAGE WORKING CAPITAL?

1. Improve visibility and leverage (existing) data.
2. Incremental enhancements in operational efficiency.
3. Embrace new technologies and what Fintech's offer.
4. Benchmark performance against sector and peer groups.
5. Enable a cash-focused culture and educate management, as well as incentivize it.
6. Smart use of finance solutions

Impact on shareholder value should drive decisions

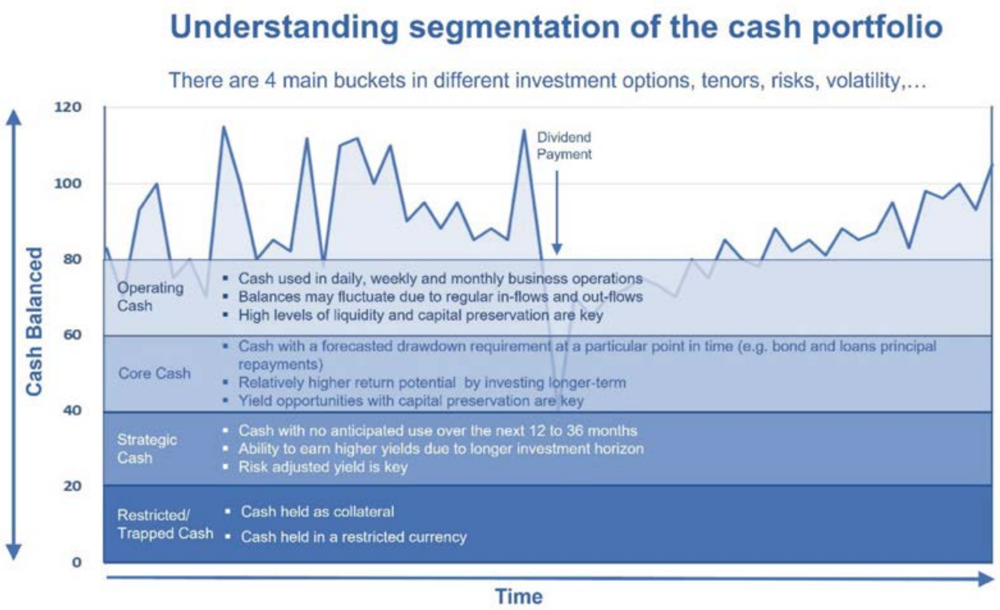
Theoretical view - Stern Steward model:



(Source Based on Economic Profit/EVA model developed by Stern Stewart & Co)

Cash segmentation

It is important to get the maximum visibility on all liquidities. However, it is equally important to determine the cash segmentation to best allocate each bucket.



KEY WORKING CAPITAL PERFORMANCE INDICATORS

When we want to improve a situation, we need to measure progresses. Usually Treasurers only consider DSO, DIO and DPO's as the working capital need ratios. However, there are many more available, we could recommend in different categories e.g., Purchase2Pay: payment run frequency, weighted average terms or days to pay, invoice approval rate, proportion of early payments, … ; Forecast to fulfil: inventory turns, percentage of delivery made full and on time, order backlog percentage, percentage returned/damaged stocks, stock coverage ratio, inventory ageing, forecast accuracy, … ; Order2Cash: overdue debt percentage over total debtors, days to bill, weighted average days to collect or average terms, collection effectiveness index, overdue ageing percentage, percentage of invoices in dispute, percentage of bad debts, … ; Other: net working capital, percentage of NWC/to revenue, etc… Nevertheless, it depends also from the sector and types of underlying activities of the company.

Ways to Manage and Improve Working Capital (non-exhaustive list)

- Incentivize Receivables (review of credit risks, payment terms, billing, overdues, incentives to be paid earlier…)

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- Meet Debt Obligations (to avoid penalties)
- Choose Vendors Who Offer Discounts (review of payment terms, dynamic discounting, enhancement of approval processes, …)
- Analyze Fixed and Variable Costs (to eliminate wasteful expenses)
- Examine Interest Payments (considering early loan repayments when possible)
- Manage More Dynamically Inventories (to minimize them without slowing down deliveries)
- Automate Accounts Receivable and Payment Monitoring
- Resolve Faster Disputes with Customers and Vendors
- Identify Other Ways to Improve Working Capital (however often as the last resort)
- Take Advantage of Tax Incentives (to improve Working Capital)
- Use Up-to-date Financial Information and Better Cash-Flow Forecasting

CHALLENGES

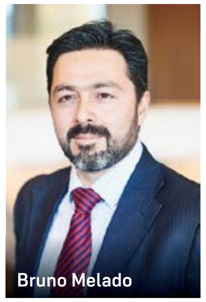
- Given the large number of stakeholders, options and solutions, implementation can be complicate and momentum difficult to find.
- Given company culture, it is sometime challenging to inoculate a new cash and free cash-flow philosophy and focus.
- Difficult to educate colleagues to think in terms of working capital needs rather than P&L results.
- Allocation / dedication of internal resources for the scoping, implementation, and go-live phases. We are all busy with other priorities.
- What is not measured on a consistent basis cannot be improved.

Bruno François, Lionel Joubaud and Bruno Melado (BNPP):

BNPP on working capital optimization


Bruno François


Lionel Joubaud


Bruno Melado

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INTERVIEW

Interview of Bruno François, Lionel Joubaud and Bruno Melado from BNPP.

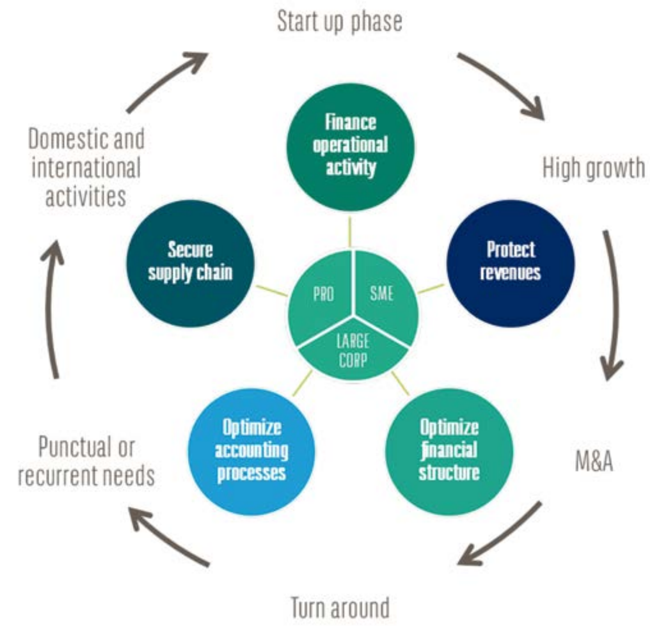
What can be the role of a bank partner in a working capital optimization project?

Bruno François: Working capital optimization project should start first with enhancements to be made at the company level by implementing a greater discipline on all items impacting the Working Capital metrics. Local treasurers are responsible of the topic by ensuring a great care for all aspects related to collection and payment. Cash is a priority. When the company believes that internal actions have been performed adequately, the timing is right to envisage a greater optimization with the help of financing solutions. The solutions proposed will largely depend on the company's situation and needs. When talking to treasurers we have identified 9 macro families of needs.

To meet those needs various solutions can be proposed including products from all the transaction banking family ranging from 100% working capital products type such as Factoring/Supply Chain but can also include some solutions which belong to the cash management or trade finance products family. At BNPP we believe the working capital optimization must be seen on a transversal way and need to consider all short-term elements of the balance sheet.

Lionel Joubaud: If we zoom on the pure working capital products family type, Banks offer a wide range of solution to support both supply chain and sales of their customers.

Macro WC client's need	Client's need
Optimization of production cycle	▪ I want to have a better forecasting of my sales, I want to optimize my production and, subsequently, my inventory management (DPI)
Optimization of DSO/DPO	▪ I want to pay my suppliers as late as possible and I want my clients to pay me as soon as possible
Cash visibility and optimization	▪ I want to have a visibility on my cash situation and be able to plan for my future cash position
Finance the asset cycle	▪ I want to be able to finance my asset cycle as I am short in cash ▪ I want to be able to invest my excess cash
Operational efficiency	▪ I want to be efficient to avoid cash trap
Commercial efficiency	▪ I want to secure and optimize my commercial relationship with my suppliers and my customers
Risk management	▪ I want to understand and manage my risks
Balance sheet optimization	▪ I want to optimize by balance sheet
CSR footprint management	▪ I want to improve my CSR footprint



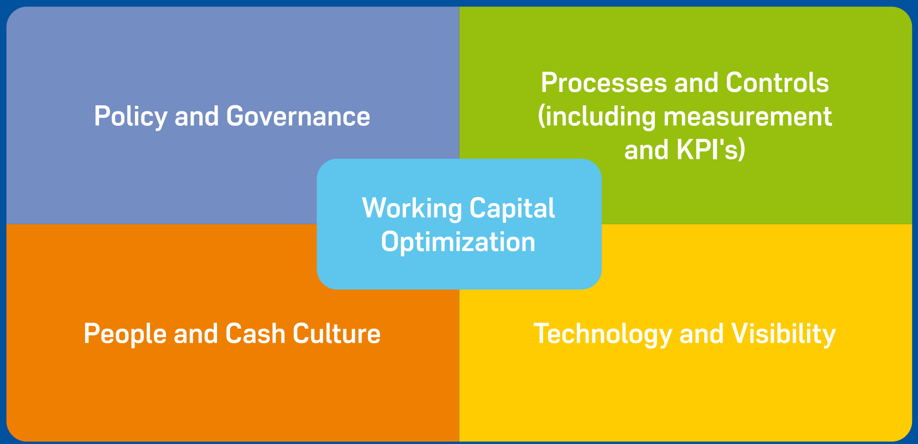
On the supply chain side, the typical solution is reverse factoring (also referred to as Supply Chain Financing), by which suppliers get preferred conditions from a Bank for financing their receivables on a certain buyer. The arrangement usually starts on the buyer's request, looking at a solution to support its suppliers - to secure his supply chain without deteriorating its cash at hand. A great solution to the supply chain disruption we are going through those days! On the receivable side, banks offer a large variety of solutions, which all come with the same idea: unlocking cash tied up in the balance sheet. Those solutions come in various forms: punctual needs or recurring ones. They typically offer credit cover, flexible receivable management, and balance sheet optimization. There is an increasing demand for global solutions: multinational corporates are looking for solutions for their businesses in Europe and beyond. We do believe this trend will stay strong and BNP Paribas is ready to answer these needs! New challenges are rising in the interaction with corporates. Firstly, like in many other banking activities, there is an increasing demand from our client to adapt to their own IT environment to make data exchange 100% seamless. Secondly corporates need to develop new sustainable ESG approaches embedded in the factoring facilities, to align these facilities with their own ESG targets.

Our 3+ billion data allows to compare the efficiency of the different instruments

Bruno Mellado: On the Order to Cash Processes the Corporate can get advice on how to propose the best receivable instrument to the different customer segments. As a major processor of collections, our 3+ billion data allows to compare the efficiency of the different instruments and provide guidance on success rate to collect, our insight data tools can reduce return rates or propose alternative collection means. At this time when clients send an invoice to a client they are not in control of the payment, unless it is suitable for a direct debit mandate which is not always preferred. Therefore, we are developing new methods of invoice/bill presentment and link to a request to pay which gives more control and better reconciliation results. One example is the ability to present the invoice right after the sale, ask for acceptance to remove the commercial risk or propose an immediate payment with the right incentives (discount). Some other advantages for Corporates are to increase sales volumes by extending payment terms to Small Business clients which need 4-5 weeks to turn the goods into their own revenues. This is a payment method which is instant, smart and helps all sides in the transaction. BNPP is partnering and integrating the solutions for corporates to quickly integrate at point of sale with simple API connectivity embedded in the customer journey.

BEST FRAMEWORK FOR CHANGES

There are 4 building blocks to enable sustainable and efficient changes in working capital.



THE CRITICAL FACTORS OF FOCUS ARE:

- Well-defined objectives, with high ambition, clear targets, defined responsibilities, and fixed timelines.
- Visibility to identify strong and weak performances at each BU level.
- Detailed planning
- Review as well as reporting and reviews on a regular basis
- Sponsorship from C-level and Audit Committee, as well as good (internal) communication
- Execution and phased implementation

TIPS

1. Excellent sponsorship and implication of the CFO
2. Incentives at all levels with clear standards KPI's
3. Recourse to fintech's with innovative solutions
4. Partnership with a solid bank
5. Regular measurements and analysis to keep enhancing results

TAKE AWAYS

How do you embed a working capital and cash focused culture into the company?

We need to remove or pass potential barriers and hurdles and to maximize success factors

CONCLUSIONS

How to best achieve sustainable cash and working capital improvements?

The forces driving working capital and supply chain management practices are evolving. The business environment is changing often and faster and the long-term planning horizon is contracting. Strategic goals must be achieved faster and as result, the availability of cash and working capital management have become prominent drivers.

There are few areas for working capital focused companies.
VISIBILITY: the finance team needs leadership, accurate cash-flow forecasts, detailed KPI's and ad hoc reporting, commonly agreed definitions of key concepts and regular reviews.
CONTOL: the subsidiaries must have entity targets, individual targets, and incentives to achieve them, rewards, policies and internal controls, business cases and signoffs from management.
ORGANIZATION: Responsibilities and accountabilities must be fixed, and competency models put in place. The company also needs to create discipline and a good working capital and cash conversion culture.
CAPABILITY: Eventually, the finance team needs training, skills, knowledge management and internal benchmarking.

Nevertheless, to achieve such a project, the company may need support from advisors and/or its bank, who are uniquely positioned to support its clients. Cash remains king, but traditional working capital management practices no longer create a competitive advantage. If not carefully considered and monitored, measures to speed up cash to cash conversion can destroy value, rather than create it. To be successful, a group must actively collaborate on different levels: customer satisfaction, loyalty, innovativeness, adaptability of business intelligence and management decisions, shareholder reputation, cost effectiveness, operational efficiency, and bottom-line performances. For this we need a more holistic view on working capital management and carefully weigh the risk involved against the comprehensive opportunities and benefits. By nature, such projects are complex given all stakeholders involved. They require a clear vision, a well-shared culture of cash, a solid sponsorship from the c-level and appropriate "measured" incentives.

The motto "make your money work harder for you!" strikes a chord in the minds of treasurers. Let's beef up the muscles of our working capital and go into training to become more financially fit. Like the new year resolutions – "this year I am going to do more sport" – "Let's give our working capital a workout!". The advice is not to rest on your laurels and look for alternative avenues.

ATEL SPRING CONFERENCE 2022

On April 21, ATEL organized its Spring Conference at the Espace Namur. Odile Brandstetter and Sanae Maamouri (Majorel), Arnault Gitzinger (Datalog), Bernhard Bartels (Scope), Guillaume Rocher (Kyriba) each animated presentations around treasury themes. The participants then enjoyed a cocktail reception.

MORE INFORMATION
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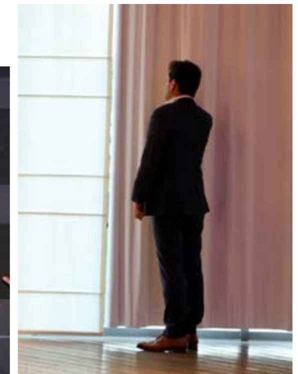
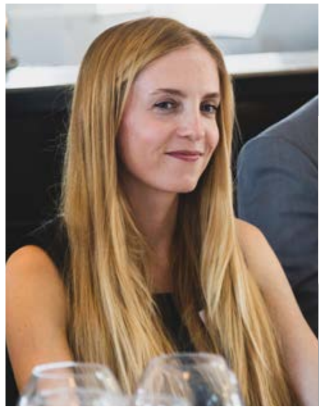
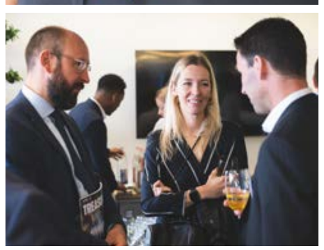


JP MORGAN

On June 16th, JP Morgan hosted their Women in Treasury lunch at House 17. Participants had the chance to share a great lunch while hearing about passionating subjects in the theme of "What would I tell my younger self and what changes do we need today?".





ATEL SUMMER CONFERENCE

On June 30th, Atel organized its Summer Conference at HSBC headquarters. ATEL chairman François Masquelier opened the conference followed by Jonathan Curry, Myriam Radi and Sijia Duan (HSBC), Philippe Foerster (PwC), Alain Goebel and Danny Beeton (Arendt) and Filip Versluys (VISA) who each animated presentations around treasury themes. Raphaël Zeitoun, Christopher Attfield and Dominic Bunning (HSBC) also joined the conference remotely. The participants then enjoyed a cocktail reception.

MORE INFORMATION
www.atel.lu

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JÉRÔME BLOCH (360CROSSMEDIA):

THE KEYS TO VIRALITY

The immediacy of social networks and the constant flow of published information induce great ephemerality of content. Jérôme Bloch, CEO of 360Crossmedia, shares three keys to giving your publications maximum impact. Interview.

What are the keys to virality on LinkedIn?
When we take stock of social networks around the world, many bloggers achieve millions of views and thousands of likes. Alongside this phenomenon, Luxembourg seems to find itself in another dimension. Indeed, opinion leaders like Xavier Bettel reach an average of 500 likes and many peak at 50. LinkedIn remains an extraordinary tool for developing a business or its network, but you still have to use the right techniques. In my opinion, three of them stand out for their almost infallible impact: To inspire, share and win. And by choosing the ideal context, you increase performance even further.

Can you give us examples?
Inspiration is mostly about talking about things that affect us and evoke quite strong emotions. I am thinking, for example, of themes on a personal experience, human transformation or even on achieving ambitious challenges. In the field of sharing, "thought leadership" can be developed by making complex subjects accessible through a good article, a video, or even the publication of a book or a white paper. And obviously winning a gift, a publication, or an invitation to an event remains an old spring that still works very well.

What was your record last year?
There were two. The first was with François Masquelier, president of ATEL, whose post has exceeded 37,000 views. This performance was the result of a multi-year strategy combining the increase in the number of connections on LinkedIn from 5,000 to 16,000, a regular publication strategy and involvement in the posts of several influential players in the treasury industry. The second-best score was achieved during our last publication of the year in which I contributed 20 copies of my latest book "No Bullshit" to be won. The gift rule once again applied. In addition, by winning my work, I could inspire, share and offer a prize in the ideal context of the Christmas holidays.

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