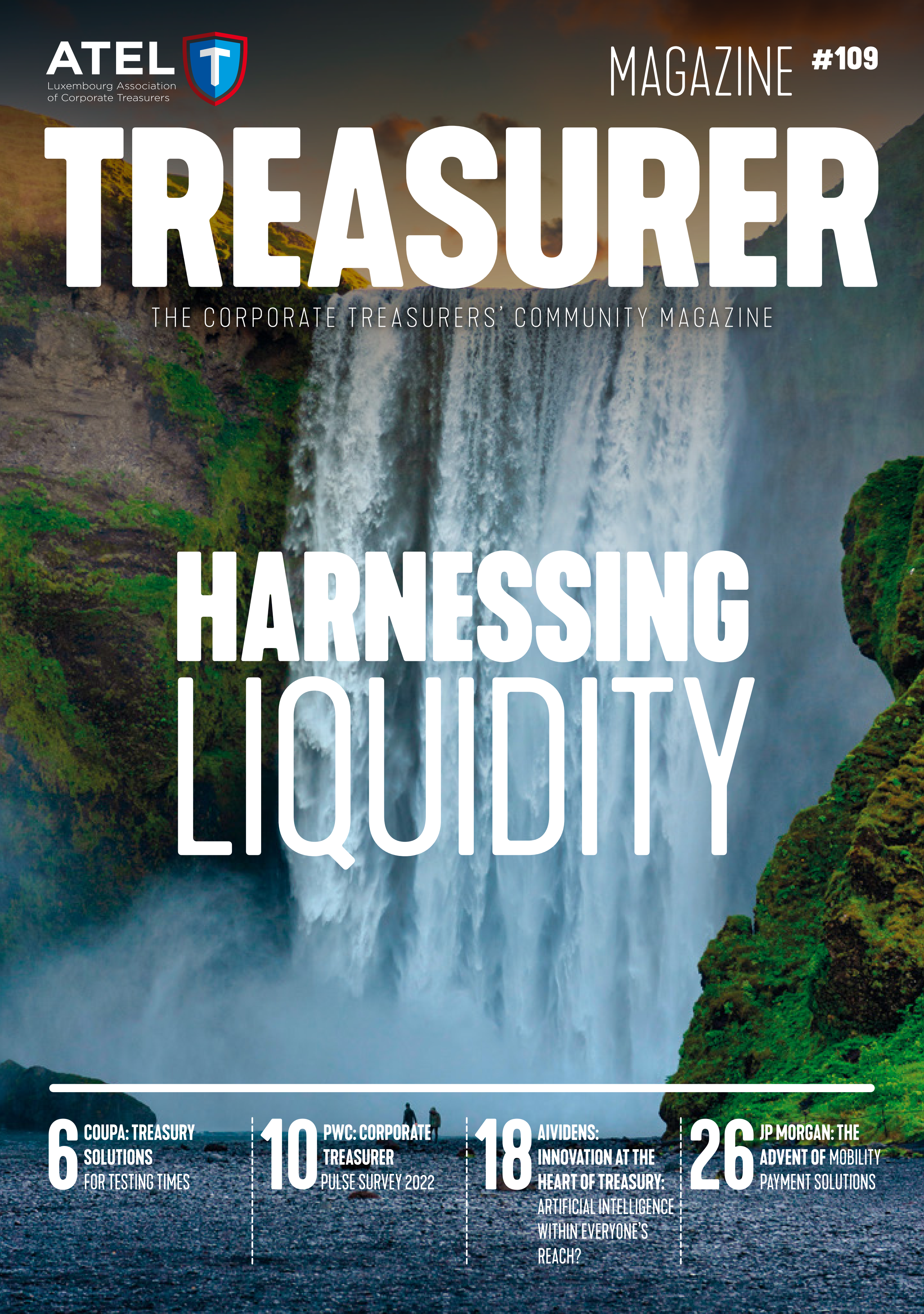

ATEL
Luxembourg Association
of Corporate Treasurers

MAGAZINE #109

TREASURER

THE CORPORATE TREASURERS' COMMUNITY MAGAZINE

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TREASURER
The Corporate Treasurers' Community Magazine

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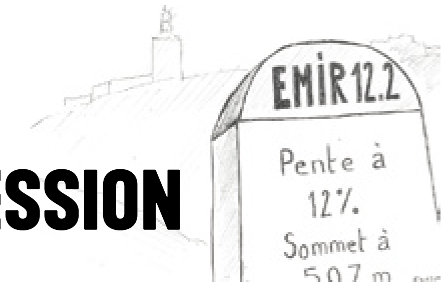
#109

EMIR OR
THE ECHTERNACH PROCESSION



Will the revision of EMIR, which is supposed to limit over-dependence on English CCPs, be hijacked by the particular and exceptional economic circumstances? One might think so. The document published on December 7th suggests that the proposed amendments may not be the ones that would provide more transparency. We should not respond to a particular problem with general measures and mix things up. Political pressure does not explain everything. To change EMIR refit would be to take three steps backwards after having taken three steps forwards. Let's not be fooled by good idea at first sight.

« Mystified » (Fleetwood Mac) (a tribute to the recently deceased singer C. McVie).

The revision of EMIR was initially intended to limit dependence on Anglo-Saxon CCP's. But finally, because of the energy crisis and the commodity boom, it could be transformed and aim at other purposes. We can only regret that political pressure and an exceptional situation affecting a minority of companies producing or trading in energy could pollute the whole debate and affect the rules applicable to all. We can fear that after the disclosure of the proposed amendments, one at least will hurt treasurers: the withdrawal of the reporting exemption for inter-company OTC derivatives transactions. This exemption, which had to be sought and obtained, was the great victory of EMIR refit. Removing it would be counterproductive and would be the equivalent of going backwards (i.e., the three steps forward two steps backwards processions). In addition to adding an unnecessary administrative burden (i.e., inter-company transactions being simply mirrored and cancelled in consolidation), it would impose on those who benefited from the exemption and had delegated their reporting to their banks to no longer benefit from it. Indeed, the banks would not be able to report inter-company transactions. Moreover, re-decentralizing the management of hedges to avoid inter-company transactions is not a feasible, reasonable, and efficient option from a financial and cost point of view.

« Believe » (Lenny Krawitz)

We are therefore obliged to strengthen the lobbying to take advantage of the year and a half (roughly speaking) ahead of us to change the position of the EU. This will not be easy. However, we must fight to avoid this pitfall, this unexpected setback and create a competitive disadvantage in Europe compared to Asia or the USA. There is also talk of reviewing the definition of «hedging» in the context of the collateralization exemption (exemption if hedging or if below the thresholds of 1 or 3 billion EUR equivalent). This is again not a good idea. Treasurers and their European association (EACT) believe that these two points at least should not and cannot be changed without affecting day-to-day management or imposing investments in time, resources, and systems to comply.
Life is not a smooth ride when it comes to financial regulations. We are never at the mercy of unwanted or desirable changes that can affect our work as treasurers. Fortunately, the EACT has been doing its utmost for 20 years to defend the interests of its members and their profession. It will have once again the opportunity to demonstrate this. But the road will be steep and delicate. Let's have courage!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François Masquelier,
CEO of Simply Treasury – Luxembourg 2022

Disclaimer: This article was prepared by François Masquelier in his personal capacity. The opinion expressed in this article are the author's own and do not necessarily reflect the view of the European Association of Corporate Treasurers (i.e., EACT).

TAMIR SHAFER (COUPA):

TREASURY SOLUTIONS FOR TESTING TIMES

Today we live with the fulfillment of the ancient Chinese curse: "May you live in interesting times." The Covid pandemic, Putin's invasion of Ukraine, and the consequent shortages and inflation, have focused the minds of corporate treasurers as never before. However, the acquisition by the business spend management (BSM) platform, Coupa, of the treasury management software (TMS) BELLIN Group, will allow corporate treasurers to address the unprecedented challenges evoked by uncontrollable events. Coupa can offer not only greatly enhanced visibility of cashflows but access to tools that can mine opportunities emerging from these testing times.

Treasurers face unprecedented market uncertainty, fueled by inflation and a prospective recession arising, not least from the Covid pandemic and the Russian invasion of Ukraine. In consequence, there has never been a time when corporate treasurers needed to be better prepared to face the challenges of disruption but to also put themselves in a position to seize the opportunities for growth. As a result, treasurers have never had a greater need for the best possible visibility into their cash positions and cash projections. In addition to the visibility of their cash flows, treasurers also need tools and data that can help them make timely and informed decisions about business growth, investments, funding, and cash forecasting.

Seeking a haven amidst these economic storms, treasury teams have found refuge in business spend management (BSM) platforms (like Coupa) that can provide an unparalleled level of detail about a company's spend and cash position. To ensure company liquidity and improve the outlook for the business, treasurers are also seeking to collaborate across teams, including procurement and accounts payable. In this way they are identifying opportunities to leverage payment dates to pay later, or taking advantage of early pay discounts, to maximize yield on liquidity.

TMS – NOT JUST CASH MANAGEMENT

Treasurers are also looking for artificial intelligence (AI) tools to enable them to reduce fraud, enhance processes, analyze large sets of data instantly by replacing time-consuming manual processes, all of which can aid strategic decision-making of their businesses.
Coupa is a leading and trusted BSM platform that provides treasurers with a complete view of company spend and cash - across treasury, finance, procurement, and supply chains. The company recently acquired, the German BELLIN Group, a leading provider of cloud-based treasury management software (TMS) to strengthen the value it provides to customers. The acquisition will allow Coupa to offer a holistic, unified, and real-time view of all spend. Coupa can deliver this because the firm's technology spans all spend activity happening in the back office: The company claims it can unlock visibility into transactions enough for a TMS to deliver only cash about which a treasurer previously management functionality. Treasurers would no have known before, often amounting to millions of dollars or euros.
Coupa's BSM platform helps treasurers improve the accuracy of short- and long-term planning and forecasting thereby strengthening their financial position. The value of Coupa's fully automated cash management can be demonstrated by the complete visibility into a company's cash position, allowing corporate treasurers to focus their time on more strategic projects.

Tamir Shafer

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TREASURY TOOLBOX

But Coupa's view is that it is not enough for a TMS to deliver only cash management functionality. Treasurers are having to become more strategic in how their businesses think about their bottom lines. The treasury has evolved beyond its risk and cash management roots into core decision-making functions that are vital to a company's growth and resilience.
Coupa challenges treasuries to consider, when choosing a TMS, whether it provides full source-to-settle cash visibility related to all spend and expenses, allowing the treasurer to accurately forecast company cash. Treasurers need to ask how a TMS supports company growth and resilience, especially during uncertain financial times. And finally, how a TMS helps maximize working capital?
At a time of global uncertainty, treasurers need maximum visibility to monitor their cash positions. And, given the steadily expanding roles of treasurers and their growing interactions with other parts of their businesses, they need the sophisticated tools a market-leading TMS can offer.

ADVICE TO TREASURERS SWIMMING **IN THE NEW NORMAL**

2022 marks another (painful) transition year:

- Supply chain issues, mostly driven by the pandemic,
- Worsening geopolitical situation (Ukraine, Taiwan…),
- Labor and talent shortage,
- Zero Covid policy in China,
- … and we tend to forget about Brexit, with still significant impacts specifically on UK supply chain.

All of this heading us towards a global recession, meaning a combination of prolonged falling orders and high costs which will put small companies' cash flow under significant pressure over the next 6-12 months or so. The expected impact on the Eurozone for 2023 is a 7.7% GDP (Gross Domestic Product) loss, approximately EUR 920 billion.

Surprisingly, there are good news out of this economic storm:

- Sustainable sourcing now becomes part of the best hopes of breaking the current cycle once and for all,
- Recessions are typically short-lived and followed by long periods of growth and prosperity,
- Crisis are catalysts of transformation, a time when a treasurer tends to shine. It's an opportunity, for treasurers, not a threat. Aversity is always a good motivator for both creative thinking and collaboration of common interest.

On longer-term basis, the impacts of new regulation, new technology, market volatility… are opportunities to fundamentally revamp models and operations.

Uncertainty is the new normal, and it's about time we all get comfortable with discomfort.

MARKET VOLATILITY

Many treasury professionals never experienced the current interest rate environment (me the first) which can make it challenging to know how best to proceed. The excitement can sometimes cause people to react very quickly, and it is very easy to make the wrong call. Treasurers have much to gain by understanding how money market fund portfolio managers are looking at the current markets – and that means making the right choices on duration and liquidity.
In today's rising interest rate environment, it can be tempting to lock-in yield, which can leave companies trapped in an unbreakable bank deposit, or in a difficult-to-unwind treasury position.
As a general rule, whenever we move through periods of uncertainty, we increase the liquidity and decrease the duration. To invest in shorter-term trades and increase that overnight liquidity is an approach that builds in flexibility as interest rate hikes are delivered, as well as allowing money market funds to be as nimble as possible when opportunities arise, which ensures that fund yields increase quickly after an interest rate hike.
Another feature of the current landscape is that in the past, interest rate hikes have been immediately reflected in bank deposits, whereas MMFs – which have some elements with longer duration – can take a few days to catch up.
With further rate hikes expected, treasury teams need to assess the implications of adding duration carefully and make sure they understand their breakeven points, particularly if their investments take them beyond a key central bank date.

Yes you got it: cash will remain king for some time to come (and data the new Queen).

Hence, more accurate cash flow forecasting will help mitigate interest rate risk, especially where treasury is able to review its investment horizons, adjust its interest rate exposures, and explore investments with shorter duration. Being able to know how much, where and till when you can invest is a fundamental, basic, yet critical question.

UNCERTAINTY IS THE NEW NORM
Benjamin Defays

I STILL DON'T UNDERSTAND WHY SO MANY TREASURY PROFESSIONALS CAN AFFORD NOT TO PARTICIPATE OR BE ENGAGED
Benjamin Defays

Another critical question is where is your trapped cash? Unlock liquidity wherever you can and give yourself some optionality. It's a first step before even thinking of investing excess cash:

- Is your liquidity structure optimized?
- Do you have buckets of excess cash here and funding needs elsewhere?

With the central bank policies shifting to rate increases, the cost of funding is expected to rise further, hence structures such as cash pools, or virtual accounts, will be even more beneficial than before. Think also about less conventional investments, such as early supplier payments, or hybrid liquidity structures incorporating virtual accounts embedded into a both physical and notional pool. Why not? Be creative!

DATA

Now let's talk again about our new Queen: data.
Treasurers are the heaviest consumers of technology in general, and low-tech treasury is a risk to any company, of any size. Digital transformation is inevitable. We must be agile, smart, more digital. But before all of this can be exploited to its biggest capacity, we need data. And by data I mean good data, the one we actually need, the one we can extract easily and digitally, transform, centralize, and ultimately help us make better and more efficient decisions. Technology can then help enable this whole process, but first we need data and make it talk to us. APIs and real-time data is still an abstract thing for most treasurers, with some even fearing this will overwhelm them with data they don't need. This is a myth: real-time data should be understood rather as "on demand".
You take data as you need it, rather than by a scheduler negotiated upfront during your connectivity project between ERP/TMS/Bank for example. It is much more efficient and, effectively, real-time vs every 2-3 hours.
Real-time Treasury, or what I prefer to call Treasury-on-demand, is a pull vs push of data.

Connecting this with the current environment, with labor shortage, I'm surprised to see that technology spendings dropped steeply in Q1 and Q2 2022. The priority is clearly to digitize, so I can only recommend treasurers not to loose focus on this item part of their roadmap, and to immediately add it if it wasn't already included.

It's a natural impulse to battle down and wait. We saw this early on during the pandemic, when large organizations reacted by cancelling orders and slowing payments to suppliers. This attempts at short-term self-preservation merely exacerbated the deep-seated structural issues in supply chains, and others. Let's not repeat the same mistake.

Strategies seen are cutting cost to survive today, and invest to grow tomorrow.

MAKE YOUR VOICE HEARD

If you struggle to find ways to make your voice heard to regulators, FinTech, vendors, banks, etc., here's a piece of advice: benchmark, go to Treasury conferences, take an active role into your local treasury associations, attend webinars, podcasts, …

ATEL is one of the most active associations in various fields (education, with its online and physical trainings, lobbying, conferences, networking…) and I still don't understand why so many treasury professionals can afford not to participate or be engaged. It's about professional survival. And it's most of the time free to attend! Not only treasurers come to the table:

- Public institutions
- Banks
- Big 4
- Vendors
- FinTechs
- Reg Techs
- Other technology providers

If you want to know what's going on, if you want to benchmark processes, and make sure you're up to date and seeing the change coming, if you want to be the disrupter and not the disrupted, that's the place to start.

THE EXCITEMENT CAN SOMETIMES CAUSE PEOPLE TO REACT VERY QUICKLY
Benjamin Defays


© DR

Benjamin Defays,
Senior Associate Vice President, Revantage

CORENTIN MARICQ (PWC):

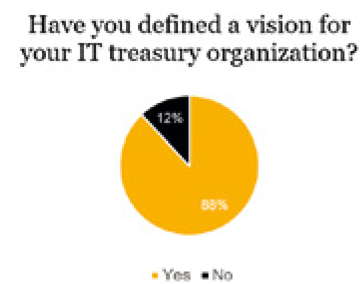
RESULTS OF THE ATEL TREASURY TECH PULSE

All organisations, all companies, all departments must face it: successful companies are the ones that will embrace continuous transformation of their ways of working, processes and technology. And the treasury department is surely no exception.
But how prepared are corporate treasurers in Luxembourg to embrace transformation? What is the current maturity of the market? What are the main barriers for digitalisation?
We have realised a quick pulse survey in order to address those different questions based on the answers received from a panel of 47 corporate treasurers representing all sectors in Luxembourg.

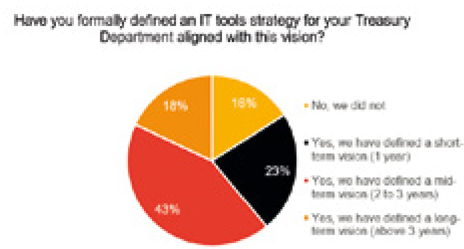
A SHORT-TERMIST VISION OF TRANSFORMATION

Our first question was addressing what may be the most important step before moving to any transformation project: do you have a vision for your IT transformation for your organisation?

Good news, about 88% of corporate treasurers responded "Yes".



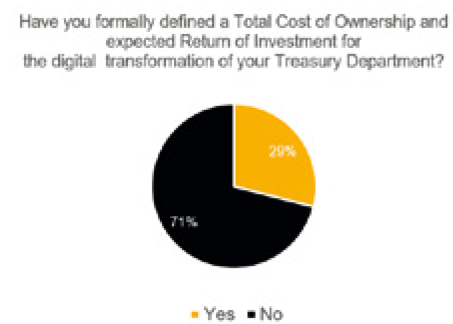
However, when digging a bit further into details, we realised that this vision was mainly focused on the short-term. Indeed, when asking if a formal IT strategy had been formally defined in order to support their vision, only about 18% of them had defined a long-term strategy (above 3 years) while 16% of the respondents had not defined any strategy at all.



As expert in transformation, this discrepancy of course triggered us several questions regarding the understanding of corporate treasurers of an end-to-end transformation process and what it implies in terms of strategy, preparation, and resources.

Besides, when asking if any assessment of the expected Return of Investment (ROI) and Total Cost of Ownership (TCO) for their transformation had been assessed, the large majority (70% of the respondents) responded that such strategic assessment had not been performed.

Again, from our experience, moving into a transformation project without having previously defined clear objectives and what are the expected outputs seems pretty challenging.



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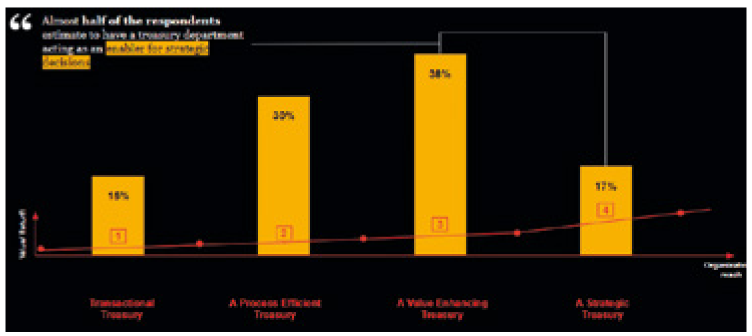
CORPORATE TREASURERS' MATURITY SELF-ASSESSMENT

Whatever the level of ambition of your transformation project, the scope, the technology selected or the timeline, every transformation project should start with a "baselining" assessment, in other words, an overall understanding of your current operating model.

This will enable you to understand your strengths, identify your weaknesses and areas of improvement and define clear targets for transformation.
In this perspective, we asked our respondents to assess the current level of maturity of their treasury department in terms of organisation, talents (skills), processes and technology from a scale from 1 to 4. Where:

- Level 1 corresponding to "Transactional Treasury": focusing mainly on the execution, enabling the business to carry out necessary transactions and primarily financial functions

- Level 4 corresponding to "Strategic Treasury": contributing actively to the strategic decision of the business reaching across the whole business



Surprisingly enough, almost half of the respondents estimate to have a treasury department acting as an enabler for strategic decision while the largest part of corporate treasurers estimate they are operating within a "Value enhancing treasury".

This result could be a bit contradictory from what we usually see and hear from our clients that usually complain about the lack they are facing in terms of talent and skills, automation and integration within the broader IT architecture and the need for more efficiency and value added information (insights and analytics) enabling decision-making.

CASH FORECASTING AND CASH MANAGEMENT – THE TOP PRIORITIES FOR TREASURERS IN LUXEMBOURG

When asking about the top priorities from corporate treasures for digitalization, cash management but as well financial risk management and external financing were ranked as the first priorities.

When asking corporate treasurers about the areas where the need for automation was the highest, cash forecasting was ranked as first, followed by bank accounts reconciliation and FX exposure identification.

Without surprises, cash forecasting and liquidity planning remain currently the top priorities for corporate treasures in Luxembourg. With the current geopolitical situation, the inflation and the hectic behaviour of energy pricing, it is more important than ever to be accurate in the liquidity planning.... and be able to move sometimes from monthly to weekly or even daily cash forecasts when we are a company highly impacted by energy pricing. At the end of the month, you can face a huge amount of large Account payables and Accounts receivables, but you need to be sure that your cash can cover the unexpected...

MAIN BARRIERS AND TRANSFORMATION PRIORITIES

To close this short survey, we asked our respondents about the main barriers they were facing to further digitalize their treasury department.

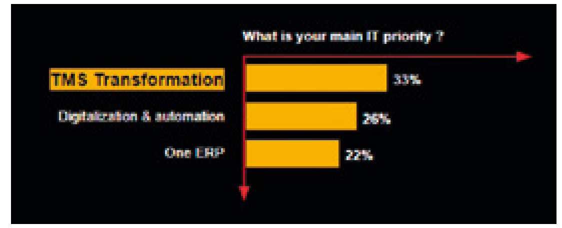
While the lack of budget remains a major burden for digitalization (ranked at the 2nd position), it seems that the human factor remains a key pillar for transformation.

Indeed, the lack of human resources and the lack of IT skills were respectively ranked at the 1st and 3rd position.

This is indeed pretty well echoing with what we see from our customers: besides an increasing pressure on costs, treasury departments must as well deal with understaffed teams that are not tech-savvy enough and thus not allowing their department to head for further digitalization.

To close our questionnaire, we asked the last open question to the panel: what is your current main IT priority?

Considering the main barriers in terms of talents and skills highlighted by the 47 luxembourgish corporate treasurers, we could have expected as potential answer: the upskilling and/or improvement of the attraction/retention of talents. However, all of the answers were purely focused on technology with the TMS transformation ranking at the top, closely followed by the digitalization and automation of the treasury department and finally the move to one single ERP.



This could trigger the following questions: are corporate treasurers in Luxembourg prioritising correctly their transformation journey? Are teams ready and upskilled enough to contribute to the transformation of their department?

CASH FORECASTING AND CASH MANAGEMENT – THE TOP PRIORITIES FOR TREASURERS IN LUXEMBOURGCONCLUSION

The objective of the survey was to get an overall glimpse over transformation within the treasury departments and the readiness of corporate treasurers to take the plunge. Despite the size of the survey, we could clearly identify the following:

- there seems to be a lack of long-term vision regarding the transformation journey of corporate treasurers. Besides, corporate treasures do not have an idea of the cost to transform and have neither defined success in a quantitative way (ROI).

- corporate treasurers estimate their departments are quite mature, while they still daily struggle with fragmented IT architecture, a large amount of manual procedures, and lack of resources.

- Besides budget, the main barriers for transformation remain the lack of resources and IT skills.

EVANGELIZATION OF TREASURY FUNCTIONS

It seems that the evangelization of corporate treasury is necessary and that it is necessary to preach the «good word» because the function has lost its aura and its power of attraction over the last few years, while the function has evolved incredibly. It is paradoxical to see a function evolve so strongly and lose its power of attraction. It is the duty of treasurers' associations and all stakeholders to remedy this situation and to restore the image of treasury to bring back to it students, financiers in search of training and others. And finally, the profession is facing a huge need for more diverse (soft and hard) skills than ever before. The risk is there, and therefore it is time to react. #510

LACK OF CASH RESOURCES AND VOCATION IN TREASURY

The treasury function, like many other businesses, has a problem of available resources. There is a lack of staff and resources to properly staff our treasury departments. The COVID crisis and lockdowns have not helped the situation and have even made it worse. Home working is becoming such a precondition that no one successfully hires in treasury without offering at least some work to be done from home. The lack of resources is compensated by a sharp rise in wages and inflation. Companies compete to attract talented treasurers and it is not an ideal situation. In this context, training is necessary and even vital. Unfortunately, there is also a crisis of vocations. So, we have less students in treasury courses and in Universities (for treasury masters when they exist) and more competition with banks or fintech's who are big consumers of this kind of resources.

The problem is the lack of attractiveness of treasury courses / training. The profession appears to be less «sexy» and attractive than it used to be. Paradoxically, the function has never stopped growing and expanding.

It seems obvious that this is a major challenge for treasurers' associations. They must play their role as federators, as attention-grabbers and as creators of vocations. Vocation is something that is created. It does not come naturally and without effort. It therefore seems to me that we should, like other stakeholders, help to make the profession sexier, to better describe it, to better promote it in order to attract more young and future treasurers. The task is not simple but achievable if we work on it in a coordinated way.

HOW TO ATTRACT THEN?

One of the avenues to explore is to describe the incredible evolution of the profession, its scope, variety, importance and the areas affected, those that attract, such as crypto-currencies (which excite young generations), M&A transactions, private equity, IT coding (i.e. data coding), cutting edge technologies, sophistication of the function, IPOs and listing on stock-exchanges, rating agencies and initial rating search, application and compliance of new regulations with especially the ESG aspect (which has become an unavoidable element for young people who want «more responsible» and above all more virtuous business companies, etc... They want to "be part of it" and want more rhythm, dynamism, novelty, modern technologies, less repetition, less EXCEL sheets, less manual boring work and more automation, AI, and data mining. They want more hybrid roles with broader skills. These different talents could then have a role to play, give them the importance they all hope to have. We need to play on these elements and expectations of young people to attract them and not do what we've always done. That time is definitely over, although many treasurers don't know it...

PARADOXICAL SITUATION

Isn't it paradoxical to have a function that has evolved so much and expanded in terms of scope, making it more interesting than in the past, a function that is more computerized (i.e., more and more IT tools used) and technical than before, and a profession that has been brought to the forefront because of repeated crises? Obviously YES: it is paradoxical and surprising. If the profession is less attractive, it is because we do not make it or present it correctly and as it is. It is a question of image. And image is something that needs to be worked on and maintained.

NEW SKILLS IN FINANCE AND TREASURY

People would say we all need people who are "wildly inquisitive". The skills will be most important in the finance sector in the coming years, for various reasons. Having a critical mind, asking better questions, and approaching things with a growth mindset are increasingly important, an excellent communication capacity and a power of persuasion to convince management of actions. In terms of hard skills, it is the same problem. We need more diversified skills like IT and coding skills, to face new challenges. We need more analysts, people able to understand, explain, recommend, and eventually act.

DIGITAL CAPABILITY AND CAPACITY TO LEARN AND ADAPT

Treasury departments are increasingly looking for 2 key elements when recruiting. First, the ability to digitally utilize and harvest the wide body of codified information so that real trends and insights can be gleaned from it. Anyone can have access to an overwhelming amount of data, but it takes an analytic mind to be able to scrutinize that data and convert it into meaningful answers for an organization. The second factor is search for people who can learn, are wildly inquisitive and brave enough to ask questions to better understand and recommend ad hoc solutions. Treasurers need to go beyond conventional wisdom. Diversity of backgrounds, diversity of profiles and cultures may help finding the right talents, ready to learn about a broadening profession. Curiosity remains a key quality to have to face challenges and cope with them.

SELL YOURSELF BETTER

As we can see, Treasury Associations and their members must work to better «sell» their profession and attract more young talents. This is one of the major challenges, yet it is rarely highlighted. As if it wasn't a problem when in fact it is a weak link in the chain. We must now ask ourselves how to remedy it intelligently. We must demonstrate and explain why our profession is one of the most interesting, changing, evolving and dynamic, with an enormous financial importance. To be complete, we must also admit that the CFO's could also enhance the value of this profession and help to make it more attractive. Here we are far from this desired, desirable, but still idyllic situation, alas.

François Masquelier,
CEO of Simply Treasury –
June 2022 Luxembourg

Disclaimer: This article was prepared by François Masquelier in his personal capacity. The opinion expressed in this article are the author's own and do not necessarily reflect the view of the European Association of Corporate Treasurers (i.e., EACT).

LAURENT DE BUYSER (INTENSUM):

PREDICTIVE AND DATA DRIVEN ANALYSIS

TO BETTER NAVIGATE THROUGH THE STORM

INCREASING FREQUENCY OF CRISES

We do not know whether the frequency of crises will increase over time. Some economists are convinced we should face more often colored swans and crises. To become more resilient, CFO's will require from their treasurers more real-time information to enhance decision-making processes. These new demands from C-level will require new technical skills to enable them to produce better dashboards and forward-looking reports. All this is feasible providing we can make smart use of data and generate appropriate analysis. CFOs expect to better navigate the dunes of the economy. We also faced number of cyber-attacks during COVID. If we do not want to rely on Excel, it is better to be better prepared. The recent pandemic was the worst possible event to imagine; but it has indirect and unexpected consequences as it opened doors and created breaches.

PREDICT MORE AND BETTER OTHERWISE YOU WILL DIE

Crises, combined with disruption of businesses caused by pandemics or any macro-economic event, have increased demand to unprecedented level on corporate finance and treasury managers to focus more than before on predictive analysis. Treasurers are well placed to proactively predict risks and anticipate problems, providing they contemplate new solutions, from strong state-of-the-art suppliers, with specialists. Technology is one thing, implementing it properly is another one. Treasury departments need to use external support and trusted partners to develop these required approaches and for enhancing reporting. The real-time treasury means faster access to data, after treatment and analysis, to extract pieces of information driving to recommendations. What should not be forgotten is the crises frequency acceleration. If treasurers consider to base decisions on future rather than on past results and events, they need better integrated IT equipment to make best use of data extracted, transformed, and analyzed. Predictive analysis means making use of historical data and patterns and to integrate a portion of assumptions to stress-test scenario.

"HARDER, BETTER, FASTER" (DAFT PUNK)

The first challenge consists in convincing C-level of investing in digital transformation. The second one in selecting the most adequate technology, if possible integrated to get access to a maximum of data, between systems (e.g., ERP, TMS, etc..). To go faster with your car, you need better brakes. To implement "real-time" treasury, we need better IT solutions, no use of spreadsheets and capacity to automatically produce reporting and to integrate them into dashboards. And we also need to customize dashboards faster. It requires to re-think your whole finance function. Once we have selected the technology, we need solid partners to accompany the implementation and to educate teams. When you decide to opt for SAP4hana a partner like INTENSUM seems to be appropriate to guarantee successful implementation and transfer of know-how. Before facing the next storm, better to be fully equipped with more than a compass to navigate the tempest. "In a calm sea, every man is a pilot" (John Ray), but when it starts being agitated, it is another story.

WHAT MAKES THE SITUATION DIFFERENT TODAY?

Today, no treasurer wants to be on the wrong side and unprotected to face coming challenges. However, only few dynamic treasurers have started data analytics projects. When economic situation may change fast(er) than ever, the agility and proactivity become key attributes for a treasurer. To move forward in this tortuous and mined field, we must rely on and access to internal and external data from various IT sources to do more forecasting, modelling, (stress) scenario building, cash-flow forecasting and sensitivity tests. Businesses have evolved over the years and now we discovered data as something of high value. We would qualify them as gold, as often claimed, but as a valuable commodity, providing you can make good use of it. If getting access to data, under different formats and from different sources is not formalized and automatized, no chance to make any use of them. It will be too late when you will get them.

LEADING INTELLIGENT TREASURIES

To reach the "treasury-on-demand" level, a treasurer must start drafting a digital transformation roadmap, with specialists, and revisit all processes to enhance them through new technologies. It is a complete overhaul of treasury processes that is required. For a more dynamic management, treasurers need to implement new tools, rather than plugging external modules to existing IT architecture. Such a long transformation process implies adaptation, flexibility, and skills. Therefore, it leads to the next challenge: recruitment of new required expertise and tomorrow's talents. Stop recruiting as in the past, hire data analysts or miners, geeks. The treasurers who understood this are a step ahead of peers. And in terms of soft skills, they need curiosity, empathy for ne tech's, creativity and open-mind.to adopt requested level of scrutiny when analyzing figures. Diversity in team composition has proved to be an asset when it comes to transformation. As said by Maya Angelou: "Strength lies in differences, not in similarities". The modern treasurer presents even more diversified skills than before. It is also because the future IT organization will be co-created with partners. Treasurers must keep learning and follow emerging technologies. If you do not have already finalized your Treasury future IT architecture, it is time to move.

Laurent de Buyser

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EDOUARD BEAUVOIS (AIVIDENS):

INNOVATION AT THE HEART OF TREASURY: ARTIFICIAL INTELLIGENCE WITHIN EVERYONE'S REACH?

Among the elements that make up working capital, there is one that is implicitly more complicated to control than others: Customer receipts. Although all companies should, ideally, be organized to monitor customer invoices and payments, many still do not have the necessary tools for minimum monitoring, and too few are equipped to optimize collection. Excel spreadsheets are still very much in evidence. The teams responsible for collection are frequently not targeted, they use processes that are not very well automated, and which are reactive rather than proactive. In simple terms, the primary objectives of all companies in the area of debt collection are to name customers in arrears and to monitor the history of contacts made with them. However, such practices fail to provide an accurate picture of customer collections.

When a company's objective is to improve its cash management and working capital, it becomes imperative to maximize collection efforts and automate as many of the less strategic tasks as possible. This is where Artificial Intelligence (AI) comes in. By analyzing the data available in companies' ERP systems, AI optimizes the efforts of each employee by targeting the customers for whom the cash or risk impact is the most significant for the company. AI also anticipates customer payment problems. This allows the team to take appropriate action before the problems occur. In short, AI helps to automate all the steps that can be automated. This allows teams to focus on tasks that require personalized intervention, allowing proactive actions that alert the team to the risk of non-payment before it occurs. AI will also provide a more accurate view of expected cash receipts, thereby refining cash management.

The greatest concern about implementing AI in a company, whatever its application, is linked to data. Data can be frightening. It is often considered too complex to master, or of too unreliable quality for optimal use. These perceptions, which are probably well-founded, can lead to extreme decisions that oscillate between immobility and a deep cleansing of the data that distracts the business from short-term goals. So, is it necessary to have perfect data to initiate the implementation of AI? Not necessarily! An approach based on successive business «quick wins» is possible. An innovation project for working capital can start by getting the best out of existing data by working through successive iterations. This can involve transforming processes and then enriching the data as the results obtained by the AI are obtained. At each stage, it becomes important to evaluate the cost-benefit ratio between the costs of additional processing of the data and the benefits of a corresponding improvement. In this way, the results appear from the start of the project and begin to optimize the company's working capital in stages. With such an approach, AI solutions can easily be within the reach of every treasurer.

AI SOLUTIONS CAN EASILY BE WITHIN THE REACH OF EVERY TREASURER

Edouard Beauvois

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BANK ON-BOARDING AND BANK RELATIONSHIP RETENTION

On-boarding by banks is a problem. Many industries, such as alternative funds, have seen at their expenses. But keeping an account is no less of a challenge. We often read the complaints of financiers, but few of them provide explanations and even fewer offer solutions. They do exist and one can only be surprised that those who lament do not act. It takes a little empathy and a bit of gumption to make yourself sexier and more desirable.

ON-BOARDING BY BANKS, MAJOR CHALLENGES FOR ALTERNATIVE FUNDS

Listening to the stakeholders in the world of alternative funds, but also family offices, holding companies or other small corporates, one may fear that one is no longer bankable. If no bank wants to take you on as a client, it is necessary to ask why. I never hear hedge funds or fund servicers ask this question. And to ask it is to answer it. Would you accept a client who was not profitable or not very profitable? Would you accept a client who is not automated in his interactions with you, to the point of creating extra work, expenses, errors, and resources? Obviously not. A bank account is only viable if there is a minimum flow through it. It is only profitable if you minimize the work on the bank side and reduce the related risks. A bank does not make a fortune because you leave a relatively small positive balance on your accounts. We always overestimate the profitability of the accounts when we are customers. And on the other hand, we underestimate the ever-increasing compliance costs. It's a double whammy. Funds should learn from corporate treasurers who are always willing to respect their banking partners by allocating business fairly and honestly. And logically, it should come as no surprise that bankers are closing unprofitable accounts. Opening an account is a challenge and keeping it a priesthood. The bank thinks twice before committing itself to certain unenviable sectors and unprofitable businesses.

REASONS FOR REFUSAL

Banks have had to rethink their client strategies to effectively deal with Basel rules (i.e., BIS), capital and liquidity requirements, and compliance. They have also started to charge more fairly or more severely for their internal services and costs, e.g., costs related to KYC & AML, bank balance confirmations during the accounting closing period, manual payments, etc. But even with these additional costs recharged to clients, profitability is not guaranteed. You must continue to select the wheat from the chaff. More accounts mean more risks and as the IT legacy of banks remains heavy and computerization complicated, one must choose and mark one's preferences. The banker cannot hope that the only account of a «management company» can subsidize the other accounts in cascade. Therefore, it is necessary to consider solutions to avoid this problem. Of course, there are solutions for those who open their eyes.

SOLUTIONS TO FACILITATE ON-BOARDING

The first solution is to install a perfect and fully automated banking connection. It would never occur to a treasurer to outsource his cash management and payments to a fund servicer that is not connected via SWIFT or via a Bank Single Gateway. A corporate treasurer would not do so for obvious security, internal control, and efficiency reasons. Who today still makes so-called «manual» payments or via Electronic Banking System (i.e., multiline)? Simplifying and automating the process would change the life of the client and the fund servicer as well as the banker. If you reduce your banker's risks, costs, and resources, he will prefer you to others. At the very least, use their host-to-host solution. Furthermore, one solution is to review your banking strategy and make it more consistent: consolidate, reduce the number of counterparties, maximize volumes, automate all processes (e.g., use I-hub or/and Finologee) and talk to your banker to understand his expectations. For European treasurers, in 2022, in their annual survey, they placed the banking relationship as the number 3 priority, behind cash-flow forecasting and digital transformation. So, it seems to me that if you are working with a third party or direct, automating is the key to better on-boarding, accompanied by a smarter group banking strategy. I've also read about the emergence of EMI's and other neo-banks as a panacea. Of course, we can envisage this. But they are not the total answer. KYC can be more complicated than with a traditional bank and profitability, sooner or later, will become an issue. Finally, these new banks must work with global partners and again, this can become more complicated. The other solution, which would be to create one's own bank, is certainly attractive but very expensive and somewhat unrealistic for many. Therefore, it seems to us that before signing up with a fund service company and outsourcing, it would be good to ask how they operate. Some would then understand that these partners work like grocery stores, where processes should be industrialized. Being well connected to one's bank standardizes all payments, regardless of the bank(s), reduces risks and costs, facilitates, and secures signatory validations and automates reconciliations. As we can see, on-boarding is only going to get more complex. We might as well arm ourselves and make it more certain while being more efficient. It is virtuous and necessary if we want to remain «bankable». Challenge your service providers and question them or ask a third party to validate their internal processes before signing a long-term contract. You may be surprised. We would rather advise you to set up your own banking connectivity solution which today allows you to efficiently manage your cash flow and customize your reports at a low monthly cost. It is also the way to bring substance to your activity.


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François Masquelier,
CEO of Simply Treasury – Luxembourg – December 2022

DESIGNING OF THE TREASURY TECHNOLOGY **ROADMAP FOR FULL REVAMPING**

In today's complex and chaotic economic, political, and regulatory environment, it is more necessary than ever to rethink the organization. To this end, when a company intends to implement an SAP4hana system and possibly start from scratch, it is advisable to first determine the route to follow and map the future organization that the company intends to put in place. However, this is not the only fundamental element to put in place. It is necessary to enlist the services of a seasoned and experienced integrator to succeed in reaching the set objective, as the road is long and tortuous. Treasury is a stronghold that can be redesigned independently of other finance departments. Large multinational companies often opt for a complete overhaul, to have a single, integrated, multi-leveraged system with high financial data management potential.

STARTING FROM SCRATCH

Very often, for organizational and budgetary reasons, treasurers prefer the "best of breeds" approach. This is like making your journey in independent or separate sections. This can make the journey longer, especially if the route has not been predefined. This is the strategic choice in cash flow. To claim that one is superior to the other is tricky. It all depends on the traveler and his itinerary. The complete overhaul is impressive, like a cliff to climb. However, it allows us to start on a more solid foundation and a more precise roadmap. In the long run, such an integrated system will allow for much more while remaining in the same data and tool environment.

We must certainly also demystify a commonplace about the implementation of SAP4hana treasury. Many treasurers have the wrong impression that it is Anapurna. They also think that anyone who does not use SAP as an ERP is not entitled to SAP treasury tools. A misconception if ever there was one.

STARTING POINT

The starting point is a complete, clear, accompanied, and supervised definition of the roadmap. For this, it is necessary to select an excellent integrator (recognized and authorized by SAP, such as INTENSUM) to help the treasury to define the contours of the roadmap. There are good practices to define this framework adapted to the digital transformation envisaged. A set of technical requirements and functionalities must be defined to achieve all the elements of the roadmap (see attached chart on the Functional Scope of Treasury Organization). This phase requires the support of experts to map the tasks and functionalities in a complete and exhaustive way to guarantee the achievement of the final objective. Without this, it would be like building a building without a plan or foundation. Finally, you need to prioritize the functionalities in order to determine which ones are more essential over time and build a scalable, agile and modular model according to future needs and challenges. The starting point should be the 4 pillars of treasury activities, themselves listed in "classic" sub-categories (to be adapted to each situation). Then, we will start from the means to serve these activities according to the strategy and organization, the banking infrastructure, the processes and systems in place and the governance with the related internal controls. It is on these means that the work will have to be carried out to ensure the missions listed both technically and geographically since by definition multinationals operate globally.

FUNCTIONAL SCOPE OF TREASURY ACTIVITIES

Activities Categories	Sub-categories	Strategy & Organisation	Banking Infrastructure	Processes & Systems	Governance & Internal Controls
Treasury Operations	Cash Management Shot-term cash investment (AM)	Team(s) & Org Chart (incl. Expertise and experience)	Bank relationships & banking strategy	ERP & TMS landscape	Compliance & Control Framework
	In-House banking Intercompany netting	Mission & Vision	Bank Account Management	Other IT solutions & applications implemented	IC reporting, KPI's
	Payment factory Working capital optimization	Risk Appetite	Bank connectivity	Maket data tool / system feeding	Regulatory framework (ERM)
Risk Management	FX risk management Interest rate management	Policies	Payment methods	Platforms for financial intruments and confirmation systems	Audit & control processes
	Commodity management Counterparty risk	Procedures & user's manuals	Cash-poolings	IT security, IT certifications, IT audits, etc.	Risk mapping & assessment, etc.
	Liquidity risk		API's with banks for additional services		
Processes & IT Systems	Equity raising / listing Net investment hedging Intercompany financing			BCP & DRP	
Reporting & Compliance	Treasury Dashboarding Cash-flow forecasting Compliance reporting (e.g. EMIR, KYC, UBO, MIFid, PSD...)				

FIT-GAP ANALYSIS TO DETERMINE TOOLS

The functional analysis should determine which tool(s) should be combined with an SAP treasury solution to achieve the objectives. Weaknesses or uncovered points will have to be identified to determine if and how a specific module will be able to answer them and how by combining them, the efficiency of the whole will be ensured. The solution or set of tools can be complex depending on the objectives and needs. Ideally, the implementation will be done in cloud mode and on a single central instance. This roadmap will have to cover the needs of the treasury but also consider the long-term strategic objectives of the company and possibly its IT strategy. The quantification of the needs and therefore of the tools or modules will make it possible to put a figure overall, to calculate the return on the investment. Such a treasury roadmap will have to be able to fit and articulate with the other parts of the digital transformation of the finance function. Often, when the transformation of finance is planned, the treasury part can be more easily justified and integrated into a larger and more global project. This kind of project is long, tedious, and expensive. The starting point and the integrator are the two essential pillars that we advise to validate and consider carefully for an ambitious but successful project.

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François Masquelier,
CEO of Simply Treasury –
December 2022.

SARA BERUJON (JP MORGAN):

THE ADVENT OF MOBILITY PAYMENT SOLUTIONS

When a giant like J.P. Morgan acquires a major share in Volkswagen Pay, you know that a revolution is happening. An interview with Sara Berujon, Head of Payments Luxembourg and Country Product Manager Western Europe.

Sara Berujon

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WHAT ARE YOUR PRIORITIES?

I think that the two main reasons I was chosen for the job are my experience at PayPal and my knowledge of the markets: The Europe payment market on the one hand, and the Luxembourg market on the other where I have been living for 17 years. My main priority is to assist with the current changes in treasury, under the influence of digitization and payments. Treasury used to be static and reduced to a simple branch of the CFO. Today, it is an integrated player in a company's strategy, connecting providers and clients through payments. We are witnessing a true revolution and J.P. Morgan wants to be one of its main catalysts.

CAN YOU EXPLAIN THE VOLKSWAGEN PAY ACQUISITION?

Volkswagen Pay and J.P. Morgan established a joint venture in April, which was rebranded under the name "Mobility Payment Solutions." Our vision is to facilitate the integration of new payment methods in a seamless way. In the case of Volkswagen Pay, think about the car as a platform where the final client can execute multiple payments. Paying for gas of course, but also for a takeaway order or an extension of car insurance. Some car manufacturers already allow owners to upgrade their cars with a click. We want to develop payment methods across the value chain. Many of our clients are willing to implement this approach in their own ecosystems.. J.P. Morgan is innovating left, right, and center to facilitate the present and future growth of our clients.

> **WE ARE WITNESSING A TRUE REVOLUTION AND J.P. MORGAN WANTS TO BE ONE OF ITS MAIN CATALYSTS**
> Sara Berujon

> **WE ARE WITNESSING A TRUE REVOLUTION AND J.P. MORGAN WANTS TO BE ONE OF ITS MAIN CATALYSTS**
> Sara Berujon

WHICH CHALLENGES AND OPPORTUNITIES DO YOU IDENTIFY IN THE PAYMENT SPECTRUM?

One of the main opportunities is related to the adoption of ISO standards across the board, which could ultimately enable instant cross-border payments. We would have at the global level what already works at the European level for low value payments. For this, the whole world needs to accept the burden of a short-term investment to open new horizons: Imagine 24/7 instant payment, anywhere in the world! This very simple solution is a necessary complement to other opportunities such as the blockchain. On the challenge side, I think that thought leadership is key: We need to make sure that everyone at J.P. Morgan, but also all over Luxembourg realizes how big this opportunity is. This requires to invest time in training, interviews or conferences and we need to join forces with all the local actors such as Luxembourg for Finance, ATEL, ABBL, and other associations. Everyone should understand payments in a financial center like Luxembourg: The techniques, the value chain, the treasury, and so on. Luxembourg already has the full ecosystem to become a center of excellence in mobility payments.

METATREASURER

If we dared to make treasury-fiction, we could easily imagine the future of the profession and the meta-treasury. Sure, it is not for tomorrow, but it will come. In this article, we have imagined what our future might look like and the implications it will have on our profession. A new world, with obviously its «pluses» and «minuses». The digital future is inevitable, and it is fun and perhaps interesting to look at what it might be.

Metaverse, virtual treasury in three dimensions

The metaverse is an experience in a virtual environment in three dimensions, where it is possible to evolve through an avatar or a hologram. This alternative reality allows to discuss with other people but also to learn, to work or to play and even to manage. The metaverse uses augmented reality (AR) and virtual reality (VR) to create a collective universe. Thanks to these cutting-edge techniques, the metaverse uses verbal and non-verbal communication rules like reality: gestures, facial expressions, tone of voice... From a historical point of view, the term «metaverse» appeared for the first time in 1992, in the novel «The Virtual Samurai», written by Neal Stephenson. The world described in the novel is a science-fiction universe, which could be close to our future reality. What about the treasury of the future? Source of inspiration? Pure fiction? Author's or gamers' delirium? In the cinema, you will of course think of the dystopian universe of Matrix or, more recently, Steven Spielberg's film Ready Player One. MICROSOFT's recent mega-investment augurs the next steps. Cash flow is not a game, let alone a video game. Yet technology giants are betting big on this parallel world. During the health crisis-related lockdowns, games like Fortnite, Roblox and Animal Crossing – all of which feature metaverses – saw their player numbers explode. As an example, in May 2020, Fortnite had 350 million registered players. Even stronger, the Battle Royale mode accumulated 3.2 billion hours of play in April 2020, when it was first confined. What if our profession became "metaversed"?

Augmented reality, increased productivity?

It is not unbelievable, or even impossible to imagine that in a few years, the treasury will be managed in a parallel virtual universe with a sort of virtual world treasury center managed by a team spread out in the four corners of the globe and the country. It would be a kind of telecommuting in the broadest sense, where our treasurer avatars would manage the company's cash flow as a virtual team. The advantage would be to work as a team without being gathered in one place. Space savings, efficiency, reduction of carbon footprint, less commuting fatigue of employees, etc. are some examples of undeniable advantages of meta-treasury. However, there are also disadvantages that should not be minimized. The virtual team spirit remains lighter and more fragile, the morale of the troops also depends on extra-professional relationships, informal and personal exchanges, and friendship. The virtuality of work does not allow to reach the same level of cohesion and knowledge of colleagues useful for efficiency and cohesion. Working only in a virtual world augmented by robotized tasks will be much more boring, repetitive, and distorted. Technology is progress, but it is not always a sign of improvement. We will have to get used to these major changes in the way we work gradually and progressively, which will fragment society and the world of work. You may be working in cash with colleagues without ever seeing them. The days of coffee breaks at the machine, staff parties and trips abroad were good. A blessing in disguise? Certainly, productivity should be increased, but at what cost? It is possible that some people, especially young people, do not want this distorted way of working, even though they are the ones who experience these augmented virtual realities and this «gaming» fashion the most. Depression will not be excluded or the depression of being too alone and having only impersonal relationships via an avatar that is not you.

Technical problems of meta-treasury

Such cash management would raise the question of substance. Indeed, virtually, what about this crucial tax concept? Where will it be taxed? Who will do what and from where? The tax aspect will be one of the major issues to address. BEPS tax rules will have to be adapted in a virtualized world where substance will lose its "raison d'être". It will pose the same problems as home working. Let's not talk about social security and personal taxes that disrupt working abroad without working in the country where you are supposed to work. Normally, one cannot homework more than one day per week if one resides outside the country of the employment contract. There are similar rules for tax matters, which will cause problems: where is the work done from? Depending on location of work, taxes will be applied or adjusted. This will probably be a future organizational concern.

Can metaverse change the rules of our society and the treasury?

In addition to the world of video games, the metaverse seems to be deeply embedded in society. It seems that the various confinements have accelerated the process of digitalization in everyday life, but also in companies. FACEBOOK did not change its name for nothing. For example, in 2014, it bought the virtual reality company Oculus VR for $2 billion. Then, in 2020, they launched HORIZON, a virtual reality and multiplayer social network running on the Oculus VR headset. After entertainment, Facebook Group is now tackling the world of work with the Oculus Horizon Workrooms project, which proposes to use a metaverse to allow employees to virtually meet in a meeting room, as shown in the video below. The example of META now employing 10,000 people to work on virtual reality and augmented reality. The metaverse can be thought of as «an embodied Internet, where instead of just looking at the content, you're in it.» The race to conquer the metaverse is on, and Facebook has every intention of being the first to arrive, followed by Microsoft. One of the challenges will be to build responsible and ecological metaverse solutions. The rules of operation will be changed, and it will be necessary to get used to a different way of working.

What will change

It is not only the way of working that will change. The techniques too: one can for example expect a daily position that will constantly change and a management not on a day-to-day basis, but during the day, with a cash position that will evolve several times during the day, with several positions including instant inflows and payments; management of other (new) asset classes such as NFT's, crypto-currencies; virtual central currencies; "real" virtual accounts (not virtual IBANs) that some like FENNECH already proposes, and therefore virtual aggregations to give tailored visibility through a single bank account; more immediate and dedicated reports; open source systems where basic coding will allow the design of its reports as you want; real-time netting of currency positions; and much more, including continuous and instant cash-flow forecasting; immediate and secure payments and fund transfers; virtualized neo-banking as well; robotic or pre-programmed operations to lighten daily management with machines that will adapt (i.e. machine learning); perhaps interest rates and scales calculated several times a day in view of the multiplied and continuous inflows and outflows; operations in the same «D» value date; random audits, at any time and also virtual; daily valuations and permanent controls carried out by virtual R2D2 type robots; and who knows what else that we surely cannot imagine at this stage.

The treasury platforms of the future are emerging, what we call next generation Treasury & Banking Platforms (TBP), like F3, which foreshadow a new era for treasury. Treasury management is not a game, but it will take some of the codes, without any doubt. Cash flow will become even more democratic, as it is being democratized by smart Fintech's. Everything will be processed via a platform of exchange of financial instruments. Even banks will change with new disruptors like Bank of London, Neo-banks, and emerging players with same motto: "faster, cheaper, better".

Let's not talk about our treasurers' associations either, some of which are already virtualizing conferences. Again, they will adapt to the outside world and deliver other forms of services to their members. I am convinced that a conference like Meta-Finance Luxembourg is the future of conferences.

Pure fiction, treasurer's delusion, or reality to come?

I ask you: am I delusional or will it be possible and plausible? I'm afraid we'll get there sooner than we thought. The best is not always ahead with technology that is supposed to simplify our lives but makes us slaves to the machine, in a virtual world that is elusive at times. Everything will become possible, but the job will be different. Of course, any business will evolve to a greater or lesser extent, but the treasury is promised great advances and a grip on the entire financial supply chain, from procurement to the settlement of financial contracts. So, the key question is whether meta-treasury will offer treasury practitioners a new experience, a fusion, a kind of symbiosis or interaction between two systems without altering either of them, or if it will simply be a total break in the way they operate. The virtual treasury will keep a place of choice in this denatured, virtualized and unfortunately also somewhat sanitized world. For the better, you thought.


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François Masquelier,
CEO of Simply Treasury – February 2022

N°109 – THE CORPORATE TREASURERS' COMMUNITY MAGAZINE

ALAIN GOEBEL AND ALEXANDRE MASCHIELLA

BEWARE OF INTEREST-FREE LOANS:

DO'S AND DON'TS FROM A TRANSFER PRICING PERSPECTIVE

Interest-free loans are commonly used in intra-group relations for various reasons: simplicity and tax neutrality are typically the most recurrent ones. However, the tax treatment of such loans should be carefully reviewed since their qualification as debt or equity is more frequently questioned by the Luxembourg tax authorities. On 23 September 2022 the Luxembourg administrative tribunal has rendered an important decision[1] regarding the tax treatment of an interest-free loan. The case at hand involves a purely domestic situation where a Luxembourg parent company (Parent) had granted its Luxembourg subsidiary (Subsidiary) an interest-free loan (IFL) on 19 December 2016 with retroactive effect to 29 April 2016. The Parent had been funded by a profit-participating loan (PPL) from its own shareholder, a Cayman company. The Subsidiary invested the funds mainly in debt portfolios that generate taxable income but that had been partly offset by a notional interest deduction on the IFL in the tax returns for 2016. A transfer pricing analysis supported the deduction, arguing that the absence of interest was not arm's length[2], and determined the arm's length remuneration of the Subsidiary. In 2017, the Parent and Subsidiary had successfully applied for a fiscal unity[3] and abandoned the transfer pricing adjustment on the IFL. The Luxembourg tax authorities challenged the notional interest deduction, claiming that the true reason of the notional deduction was to redress the situation arising from the omission to apply for a fiscal unity in 2016[4]. They adopted a substance over form approach[5] and requalified the IFL into equity and dismissed the notional interest deduction.

THE UNUSUAL PARTICULARITIES OF THE CONDITIONS OF THE LOAN, IN PARTICULAR REGARDING THE DETERMINATION OF THE INTEREST AND THE REPAYMENT MODALITIES, THE ALLOCATION OF EQUITY TO LONG TERM IMMOVABLES, THE ABSENCE OF GUARANTEES, THE DISPROPORTION BETWEEN SHARE CAPITAL AND DEBT, AS WELL AS THE CIRCUMSTANCES IN WHICH THE LOAN HAS BEEN GRANTED CONSTITUTE ELEMENTS TO PRESUME THE EXISTENCE OF A HIDDEN PARTICIPATION UNDER THE FORM OF A LOAN.

Before the tribunal, the taxpayer provided an analysis on the debt versus equity features of the IFL, justifying the debt qualification and the obligation to apply a notional interest deduction under the arm's length principle. The tribunal responded to these arguments by stating that pursuant to the principle of realism of tax law, the qualification of an instrument has to follow its financial characteristics. The tribunal refers to an earlier decision of the administrative court[6] to decide that a shareholder loan is a hidden capital contribution if the normal financing would have been a share capital increase and that it results from the circumstances that the form of a loan could only have been chosen for tax reasons. The unusual particularities of the conditions of the loan, in particular regarding the determination of the interest and the repayment modalities, the allocation of equity to long term immovables, the absence of guarantees, the disproportion between share capital and debt, as well as the circumstances in which the loan has been granted constitute elements to presume the existence of a hidden participation under the form of a loan. Other criteria include voting rights, a profit and risk participation, entitlement to the liquidation proceeds, the level of subordination, a long-term maturity, conversion rights or reimbursement in shares, a stapling feature. These considerations led the tribunal to conclude that the IFL was in fact a hidden capital contribution. The judges justified their decision by the limited recourse clause, the absence of allocation of the funds to long-term immovables, the high debt-to-equity ratio (90 to 10), the absence of guarantees or indemnities, as well as the conversion rights.

It has to be noted that the factual background most likely disfavoured the taxpayer: the retroactive effect of the loan in 2016 and the absence of any notional deduction after the application of the fiscal unity may have influenced the judges. Nevertheless, the tribunal seems – at least incidentally – to have confirmed that interest-free financial instruments that qualify as loans are still conceivable, which is generally the position defended by scholars[7]. However, in such case, the debt indicators must be sufficiently strong to overcome the interest-free feature. Going forward, it seems that taxpayers not only have to observe the aforementioned criteria developed by Luxembourg case law but should also take into account those prescribed by the OECD's 2020 transfer pricing guidance on financial transactions[8]. In the end, using interest-free loans may thus still be an option, but the arrangement has to be properly documented.

1 Administrative tribunal, 4th chamber, Case n° 44902.

2 Article 56 of the Luxembourg Income Tax Law (ITL) incorporates the arm's length principle in Luxembourg tax law. Article 56 ITL allows for both upwards and downwards adjustments.

3 The fiscal unity is foreseen by article 164bis ITL and allows qualifying parent and subsidiaries to offset their profit and losses. The fiscal unity is however subject to the fulfilment of certain conditions, amongst other a written application from the participating companies that must be filed with the Luxembourg tax authorities before the end of the 1st fiscal year for which the regime is being requested.

4 The fiscal unity would have permitted to offset the taxable profit derived by the Subsidiary from the debt portfolios with the interest deductions incurred by the Parent under the PPL.

5 Paragraph 11 of the Tax Adaption Law.

6 Administrative court, 26 July 2017, n° 38357C.

7 Dr Ulf Andresen, Einkünfteabgrenzung bei grenzüberschreitenden Finanzierungsleistungen post-BEPS in Gestalt der "Transfer Pricing Guidance on Financial Transactions" der OECD (Teil I), IStR 12/2020, section 3.3.2., p. 447.

8 https://www.oecd.org/tax/beps/oecd-releases-transfer-pricing-guidance-on-financial-transactions.htm

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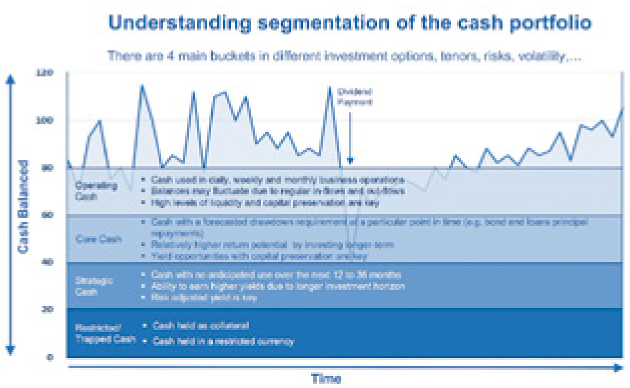
HOW TO MAXIMIZE THE RISK-RETURN RATIO WITH SHORT-TERM INVESTMENTS

For companies that are fortunate enough to have or generate excess cash, it is simpler and more profitable to invest their cash in short-term instruments since interest rates are rising sharply and rapidly. However, it is important to remember the advantages and disadvantages of the different products available to treasurers, keeping in mind the notion of «cash & cash equivalent».

SHORT TO MEDIUM TERM INVESTMENT STRATEGIES

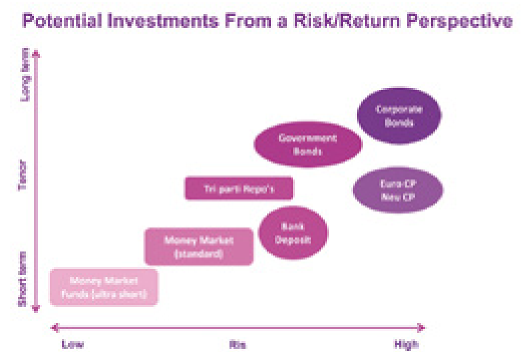
Many companies have remained or are becoming «cash rich» again. This is a godsend at a time of rising interest rates. But treasurers sometimes wonder how to optimize this excess liquidity. The first recommendation, even if it remains very theoretical and little applied in practice, is to segment its excess cash into groups or tranches, depending on the allocation or destination of the funds. The idea is to use this segmentation to allocate each portion to one or more products that are better suited to the risk and the duration of the holding. We can see that the categories can be declined differently. At least three main ones can be envisaged: (1) Operating Cash (needs to be invested in short term, liquid, secured vehicles: very short-term deposits, Repo's or Money Market Funds best suited); (2) Stable Cash (can be invested in low risk and slightly longer maturities up to 12 months) and eventually (3) Strategic Cash (more risky solutions with higher expected return can be envisaged). However, further refinement is possible by identifying other categories or subcategories, including «trapped cash» or «restricted cash» (cash that is inaccessible, for various reasons, and therefore «unusable» by the treasury center).

SEGMENTATION OF EXCESS LIQUIDITIES PER CATEGORY



TYPE SOF INVESTMENT OPTIONS FOR TREASURERS

The range of products that can be used by a treasurer (even more so if he/she has to keep all or part of the liquidity in «cash & cash equivalent» - i.e. IAS7), is relatively limited. However, the risk/return ratio can vary. We can think that money market funds of the ultra-short type, IMMFA, with an «AAAm» rating are the safest without being the least profitable. They allow to reduce the risk by diversification, which itself allows the maximum rating (which is obviously not an absolute guarantee). The return is stable, the interest compounded and the exit immediate and in day value. Who says better? If you segment your liquidities properly, you can allocate the instruments to the pockets thus defined according to their nature and potential duration. You should always avoid volatile instruments and stop thinking that a bond or a bond fund would be less volatile. Of course, it is not at all. We must stop thinking that a bank deposit is risk-free when the Over-Night yields vary greatly (depending on the bank own needs and positions). Finally, we must stop saying that a money market fund is complicated to use, track, or buy. There are platforms for this purpose, much less risky and more secure than calling your banker to entrust him with a term deposit. Some other attractive products, such as tri-party repos are interesting but with a somewhat particular and different management. It is important to make sure that you are always able to process, manage and record in the TMS the transactions made.



« PLUSES » AND « MINUSES » OF SHORT-TERM INVESTMENTS

It is obvious that each investment product offers «pluses» and «minuses», is stronger/weaker in one respect or another. Obviously, we would all look for the ideal, namely: maximum diversification, immediate liquidity assured, the most flexible and easy operational processing, the highest net return, the lowest counterparty risk, the lowest sensitivity to rising interest rates and the most transparent and complete reporting. ..

Pro' and Con's of main S.T. Investments

	Money Market Funds	Bank Deposits	Direct Investments
Diversification	+ + +	- - -	- - -
Liquidity	+ + +	- - -	+
Operational	+ +	- -	- -
Net return	+ + +	+ +	+ + +
Counterparty risk	-	- -	- -
Sensitive to rate hikes	-	- -	- -
Transparency / Reporting	+ + +	- -	- -

WHAT IS THE PERFECT STRATEGY?S

It remains difficult to determine the best strategy, since it depends so much on the culture of the company, its appetite for risk or not, its internal policies in terms of investment and the objectives pursued. As a financial risk manager, the treasurer must find the best alchemy between the different instruments to optimize the return without compromising the preservation of the principal and the correct accounting treatment. Diversification remains one of the best ways to mitigate counterparty risk. Automation is a factor to be considered. We forget that return is essential, but the risks are also operational. A deposit made over the phone is still a somewhat old-fashioned way of working, isn't it?

The right strategy is to segment the liquidity if the C-Level agrees to do so. Often CFOs want 100% of the cash in the short term to cover the eventuality. Reporting is important to measure performance (ex-post) and to reassure management. Performance analysis must be done globally. Sometimes, a long-term pocket can allow the use of more adapted products with a longer horizon and better yield. The overall return can thus be boosted and give an outperformance compared to its benchmark (i.e., often ESTER / Over-night rate). One should also never forget the accounting rules (i.e., IFRS) and the regulations such as the one under review for Money Market Funds. As we can see, managing excess cash is perhaps less stressful than managing debt. Nevertheless, it is sometimes complex and needs to be reviewed, especially after a crisis like the one we have just experienced.

François Masquelier,
CEO of Simply Treasury
– Luxembourg December 2022

WHAT?
ESG AGAIN?

ESG CAN BE COMPATIBLE WITH THE NEEDS OF TREASURY SHORT-TERM INVESTMENTS
Benjamin Defays

ESG is, despite many burning priorities, still very important for Treasurers and higher up in their agenda year after year.

Now, it is also true to say that Treasurers' priority number 1, 2 and 3, understandably is: secure/protect/optimize cash, and green bonds seem to offer less attractive interest conditions. Not forgetting also the time and cost of developing sustainability frameworks which can be significant, and synchronizing the implementation of that and raising debt continues to be challenging for a number of corporates.

That being said, there are enormous oppor tunities for growth in sustainable finance, and the cost and time of ESG reporting as an impediment is falling.

Many treasurers start to see the benefit and opportunities arising out of ESG investment. We hear more and more about green deposits for example. This is regarded by the people they recruit, current employees, but also business partners. Treasurers, acting as risk managers, strategists, and business partners, and being at the center/cross road of all stakeholders in any organization, at the heart of a company's activities, must also ensure to engage other stakeholders and business partners such as FinTech vendors, banks, trading partners, etc. on how they select a relationship.

Raise the right questions:

- What's your ESG agenda?
- Do you have any metrics?
- Can I see them?

I think the main obstacles nowadays is the lack of visibility on metrics of ESG impact of investments. For example, what we know today is that, in terms of investment, crypto currencies, being another asset class more than just a new currency, have very low ESG levels (crypto asset providers should disclose the energy consumption and environmental impact of assets):

- What about the other investments?
- What's the composition of the fund?
- What's their ESG performance?

Sometimes, I ask myself whether ESG investment isn't better suited for longer-term investment, because there seem to be a paradox with ESG and the notion of "short term"... That being said, I think the concerns of ESG can be compatible with the needs of treasury short-term investments, because the offering is widening, and appetite growing. Right now is a real good timing to kick this off because many treasurers still don't have this on their agenda, or very low in the list of priorities, while it has for some already proven a great success in their treasury team, and has helped show other department of a company how treasury can be a pioneer in that area amongst others, accelerating the company's ESG agenda and being seen as an example for others.

Unfortunately, other dark clouds loom in ESG: green(blue) washing.

Some treasurers fear that the only green money out there is the US Dollar (and blue money the Norwegian Krone!) I think it goes down to trusting your business partner, building that relationship along the way and asking for transparence over ESG metrics, and sharing data. If you happen to be exposed to green washing, you know the long-term relationship is altered and your business partners know that too.

The main impact from this is obviously that investors are taking much more time and care in carrying out due diligence. Investors now want to be 100% certain that there's going to be no threat to them from finger pointing due to greenwashing. It's all about reputation damage.

It is not helping ESG investment to gain traction, and to protect themselves treasurers must simply ask for full transparency from their investment partners.

Lastly, let us not forget that not all funds are suitable for ESG, and that can lead to a non-ESG funds banning as ESG becomes more and more the norm. Some funds can be neglected simply because there are not ESG and that can become the no-go criteria. We should apply judgement and common sense while assessing investment opportunities and not exclude non-ESG funds. It's like in any investment talks: diversification is key.

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Benjamin Defays,
Senior Associate Vice President, Revantage

DYNAMIC HEDGING OR HOW TO ADJUST PRICING **OVER TIME TO REDUCE COSTS OF HEDGING**

Faced with volatile markets and fluctuating currencies, with high interest rates, who hasn't dreamed of being able to save the swap points that deteriorate the forward price? As Sun Tzu said, the success of any operation lies in its preparation. And preparation is the implementation of tools adapted to the strategy that can guarantee the agility of reaction. For FX management, a process that remains too manual, even in MNC's, adding the missing IT piece is the key to efficiency. By adopting a dynamic management, one can gain competitive advantages over competitors in pricing and price protection, especially for the most exotic currencies.

WHY MAKE YOUR FX MANAGEMENT (MORE) DYNAMIC?

To have a truly dynamic FX management, you first need an appropriate and automated IT tool. Indeed, it is impossible to set up such an efficient manual system even for a single exposure. This is why few treasurers' resort to such a strategy. The idea of tools such as CMA (i.e., Currency Management Automation solution), a necessary complement to T(R)MS's, is to make hedging processes more fluid, efficient, fast, secure and to create opportunities, if possible, as with the "dynamic" strategies we intend to describe. Whatever your approach to currency risk (i.e., layering, static or micro-hedging or multi-strategies), the key is to automate the process of hedging the financial world 24/7 and protect positions no matter what. Volatility is indeed one of the after-effects of the recent covid or more recently of the (risk of) wars. Taking advantage of a monitoring tool allows you not to hedge while controlling your risk and your position and finally being able to act just in case. The "just in case" approach is vital in these times. The so-called dynamic management will only cover the pre-trade and trade part of the process.

CMA SOLUTION, THE PERFECT COMPLEMENT TO A TMS FOR FX HEDGING PURPOSES

CMA are a perfect complement to any TMS, as it covers functionalities, these TMS's do not cover or at best not cover at 100%. We could compare this to a car. You told to your CFO you bought a new car (i.e., a TMS) and claim it is the best solution to solve your treasury issues. However, after a while you realize the car is not perfect and do not cover all your needs. Therefore, you decide to add options, (i.e., CMA) to complement the engine and get better performances in line with your expectations and to cover 100% of your needs. The problem with whatever TMS these days is their SaaS multi-tenant approach which make them rather generic, sort of "prêt-à-porter" solutions not fully perfect and fit. It explains why they may require additional tools to cover the whole spectrum of functionalities around FX all treasurers need. To give you examples, TMS's in general present lacks strong FX rate feeders. A good CMA should allow treasury teams, among many other things, to set up an efficient data-driven solution to manage all the aspects of pricing with FX rates, including pricing risk.

DYNAMIC PRICING

To set up an efficient FX risk management process in place, the treasurer needs to manage pricing risk. In terms of pricing efficiency and speed of delivering data. Treasurers must understand pricing to design an effective automated FX management process. When you have a dynamic FX price fixing, you can adjust it. Pricing risk is the risk that —between the moment an FX-driven price is set and the moment it is updated— shifts in FX markets can impact either a firm's competitive position or its profit margins. To mitigate risks, the treasury team must increase the frequency of pricing updates. For companies keeping pricing during the whole season, budget period or campaign, the re-fixing of pricing is less an issue. However, time is the most important issue for all companies when underlying risks are identified by business operations and reported to treasury. The faster and more straight the data is conducted to the in-house bank, the smaller the delta will be.

DYNAMIC HEDGING, WHAT IT IS AND IT IS NOT

When we talk about "Dynamic Hedging", some people refer to the strategy of hedging in those periods when existing currency positions are expected to be adversely affected and remaining un-hedged in other periods when currency positions are expected to be favorably affected. It is also a strategy that involves rebalancing hedge positions as market conditions change; a strategy that seeks to ensure the value of a portfolio using a synthetic put option. However, here we prefer to opt for another acceptance in treasury. For CMA solutions, it may mean that the company in order not to be penalized by huge differential of interest and negative swap points (depending on if you sell or buy the exotic currency) decide to opt for a more dynamic approach with daily limit refixing to get benefit of time passing (and therefore reduce costs of hedging) while fixing purchase order (i.e., security boundaries). It means that each day we are within the boundaries and in the range, no hedging is made. Every day it is refixed and adjusted if needed to take benefit from time reduction (i.e., less swap point impacts) and potentially enjoy a better hedging rate. In FX hedging time can have a cost and it is what we need to control without necessarily hedging at inception. Providing you have an automated tool in place, you can guarantee the risk is under control and potentially get benefit of time passing.

VALUE CREATION THROUGH BETTER FX MANAGEMENT

Dynamic hedging is key to get benefit from time and fight against swap points penalties. These days, the cost of hedging is already increasing over time (for many different reasons but mainly accounting and regulatory reasons) and huge differential of interest may penalize companies and prevent doing some businesses. Failure to take advantage of this type of opportunity is a serious shortcoming in terms of pricing strategies, at a time when —according to consultants — pricing is becoming a key strategic element in today's competitive landscape. It is even more essential for low margin and high-volume businesses. Arbitrary time-driven rules (well-defined) should give way to a data-driven approach that consists of setting boundaries around an FX reference rate, such that prices are updated only if the market moves beyond the upper and lower bounds of those boundaries. The system then serves a new reference rate and dynamically adjusts the upper and lower bands around it. These approaches enable treasurers to take advantage of favorable moves in currency markets while protecting budgeted profit margins, independent of when movements (if any) occur. The determination of boundaries far or close to the reference rate set reflects the treasurers' tolerance/appetite to FX risk. The beauty of automated systems is the capacity to select the currency pairs to be dynamically monitored, the boundaries, the amount, the timeframe, etc… and it can be adjusted based on circumstances. In a fast-changing world, highly competitive, the refining of FX rates for hedging may give the corporation a competitive advantage on peers. Don't miss opportunities to better and more efficiently manage FX risks.

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François Masquelier,
CEO of Simply Treasury – March 2022

Disclaimer: This article was prepared by François Masquelier in his personal capacity. The opinion expressed in this article are the author's own and do not necessarily reflect the view of the European Association of Corporate Treasurers (i.e., EACT).

ANTONIO RAMI (KANTOX)

WHY YOU NEED TO AUTOMATE SWAP EXECUTION

Do you struggle with having a perfect match between your currency hedging position and the cash settlement of the underlying commercial exposure? We'll let you in on a secret: most treasurers and finance teams do. But how can you simplify this time-consuming and resource-intensive task? In this article, we show why you need to automate swap execution and how you can do it.

We reveal why this is an essential issue for treasurers, how it's typically handled, and why automated swap execution can help finance teams play a more strategic role in the business.

SETTING THE SCENE

Treasurers know that it is practically impossible to have a perfect match between the firm's currency hedging position and the cash settlement of the underlying commercial exposure. That's especially the case if those hedges were taken long before. This is why swapping is so essential.

Let us briefly see an example. If you have a 'long' USD forward position with a given value date and you need, say, 10% of that amount in cash right now, a swap agreement allows you to perform that adjustment.

With the 'near leg' of the swap, you buy the required amount of USD in the spot market while simultaneously selling – with the 'far leg' of the swap– the same amount of USD at the value date of the forward contract. And that's how you adjust your firm's hedging position.

PAIN POINTS: A RESOURCE-INTENSIVE ACTIVITY

Swapping can be extremely time-consuming and resource-intensive, particularly if many transactions, currencies and liquidity providers are involved. We recently saw how a large European food producer was struggling mightily with manual swap execution, a dreadful situation faced by many, if not most, companies.

Among the most common pain points, we can cite the following three:

Operational risk. Many tasks are manually executed: retrieving incoming payments, selecting liquidity providers and confirming trades. The entire workflow relies on emails that circulate back and forth with spreadsheets carrying potential data input errors, copy & paste errors, formatting errors, and formula errors.

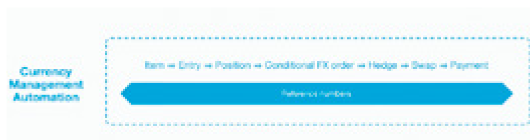
Lack of traceability. Lack of proper traceability hinders the process of assessing hedging performance, as swap legs are manually traced back to the corresponding forward contracts.

Risk of unethical behaviour. Understood as the risk that early mistakes that are not immediately reported may lead to severe losses down the road, it is prevalent throughout.

TRACEABILITY AND AUTOMATED SWAP EXECUTION

Traceability is when each element along the journey from FX-denominated entry to position to operation to payment has its own unique reference number. But how can we apply this concept to solve the problem of manual swap execution?

The answer is automated swap execution, a solution that is embedded in Currency Management Automation software. It relies on the perfect end-to-end traceability between the different 'legs' of a swap agreement and the original forward contract. Meanwhile, FX gains/losses and swap points are automatically calculated. It's dead simple!



Swap automation is a powerful tool for the treasury team. At the company level, it opens the way to:

- According to recent surveys, increasing the efficiency of treasury operations is the No. 1 expectation in tech for CFOs.
- Using more currencies in the business to take advantage of the profit-margin enhancing possibilities of 'embracing currencies'.
- Taking a concrete step toward the 'digital treasury' is a concern voiced by many CFOs and treasurers.

At a personal level, in terms of the daily workload of members of the treasury team, automated swap execution means:

- More time to concentrate on high-value-adding tasks such as fine-tuning and improving cash flow forecasts.
- Reduced stress levels.
- Increased productivity at work.

And that's no small achievement!

Simply Treasury

WHITE PAPER

FOCUS

DIGITAL SIGNATURE POWERS, THE MISSING PIECE

SPOTLIGHT

VOICES OF THE INDUSTRY

DESPITE TECHNOLOGY EVOLUTION, THERE ARE STILL PAIN POINTS IN TREASURY

"For corporate treasurers, there are two main remaining pain points, despite technological evolutions. There are technical issues they encounter in their day-to-day work that consume resources, time, and energy. They are, KYC procedures and signing authorities. At a time when technology is sending us into space and cars are flying on electricity, isn't there a gap? How can we explain to young treasurers that nothing has be done? Yet, solutions are finally emerging".

François Masquelier, Simply Treasury

AUTOMATION TO PREVENT RISKS

"The best solution to avoid operating and fraud risks is to automate processes. Powers of signature are not yet digitalized and transmitted to banks in a save way".

Winkie Choi, AMAZON

DIGITAL POWERS OF SIGNATURE TO GAIN TIME

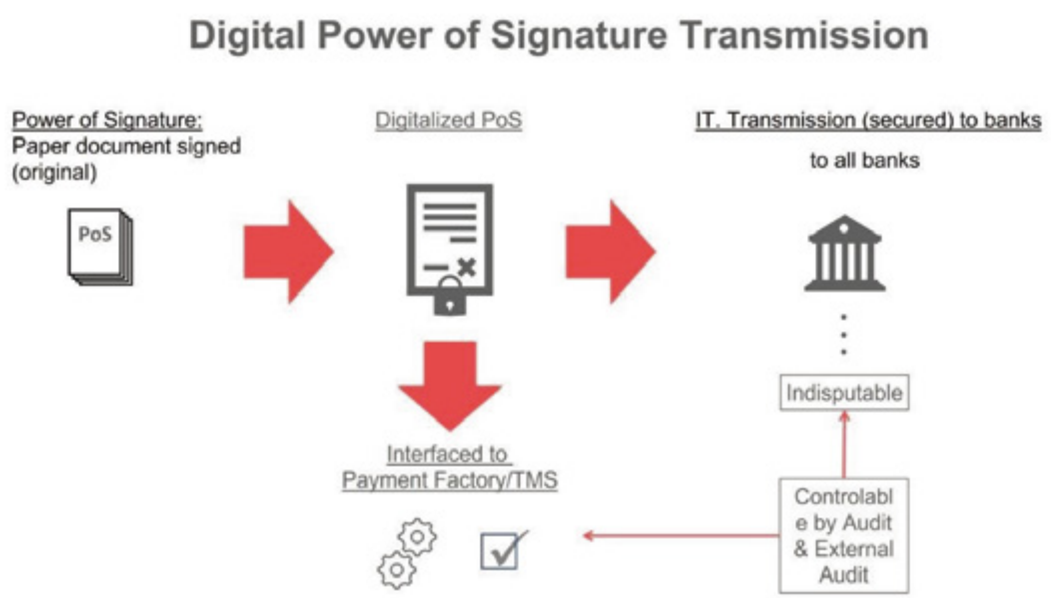
"By digitizing the powers of signature, corporate treasurers can ensure faster transmission of a key piece of information and guarantee immediate update of bank systems and files".

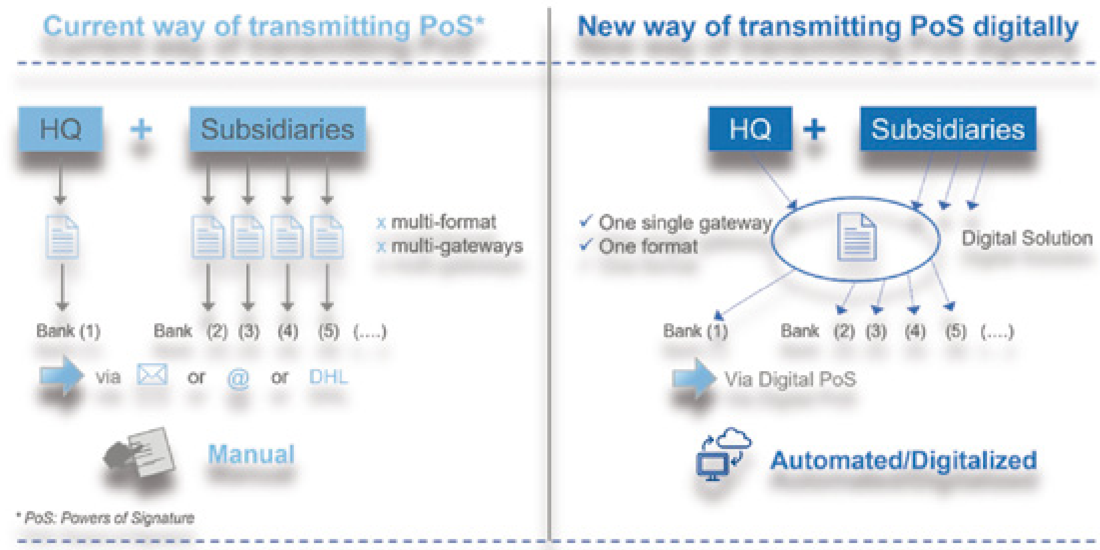
Patrick Verspecht, ATEB

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 treasurer to increase productivity by digitizing and transforming his/her department, we continue to favor manual management (even if boring to death) for a key process. Now, additional human resources cannot be considered as an option. Therefore, increased efficiency can only come from automation.

Paper-based processes are still costly, risky, inefficient, and potential sources of human error. Homeworking 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 each bank applies 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 the banking partners (and other stakeholders) 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.





Current Power of Signature transmission versus digitalized' s

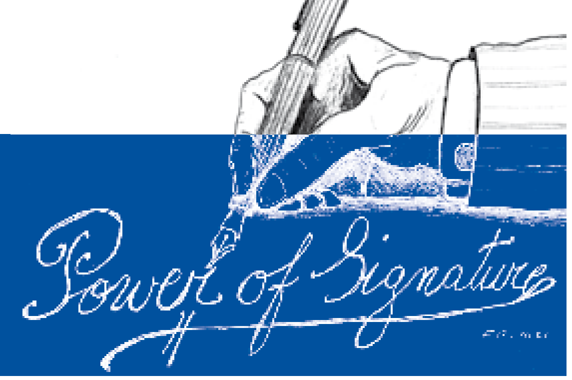
The more centralized the treasury activity and the more you operate as an In-House Bank or Payment Factory, the more complex this subject becomes. The number of entities included in the scope can make the task, if centralized, simply impossible, or inhuman. In addition, it generates enormous risks that 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.

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. We should 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 do not tackle the things that make us angry and upset first. Yet, that is 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.

Who has the power to sign?

Managing bank signing authorities for a business, with many bank relationships, accounts and countries covered, can be a crossroads for the treasurer. The management of signing powers, essential in bank account management, even when connected to the bank via a secure channel such as SWIFT or equivalent and even though the burden of verifying the signature lies with the originator. Often, this management is still done by the classic and "ancient" means to communicate a change of signatory. In the context of KYC, pieces of information are transmitted by post, express courier, e-mail, or even hand to hand. Not only is it not automated, nor secure, but above all, it is completely manual. A wasting-time task, no one is enthusiastic to do, and which can distract treasurers from allocating more time to higher value-added roles. Unfortunately, the treasurer still awaiting complete and fully operational KYC solutions must address the issue of the transmission of bank signing powers. The dream of any treasurer would therefore be to become able to transmit, in a completely integrated and secured way, the powers of signature. This digital transmission will be more easily integrable for the bank and identical for all. The management of powers of signature in a tool, for those who have one (i.e., TMS and / or Payment Factory or even ERP) should be automated, with an audit trail, segregation of duties, four-eye principle, documentation, and protection to prevent any potential fraud. Payments have demonstrated the risks they inherently carry, and fraud has seen a significant increase since COVID and furthermore, homeworking has demonstrated the risks when processes are not digitized and robust. We should also not forget that, according to last surveys (i.e., PwC Global Treasury Survey) raising digital acumen was ranked as second priority. In the last EACT annual survey, digitization of treasury was also ranked second priority of treasurers.

Standardization, the missing piece

As always, it hurts because the processes, formats and organizations vary from one to another. This is the same problem as with KYC. For this dream to come true, solutions must be developed, and fortunately some are emerging. Who would not dream of having an update of signing authorities in a single centralized system (gateway), by a team other than those who approve, prepare, and transmit payments? On top, it would be great that these signature rights updates be automatically transmitted to all banks, quickly in a standard digitalized format directly reusable by them. The technology exists, as it often does. All it takes is a FinTech to tackle it and meet this unsatisfied need.
When updating signing authorities (i.e., bank power of signature), you can never be sure that you have informed all banks without an (e)BAM module and that they have received and processed it. As BAM are not yet fully "Electronic", it is generally done by pre-designed mailings. This is the reason why, on the eve of an annual audit, to avoid bank confirmation problems (a classic issue faced by treasurers), we avoid transmitting new powers of signature that could, when reported by banks to the auditors, differ from those effective (for lack of time for the bank to integrate them given the heavy processes in place). We therefore see the risks and the tricks. Often, treasurers do somersaults to get their way and to get it done. Modern treasury organizations should systematically guarantee, secure, and automate any change in powers of signature.

Riccardo Balsamo
CEO & Founder of DELEGA

INTERVIEW

SUMMARY OF MAIN ISSUES BOTH BUY & SELL SIDES

CORPORATE

- Spend time on a paper based and repetitive task
- Lack of transparency (who are my signatories as of now?) and certainty (what documents do we need to send to which banks
- Different processes and requirements across different banks

BANKS

- Spend 5-10% of time on a paper based /repetitive task
- No "first time right" causes inefficiencies and delays
- Lack of visibility on client's mandate with different lists causes audit issues, operational and reputational risks for the bank

Why bank signatories' management is a pain for Corporates?

I have clear in my mind when I worked for a bank dealing with the treasurer teams. If you ask a corporate treasurer 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 KYC procedures and signing authorities. Let's think about the very low added value of this repetitive and 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, the manual tasks are still favored (without guaranteeing completeness). Paper-based processes are still costly, risky, inefficient, and potential sources of human error. Further, the fact that each bank applies different processes and procedures, depending on the network or country, increases complexity. Keeping signature powers up to date and being sure that they have been communicated to your banking partners (and others) in due time is never a certainty. Let me be clear: this is an archaic and too basic transmission method that adds a layer of risk, which modern technology and the subject matter do not allow to be tolerated. Moreover, the worst risk for a corporate is to forget 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 and up-to-date database, the process must be digitized and systematized.

How important is it to have a cooperative approach amongst fintech, corporate and banks?

I always like to say that there is a secret sauce to make everything work. In this case, that is co- creation! We have created a working group with major players, involving banks and corporate from day 1 in the definition of the new solution…. End users have been involved from the very beginning in the product definition. What was the consequence? They feel this project a bit like theirs too and that's why they are passionate about it. 1+1= 3! Company should step in and stop only complaining!

How to overcome signatory management challenges/main characteristics of the "ideal" solution?

The keywords for answering this question are the following: corporate treasurers need a bank agnostic solution, an end-to-end digital process, a secured solution which is fully auditable, with an intelligent workflow engine, including instant access to data and that takes all the pain points. We can claim that today everything listed above can be solved by us.

Riccardo, you are speaking about a simple, intuitive and no time consuming bank accounts signatories system: is it actually possible?

Well, I really think that a fully digitized bank signatories management is necessary. Now we see a real solution built by treasurers for treasurers and dedicated both to corporates and banks in order to help them manage the overall end to end process of who can sign what. The next steps and future strategy and vision are the integration with e-signature and digital identity.

TAKE AWAYS

BENEFITS OF A DIGITALIZED MANAGEMENT OF POWER OF SIGNATURE

What would be the gains of such a digitalized solution?

- Efficiency gain / Gain in human resources
- Speed of transmission of the pieces of information, including guarantee of receipt by the banks
- Enhancement of internal controls around payment processes
- Audit trails for tracking changes and initiators of them
- Full integration with IT tools (e.g., TMS/payment factory/…)
- Guarantee of receipt of amended PoS by banks (irrefutable and unquestionable)
- Gain of time and additional security comfort for counterparties (i.e., banks)
- Opportunity to revisit processes related to payments and financial signatures
- Better controls on subsidiaries' power of signature (i.e., PoS)
- Comprehensiveness of communication to banks
- Virtuous as also beneficial for banks to reduce back-office costs

CONCLUSIONS

Customers stringent selection by banks

Banks for KYC / AML reasons, but not only that, are always becoming stricter and more demanding because their profitability generated by their customers is sometimes low. The weakness comes from the downstream costs (at bank back-office level). If you lower costs for the bank, secure its processes, you encourage it to continue working with you. Failing to increase its margins and revenues for the customer, it must reduce its own internal costs. Isn't this a great opportunity offered? Too often, the client and the treasurer are no exception, forgets to think about the best interests of their supplier. A happy supplier is a supplier who will stay loyal. Think about it when considering a review of your internal procedures. This is an easy to "sell" innovative project, but so necessary and which will enable you to sleep soundly without fear of fraud. When resources are scarce, when costs are cut and when hiring an additional FTE is an impossible task, the solution lies in automation.

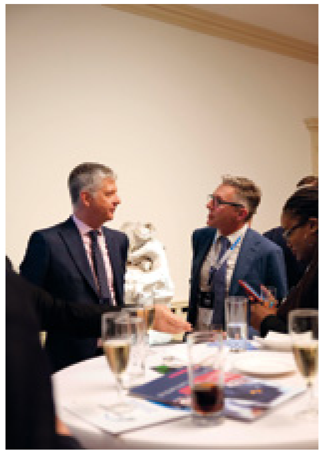
Too manual processes must be banned in modern treasury

What always surprises me is the discrepancy between, on the one hand, an efficient and automated treasury, and certain processes, such as foreign exchange or KYC's or signing powers, which are always so manual in their management. It is an inexplicable and dangerous paradox that it is time to tackle. The idea of implementing a "first time right" approach to simplify while securing the process is interesting. Having a single process that covers all banks centrally prevents inherent risks. The complexity of signing powers, double if not more, at different power levels and amounts, makes power of signature mapping a delicate and yet inevitable exercise. It is at this price that treasury will be able to become even more digitized and that it will be able to mitigate the risks inherent in its management. Those who take this step will be ahead of their peers in terms of internal controls and security. The news of working from home has only increased the risks and problems. Here we have a fantastic opportunity to modernize the treasury and professionalize it.

The panacea

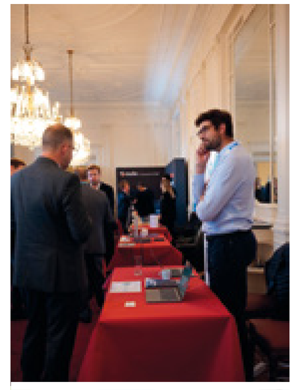
When credentials change, for whatever reason, speed is of the essence. The sooner the bank updates the credentials, the safer the position of the corporate client. Fraud has only increased in recent months, perhaps exacerbated by COVID. Even more reason to protect yourself further. Moreover, treasurers 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 which 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 treasury shows real technological advances that revolutionize everyday life.

The management of signing authorities remains a major problem for multinational companies and their treasurers. It is a source of pain points, error-prone activity, with no added-value, based on paper and highly manual. However, solutions are emerging to offer the digitalization of the management of signing authorities and thus allow increased efficiency, enhanced security, better internal controls, and speed of execution, essential for payments. This is a major step in the digital transformation of modern treasury.



ATEL TECH DAY

On November 24, ATEL organized its first ATEL Tech Day at the BCEE. Odile Brandstetter (Majorel), Johan Claudot (Revantage Europe), Mario Del Natale (Johnson Controls), Emmanuel de Ressiguier (Fennech), Padraig Brosnan (Treasury Delta), Riccardo Balsamo (Delega), Michael Diet (Intensum), Nasir Zubairi (LHOFT), Winkier Choi (Amazon), Isabelle Badou (Sanofi), Benoit Sholtissen (Aperam) and Corentin Maricq (PwC) each animated presentations around treasury tech themes. The participants then enjoyed a cocktail reception.



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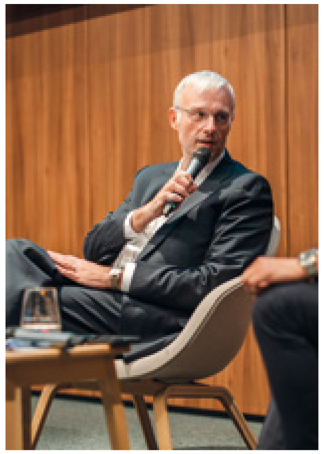
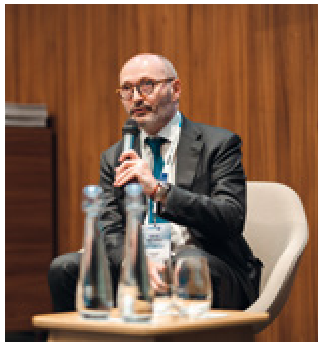
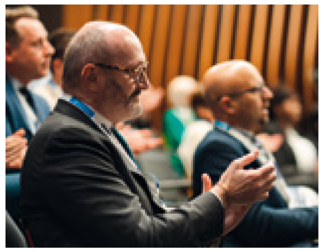
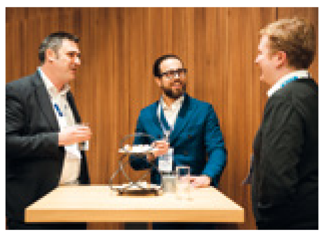
ATEL WINTER CONFERENCE

On December 15, ATEL organized its 2022 ATEL Winter Conference at the Arendt House. Patrick Simeon and Nathalie Coffre (Amundi), Vincent Liegeois and Philippe Billot (Pictet) and Edouard Beauvois (AiVidens) and Frederic Chapelle (PwC) each animated presentations around treasury tech themes. The participants then enjoyed a cocktail reception.











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