



TREASURER

THE CORPORATE TREASURERS' COMMUNITY MAGAZINE

EXPLORING DATA



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THE THANKLESS ROLE OF AN ASSOCIATION TREASURER, ADVOCACY

ADVOCACY, A KEY ROLE TO PREVENT INADEQUATE FINANCIAL REGULATIONS

Advocacy is one of EACT's many roles. It is often overlooked by our members who only see the impact of regulations after the fact or when they are imposed on them. However, without the vigilance of a few and of the EACT, helped by its FRAG group and by its advisors, i.e., Fleishman-Hillard, nothing would guarantee the serenity of treasurers, especially at the end of crises, while the legislator seeks to correct past errors and excesses by means of directives. The EACT must be a kind of prophet in his own country and watch over the grain before the regulations are even applied. EACT acts well upstream and that is why its role is underestimated and misunderstood. Who cares about a regulation when it will only be applicable in 24 or 36 months, I ask you? This is where the difficulty lies in demonstrating our crucial role and results when many have not even realized the danger we have avoided. We are shadow workers, fund miners, guardians of the temple...

Brussels is one of the two cities in the world where the word lobbying applies. The mysteries are complex. You must master them to be able to act and try to influence the legislator or the supervisor. Never forget that there are people looking out for your interests when you are focused on your job as treasurer. Who would want to read 50 to 100 pages of a recital, discussion paper, directive, bylaw, draft bylaw, minutes of a public meeting, etc.? No one unless you are hyperactive and anticipate the future of the profession. I think all treasurers should recognize the work done by their associations and EACT. They should be grateful to be advocated for by their peers. They should appreciate the time that others spend advocating for them without asking for anything in return except their satisfaction. They should understand that some must measure, calculate, appreciate, and underestimate the impact that a measure or an article can have on their business. I have been aware for 21 years that EACT works simply efficiently and with conviction to

defend us and I would like to thank them today because we forget a measure or a flawed idea when it has been prevented by the intervention of a pro-active, curious, and protective peer. Lobbying is a profession, one of the pillars of our association and one of the foundations of what made us. Believe me, there are many measures which, as you read these lines, are or will be put aside by our intervention e.g., EMIR and the end of the reporting exemption for inter-company OTC derivatives transactions, the new overweighting foreseen by Basel 3 on bank guarantees which would modify the cost of them or even on instant payments and the IBAN check name.

Somehow, ATEL through EACT, is working in the shadow to defend corporate treasurer's best interests. There are a thousand reasons to thank our national associations and EACT. So, I wanted to pay tribute to them and to thank those who look after our interests, without boasting, without publicity, without any compensation and without asking for the slightest thanks, however deserved. The federation of corporate treasury associations, across Europe, monitor financial regulations and follow any EU initiative that could impact the day-to-day operations of their members. Let's salute the enormous work done by the EACT and the results obtained for more than 20 years. Bravo to you all and thank you! —



François Masquelier,
Chairman of ATEL

TREASURER

The Corporate Treasurers' Community Magazine

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SOCIÉTÉ GÉNÉRALE: A NEW WORLD FOR CASH MANAGEMENT

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When central banks U-turned to adapt to inflationary conditions, Jean-Philippe Dibon, Head of Institutional Business Development and Bertrand Durnez, Head of Fixed-Income Portfolio Management at Société Générale Private Wealth Management, say it created opportunities in the new world of cash management for treasurers who adopted a bond “buy and watch” strategy and are taking advantage of the growth of Green Bonds.



From left to right: Bertrand Durnez, Jean-Philippe Dibon.

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How do you assess the current cash management landscape?

A new world of cash management opportunities opened when, in 2022, central banks made a U-turn on their policy to adapt to inflationary conditions. After a long period of lack of opportunity, sluggish inflation, and negative returns, the new environment presents a different landscape. European central bank pushed interest rates to levels unseen for more than 10 years to avoid an inflationary spiral. Despite a steady inflation, this aggressive tightening cycle is making its effect and inflation seems now under control. Both the Fed and the ECB are coming close to a pause in their cycle, but history taught us that any tightening period

is followed by an easy one, usually within a short space of time. In this context, the attractiveness of deposit accounts further decreases as future reinvestments are likely to be made at lower rates. For Treasurers, corporate bonds offer an attractive alternative to deposits, enabling to lock current interest rates over various investment horizons while providing visibility and security. Historically, bond markets have performed well after rate hikes. The current period seems to pave the way for opportunities. Despite a recent tightening of credit spreads, premiums remain high, supporting the investment grade side, which is a good point for institutional investors as IG assets are the prime asset class for treasuries.



AT SGPWM WE ARE CONVINCED THAT INCLUDING ESG CRITERIA CAN SIGNIFICANTLY HELP AVOID RISKS IN AN UNCERTAIN WORLD.

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THE GREEN BOND
MARKET ALSO
OPENS NEW
OPPORTUNITIES.



Bertrand Durnez

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➔ How do you manage your performance in an uncertain world?

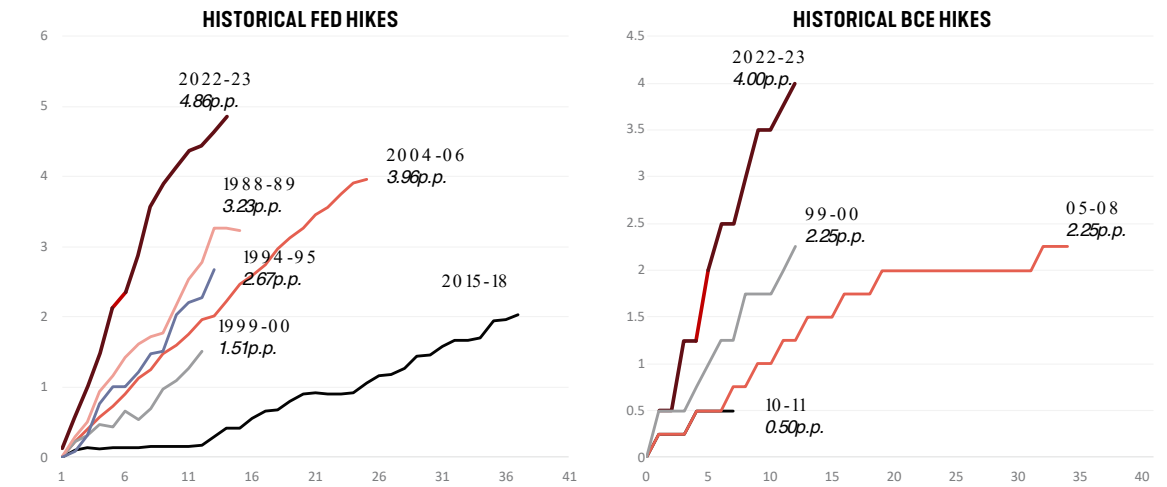
An asset manager should achieve the best possible performance following the company's code of conduct. Today this includes not only the risk-return profile or liquidity constraints but also the company's philosophy and ESG criteria that the portfolio manager must embrace and enrich. On top of a pre-defined investment horizon and a strict selection of issuers, we favor a "buy and watch" method over a "buy and hold" approach. Selection is key and follow-up is essential. This is perhaps the reason why since 2011, the average default rate of the credit market has been 3.28% worldwide (Moody's) when, in the same period, SGPB recorded eight defaults on a list of 500 issuers worldwide and a credit default rate of 0.13%. In 2022, we did not suffer any defaults. Of course, we must remain cautious, our investment process helps but the future is never certain. But with the benefit of hindsight, we have to realise that many of the recent bankruptcies or distressed business situations were caused by poor corporate governance, or even blatant

accounting fraud. At SGPWM we are convinced that including stringent monitoring of our universe and strict ESG criteria can significantly help avoid risks in an uncertain world.

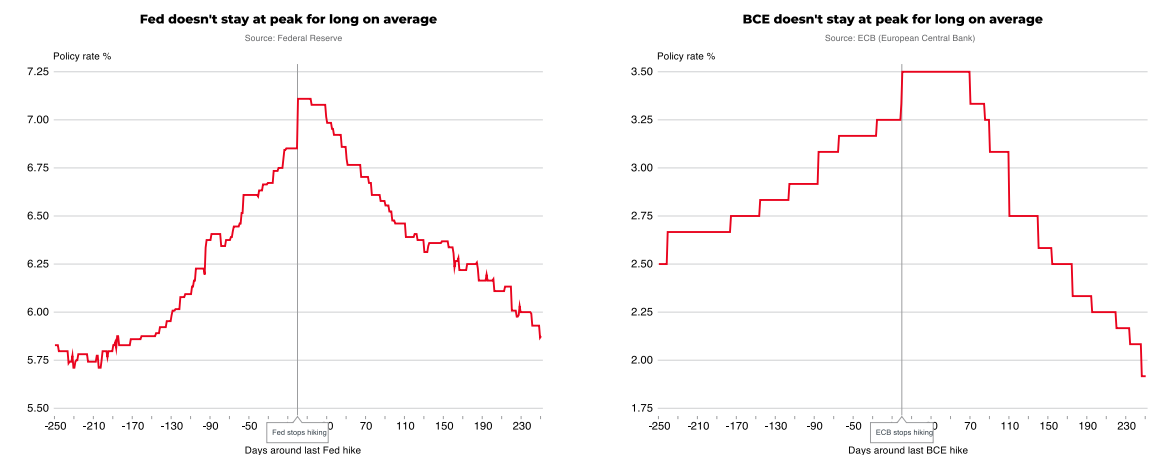
What opportunities do you identify in this context?

With the combined effect of higher risk-free rate and attractive credit spread, Investors are no longer condemned to take additional risks to capture attractive return. In this regard, IG debt is a large part of the answer. Diversification with high yield or equity exposure, if your policy allows this risk, can help optimize the return. The Green Bond market also opens new opportunities. Helped by a favorable political framework, and boosted by positive supply and demand factors, the market has become more liquid and dynamic than ever. Some 5% of total issuance in 2022 were Green Bonds. ECB included GB in its current and future asset purchase programs. Demand from institutional investors grew as Article 8 & 9 funds are developing. Finally, the market enjoyed a continuous progression of ESG ETFs purchases. —

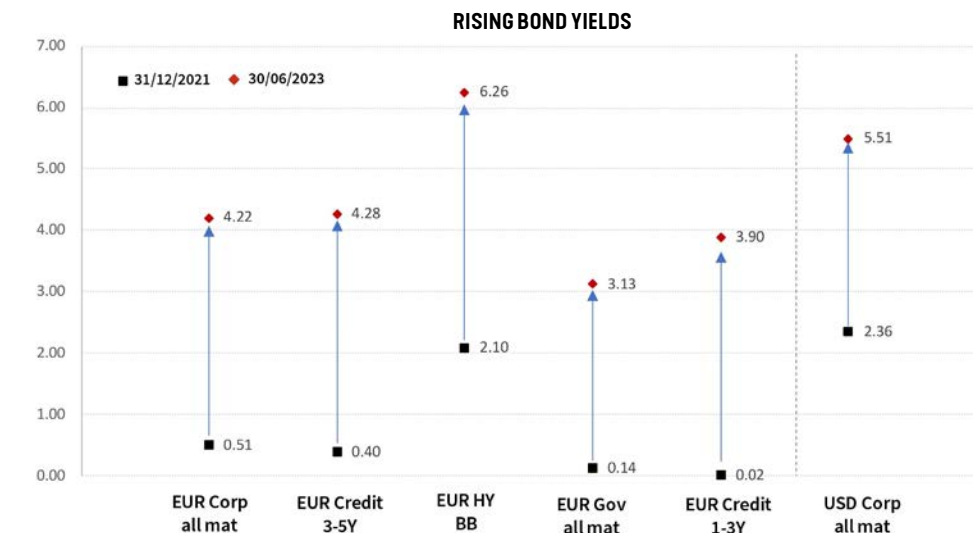
HISTORICAL HIKES FROM CENTRAL BANKS



CENTRAL BANKS DON'T STAY AT PEAK FOR LONG



HIGHER FIXED INCOME YIELDS



Source: Societe Generale Private Wealth Management, macrobond – June 2023. Past performances are not a reliable indication of future performances. For further explanation regarding those terms, please refer to the glossary.

HOW CAN DEVOPS INFLUENCE TREASURY OPERATIONS?

A discussion between Francois Masquelier and Darryl Claret.
March 7th 2023.

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So why DevOps, Isn't that a technical methodology? Are we focussing on the Technology side of Treasury Operations?

Not exactly. As you know, I always try to apply innovative concepts and practices from other domains, and I believe that the power of DevOps can improve Treasury Operations from a Technical and non-Technical Perspective. During the Panel Discussion at the ATEL Tech Day last year, we briefly covered that Treasury Technology should facilitate and not hinder Business Objectives. That the function of a Treasury is not to input data into a Treasury solution, but to make effective decisions, facilitate transactions, drive down costs, and manage the associated risks. In other words, the Treasury Platform should work seamlessly in the background.

I am just taking this one step further. A Treasurer should never face a situation where they cannot effectively hedge a position or expand into a new

market because they lack the Technology or Business Capability.

OK, so can you briefly explain what DevOps is and how it can be leveraged?

Sure. DevOps is a methodology to rapidly develop and deploy software and infrastructure. You can think of it as a faster and more reliable way of rolling out new features. To shift the perspective away from Technology and towards Treasury, you could consider it as rapid way of responding to market and stakeholder demands. For example, a demand for a new capability like an additional currency, Bank Account, or a new type of Loan.

Responsiveness to demands and more rapid delivery sounds a lot like Agile.

Good point. And the discussion today could have been "How can Agile influence Treasury Operations", but that would not have been far-reaching enough.

I BELIEVE THE ADOPTION OF DEVOPS PRINCIPLES AND METHODOLOGY CAN ALLEVIATE THESE TECHNOLOGY AND OPERATIONAL CONSTRAINTS TO SUPPORT THE TREASURY TEAM IN FULFILLING BUSINESS OBJECTIVES.

Agile and DevOps are similar, as they both consider collaboration across different areas, Technology and the Business, or with our Treasury lens we could reframe to Technology, Front, Middle and Back Office. But DevOps extends the Agile development methodology to include the deployment as well.

So, what are the benefits of adopting DevOps?

I think one of the best ways to answer that, is to imagine a Treasury department that desperately needs automation and new features and functions. Imagine a Treasury department running with many manual processes and an inability to automate or cope with new demands from the Business. Safely, rolling in new capabilities may take many months or even years. This leads to the operations team working with an ever-increasing amount of "temporary" manual workarounds.

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→ The technology team is constantly supporting/fixing an unstable solution that repeatedly has issues whenever fixes are applied. A situation with constant fire-fighting and unhappy end-users. This environment breeds a vicious circle of spiralling inefficiency as the various teams blame each other, degrading communication and collaboration in requirements gathering and testing. With frequent outages, misconfiguration, and error-prone manual workarounds, all the resources are overwhelmed and overloaded, unable to accommodate new requests from the Business. Scaling up is only possible by hiring more people, but they are ineffective as no one has time to train them properly. The overall feeling of hopelessness leads to high staff turnover that exasperates the situation. OK, so that is an extreme example, but we have all encountered parts that will sound familiar. Stressed-out Treasury and Finance teams that dread the month-end and end-of-quarter cycles that are then overwhelmed with change requests to stand up a new Entity Group in a different country.

Yes, I have seen those situations where the Treasury team struggles to meet new business demands.

I am convinced that there are still too many manual processes in treasury departments. One of the most striking examples are the FX management where the pre-trade part is manual and not at all interfaced and integrated, with the risks that this implies. Similarly, the management of hedging relationships or other IFRS reports remain semi-manual through export from the TMS reworked at the cost of heavy efforts of the teams. Still at the FX level, too often the systems in place cannot handle certain financial instruments or their banks cannot hedge certain more exotic currencies. The solution is then to do nothing or to refuse to trade in these countries, to the detriment of the business. We can also mention cash-flow forecasting, which remains problematic for any company to the point that they wonder about the usefulness of dedicated solutions. Therefore, they continue pilling up solutions and make the whole IT architecture extremely complex. Here again, the processes are so manual and in Excel that the production time is

enormous and the reliability low, without being able to simulate or stress test future cash-flows. And even when a company uses a TMS, it is often never fully implemented and therefore under-utilized. When reviewing a customer's treasury internal controls, one is often surprised by the lack of effective, documented and tested controls. Digitization requires automation and the treasurer always thinks he is more automated than he is. Finally, the teams get used to manual procedures and, unfortunately, live with them. Too bad when you know it could be optimized, isn't it? Exactly.

So, how does DevOps help?

I think there are two stages, the first being a review of the current situation, a primer for Change regardless of methodology. Here the relevant stakeholders should revisit the Treasury Operating Model and its relationship with Finance and IT. This should be followed by a vision on "What Does Good Look Like?" "What is our purpose?" "What are we trying to achieve?" "Can Data be Loaded rather than Manually Entered?" "From a Lean perspective, within the current Treasury Operating Model, what

can be optimised, removed, enhanced and how can the various teams work more efficiently together?" Are there any tactical quick wins we can get to simplify reduce manual work, for example using Power Automate to load data from Word Documents into systems rather than manually keying it in. Then by referring to DevOps, there is the implementation of an enhanced collaborative Change capability. With a focus on Continuous Development and Continuous Integration, there should be a move away from long implementation cycles by automating as much as possible. "How can a cross-functional team speed up the change process from requirements, design, testing and deployment?" "What can be streamlined?" Again "What Does Good Look Like?" "What manual processes can be removed?" "What sign-off and quality assurance is required?" "Can the deployment of test environments be automated?" "How can we simplify the onboarding processes, maximise reusability and the reduce the number of errors?" "How can we free up and prioritise the resources to work together in a transparent progressive way?" "How can we build in continuous improvement and learn from each deployment?" Can we aspire to

implementing minor changes to applications within one business day?

I like this. I can see how this approach would have helped me in the past, but I would think that this is not easy. What are some challenges that organisations might face?

Agreed. It's not easy, but it is a long journey that will realise benefits along the way, not a quick trip. You don't have to aim for perfection. The main challenge is getting everyone to adopt the right mindset – the cultural Change. DevOps requires a greater level of collaboration and communication, which can be challenging to achieve in organisations with a lack of trust and respect, and siloed teams with rigid hierarchies. Unfortunately, companies that exhibit these characteristics probably need it most. A bespoke reward and recognition framework can help incentivise the right actions, but Cultural Change is a Pandora's box we don't have time to cover now. Then there is the skill and capability gap, another topic that came up on the ATEL Tech Day. Treasury, Finance, and IT teams may need to develop or acquire resources with the required skill

sets around automation, testing, migration and infrastructure management. Of course, related to this, the company may also need to invest in new tools and technologies that facilitate automated testing, deployment, and collaboration. As a final point, unfortunately, in some cases, the current Technology may be too immature to properly leverage DevOps methodology. Rolling out DevOps in an Excel/ Highly Manual environment could stabilise the current environment but offer little long-term value. In this case, one would have to consider outsourcing areas and investing in a new Treasury Solution as part of the leap to a better Operating model.

Thank you for your time and insights.

My pleasure, thanks for having me. —



François Masquelier,
Chairman of ATEL



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COMBATING RISING FRAUD WITH ENHANCED PAYMENT SECURITY

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With the rise of digital transactions, fraudsters are intensifying their focus on companies, thereby triggering a notable rise in payment fraud. According to PwC's Global Economic Crime and Fraud Survey 2022, 51% of businesses worldwide have suffered some form of fraud within the last two years. This marks the highest incidence of fraud recorded in the past two decades. Fraudsters have intensified their attacks, they strike more often and are not afraid to go after large companies. To avoid falling victim to payment fraud, how can you secure your banking procedures and payment processes?

WHY ARE FRAUD ATTEMPTS ON THE RISE?

Fraudsters are no longer afraid to target large companies, focusing their efforts where they can divert large amounts of money. 25% of companies that were victims of fraud reported losses exceeding \$1 million, as per the PwC survey. Companies without a payment management platform are also

more vulnerable. "You have to connect to the website of each bank to make payments. The authentication and validation procedures for payments are not homogeneous, and the bank information is present on several websites", explains Stéphanie Bombart, Executive Director at Exalog, editor of Allmybanks software. Moreover, many companies host their software internally, which increases risk exposure. Fraud is becoming more sophisticated and fraudsters more professional. To fight against their new advanced digital technologies, opting for a specialized software editor will guarantee maximum data security. Procedures are also more and more digitized but employees are insufficiently informed and trained about risks of fraud, as Stéphanie Bombart says: "Another risky situation is when processes are heavily digitized without regular user training and awareness of fraud risks".

BE AWARE OF CYBERCRIMINALS' TECHNIQUES

To prevent fraud, start by recognizing it. Among the most

used techniques, the top three favored by cybercriminals are:

- Fake supplier fraud,
- Fake president fraud,
- System intrusion.

In the first two instances, cybercriminals impersonate a familiar person in order to gain the trust of their interlocutor. Companies have also observed an increase in phishing attempts, a technique designed to trick victims into divulging personal data, such as banking credentials, and passwords.

BEST PRACTICES TO PREVENT FRAUD ATTEMPTS AND SECURE YOUR PAYMENTS

In light of the growing sophistication of fraud tactics, it is essential to implement and regularly update best security practices.

A payment management software can secure your payments and guarantee security for both payment procedures and data. "A software editor specialized in financial flows will handle the infrastructure, data backups, and ensure maximum security", explains Stéphanie Bombart.

The payment management platform will allow you to implement task segregation to designate who is authorized to perform various tasks in the payment chain: "A single person should not be able to carry out all the steps of the payment in the application", advises Dominique Coste, Sales Director at Exalog. A payment software will also allow you to set up validation workflows on payments, to modify your suppliers' banking information securely, and to add a white list of countries for your payments. Opting for the automation of flows between your payment management software and your other management software (ERP, accounting software) will minimize human intervention and associated error and fraud risks.

HOW TO CHOOSE YOUR PAYMENT SOFTWARE?

When choosing a payment management platform, it is important to ensure its continual evolution to comply with the best security practices. Make sure you can manage user authorizations so you can easily

implement task segregation and update rights as your organization grows. This will allow you to better manage security. Avoid per-user contracts so you can remove and add users as you wish without additional cost. Choose a SaaS solution, which will be synonymous with agility, ease of use, and deployment. "Our Allmybanks software, designed for groups with subsidiaries, is based on these very parameters," confirms Stéphanie Bombart. —



MORE INFORMATION ABOUT

payment security, you can download this white paper: <https://www.allmybanks.com/en/white-paper-payment-security>



Dominique Coste,
Exalog



Stéphanie Bombart,
Exalog

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SUCCESSFULLY DEPLOYING CLIENT LIFECYCLE MANAGEMENT SOLUTIONS IN GLOBAL PRIVATE BANKING & WEALTH MANAGEMENT

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A GROWING DEMAND FOR GLOBAL CLIENT LIFECYCLE MANAGEMENT SOLUTIONS IN THE WEALTH MANAGEMENT INDUSTRY

Client lifecycle management (referred to hereafter as “CLM”) plays a critical role in private banking and wealth management. It encompasses the processes involved in managing client relationships from initial onboarding to final offboarding, including all client interactions throughout this lifecycle. Effective CLM is therefore paramount, as it not only enhances the client experience but also ensures regulatory compliance, improves operational efficiency, and allows to reduce risks such as operational, financial crime and reputational risks. Moreover, CLM

mobilizes a significant portion of a bank’s resources. For some banks, CLM operations can occupy between 15% and 30% of the total workforce, i.e. including client lifecycle management teams, the relationship management and front office teams, and anti-financial crime and compliance staff. Therefore, it is no surprise that a growing number of banks, both large and small, have been investing heavily in implementing and deploying end-to-end client lifecycle management solutions over the last decade. However, deploying these solutions globally across multiple booking centers and jurisdictions presents a unique set of challenges, particularly in the highly regulated industry

of wealth management and private banking. Indeed, CLM transformation projects within private banks often fail to deliver the expected results due to organizational, process, staffing, and technological missteps. This article aims to explore these challenges and highlight best practices for successfully developing and rolling-out such solutions at a global scale.

HOW TO SUCCESSFULLY IMPLEMENT AND ROLL-OUT A GLOBAL CLM SOLUTION

1. Aligning the organization at every level

The first crucial step is to align the entire organization around simplified and standardized processes and workflows. This

should include the structure of the organization but also the interaction of teams involved in the CLM processes and operations. Global and local policies should be harmonized to support this goal. Additionally, control functions across different jurisdictions should establish common requirements, especially regarding AML/KYC policies, as local interpretations of firmwide policies may vary significantly from one country to another in large organizations. Standardizing and digitizing banking documentation, including client relationship contracts, KYC formalities, and checklists, is also crucial for a seamless and efficient roll-out of a global CLM solution. Finally, achieving organizational alignment is an ongoing journey that requires numerous stakeholder alignment workshops. The benefits of such sessions are immense and serve as the foundation for achieving true operational efficiency and successfully deploying CLM solutions at scale.

2. Simplifying the technology landscape

Simplifying the technology landscape on a global scale is essential to minimizing development and integration challenges during the rollout. This involves harmonizing and standardizing the Core Banking Platform, as well as third-party systems that interface with the CLM system. This includes client screening and adverse media search tools, client risk scoring engines or document management

systems. Conducting a thorough analysis of the firm’s existing technology landscape before selecting or developing a CLM solution will help to identify potential compatibility issues and enable the development of a coherent and optimal application landscape.

3. Understanding local regulatory requirements and specificities

Another major challenge is navigating the complex web of local regulatory requirements. This goes beyond AML/KYC and extends to local data privacy laws, outsourcing regulations, and risk management guidelines. It is essential to federate the required subject matter experts and stakeholders to obtain a deep understanding of the regulatory landscape in each country to determine the local software customizations that will be needed to meet local requirements. The CLM tool must be designed to ensure compliance with the strictest regulations and data privacy laws, enabling the firm to operate in any jurisdiction.

4. Designing a customizable and scalable solution

Regional and country entities of large private banking groups often have unique specificities which may require the CLM solution to include local software customizations. Therefore, firms should prioritize scalability and flexibility when designing or selecting their CLM solution. This eases potential software customizations during the entire transformation project. By building a scalable and flexible CLM solution, firms can streamline the deployment process and significantly reduce costs. It also enables the firm to grow and expand into new markets with minimal friction. Banks should also consider embracing cloud-based capabilities, microservice-based applications, and highly configurable API-based architectures to modernize their landscape and achieve greater efficiency. These technologies provide banks with remarkable flexibility and scalability, enabling seamless tailoring of the CLM solutions to adapt swiftly to evolving business and growth needs. —



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CHAT GPT FOR TREASURY: ALLY OR FOE?

ChatGPT, the experimental chatbot dominating the headlines, has some interesting—and, in some cases, dangerous—implications for treasury management. This article discusses the good, the bad and the scary about ChatGPT for treasury.

PAYMENTS FRAUD PREVENTION

It's been well documented that AI is being used regularly for both payments fraud and payments fraud prevention. Generative AI has now become the latest tools in fraudsters' arsenals.

Cybersecurity firm Darktrace shared with Fortune's Eye on AI that cybercriminals are using natural language AI algorithms to help increase the linguistic complexity of phishing emails. Interestingly, Darktrace reports that while the overall volume of phishing schemes it has observed has decreased by 50%, more complex schemes have increased by close to 20%. Unfortunately, this makes sense.

Check Point, another cybersecurity firm, noted that using ChatGPT helped it to create an end-to-end social engineering campaign from phishing emails all the way to embedded malware within an email attachment. The result was disturbingly convincing and is assured to break down traditional barriers of defense that treasury and finance leaders have erected to detect fraud.

In response, cybersecurity experts all say the same thing:

use automated systems to detect and prevent cyberattacks at machine speed. For treasury terms, this means using AI within our payment processes to ensure payments are compliant with all payment policies and employing AI-driven adversarial networks to detect suspicious payments. The good news is that these tools exist today and can be embedded within your payment software, as well as treasury and ERP-to-bank connectivity.

TREASURY MANAGEMENT SYSTEMS (TMS)

ChatGPT can also be used within a Treasury Management System (TMS) where the user gives instructions to the system using keywords or questions. With a user experience (UX) that has been optimized for natural language processing, the TMS can respond to basic queries such as "Show me global bank balances converted to USD," or "What is my exposure to the Yen?" to more complex requests, including "What caused the variance in my forecast last week?" or "How many days of liquidity do we have left?". One example Kyriba is testing is for bank reconciliation, where ChatGPT and similar generative AI tools would identify forecast to actual variances and automatically reconcile those transactions that would typically have been manually processed in the cash management module of any TMS. For the daily user, ChatGPT or similar technology could replace mouse-clicking to reach a menu item or open a screen, as well as offer a next level of treasury automation such as robotic process automation (RPA) offers some treasury teams today. For the executive user, the benefits could be even more interesting, as many CFOs and treasurers do not login to TMS or ERP platforms. Yet, they would be more than willing to ask questions of their treasury software.



Provide a list of prompts that treasurers can use with ChatGPT to perform specific tasks or obtain information, focusing on complicated treasury tasks.

Share Prompt



Certainly! Here's a list of prompts that treasurers can use with ChatGPT to perform specific tasks or obtain information related to complicated treasury tasks:

Share Prompt

1. "Can you perform a scenario analysis on the impact of interest rate changes on our debt portfolio?"
2. "What are the hedging strategies available to mitigate foreign exchange risks?"
3. "Provide an analysis of the optimal capital structure for the company."
4. "Can you calculate the weighted average cost of capital (WACC) for our organization?"
5. "What are the potential risks and benefits of implementing a cash pooling system?"
6. "Perform a sensitivity analysis on our investment portfolio based on different market scenarios."
7. "Provide a report on the historical performance of our treasury investments."
8. "What is the optimal duration for our fixed-income securities to manage interest rate risk?"
9. "Can you evaluate the feasibility of issuing bonds to finance a specific project?"
10. "Perform a liquidity stress test to assess the company's ability to withstand adverse market conditions."

Remember to provide additional context or specific details when necessary to get more accurate and relevant information from ChatGPT. These complicated treasury tasks often require complex analyses, so it's important to provide as much relevant information as possible to get meaningful insights.

When it comes to 'workflow' systems like TMS, ERP and other multi-screen applications that treasury relies on, ChatGPT offers the next level of extreme automation.

CHATGPT FOR TREASURY MANAGEMENT: TODAY AND TOMORROW

While AI is not new technology for treasury, many treasury teams are still exploring how much they need AI to assist with core functions. However, apps like ChatGPT provide a convenient—and currently, free—solution for assisting with important tasks like documentation that typically require hours of manual work. At the same time, they also add another threat element that treasury professionals need to be aware of. Technologies like ChatGPT are still new and should be

handled with care, but they cannot be ignored. While AI is not a replacement for actual employees, treasury teams should take the time to learn about AI and determine how it might be applicable to their organizations. —



Bob Stark,
Global Head of Market
Strategy, Kyriba

CRYPTO ASSETS & SMART & CONTRACTS

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Crypto currencies are facing difficult times at the moment... which is not helping the market participants to gain trust. However, the underlying assets are not at fault: it is the lack of corporate governance.

Rather than crypto currencies, we should focus more on the tokenized/crypto assets. Those are forming a big family, of which crypto currencies are part of. All tokens result from the establishment of a legal link between the physical asset and its representative digital token. Tokens are crypto assets representing a security [e.g. real-estate asset, debt/equity...] and are qualified as financial instruments under MIFID II. These are exchanged without the need for a financial intermediary, in a secured manner (channels are secured, and all stakeholders are KYCed by the participants)

The two main types of tokens:

- Tokenized security: security that exists outside of a blockchain
- Security token: security that is primarily issued on a blockchain

Some types of crypto assets:

- Stable coins (backed by an underlying asset such as a currency, commodity, ...). These can be considered as the tokenization of cash. Its digital form is then stored and transferred over a blockchain.
- Real-estate, debt/equity
- Commodities
- IP/Data rights
- Art...

“TOKENIZATION CAN BE APPLIED TO PRETTY MUCH ANY ASSET”

... tokenization can be applied to pretty much any asset, but some are more suited for it (i.e. those with constrained access, illiquid, restricted “investability”...) Crypto assets are exchanged instantly and on a 24/7 basis (no T+1, T+2...) if of course the trade happens between e.g. a tokenized asset with tokenized cash. There are however lots of challenges ahead for crypto assets, mainly due to the misconception/trust element. Bitcoin is playing a big role on this, while this is only one crypto asset amongst so many others.

Now, that being said, the tokenisation of investment vehicles and underlying portfolios have started to emerge.

WHAT DOES IT MEAN FOR THE ALTERNATIVE INVESTMENT INDUSTRY, SUCH AS PRIVATE EQUITY?

The alternative investment industry is increasing its focus on tokenizing units and shares of investment vehicles. While the demand for financing remains robust, banks are reducing their lending activities amongst ongoing regulatory capital issues and substantial loan loss provisions due to the pandemic. As a result, the private debt market will have a steady and healthy grow to continue in the coming years. The digitalization and blockchain technology is also to revolutionize the private debt market in the next few years, reducing the cost of loan origination, lowering barriers to entry, and increasing the asset class's liquidity.

“THE DIGITALIZATION AND BLOCKCHAIN TECHNOLOGY IS TO REVOLUTIONIZE THE PRIVATE DEBT MARKET IN THE NEXT FEW YEARS”

On top of this, the private equity industry has record dry powder. Banks are retreating ever further from corporate lending. Currently, private debt investment involves multiple intermediaries, high costs and poor liquidity. Tokenization tackles these challenges by allowing economies of scale with disintermediation and increasing liquidity. In this respect, tokenization provides a technological advantage to asset managers, helping them become more versatile and competitive.

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Tokenization offers natively digital, decentralized and peer-to-peer services accessible to all, challenging banks' business models and the financial sector's barriers to entry. Smart contracts (programmable, software-driven business logic that enable the automation of contract execution between multiple parties, with very limited human interaction) basically check if a pre-defined condition has been fulfilled, then executes a logic. They can also replace expensive functions like clearing and settlement and the use of transfer agents and intermediaries, such as distributors and placement agents. Removing these go-betweens can allow a direct relationship with investors, reducing costs and creating big economies of scale as a result. Smart contracts empower the blockchain technology and are therefore a key driver of success in tokenized assets. —



Benjamin Defays,
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THROUGH AUTOMATED VIRTUAL CARD INTEGRATION IN TMS SOLUTIONS OR LONG-TAIL SPEND SOLUTIONS, THE PAYMENT IS AUTOMATED AND ENRICHED WITH DATA THAT WILL ULTIMATELY FACILITATE THE RECONCILIATION.

Peter Lybeer

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AIRPLUS:

TREASURY MEETS PROCUREMENT

While treasury managers' roles are already well-defined, they can also bring their payments expertise to other domains of business. Peter Lybeer of AirPlus International describes how the payment responsibilities of treasury managers are expanding into procurement where devices such as virtual credit cards can improve the efficiency and control of purchasing.

What strengths of treasury management can contribute to the wider business?

A treasury manager has a well-defined role at the heart of the financial management and control of company performance. It's not up to me to describe the individual tasks. However, treasury managers have the capacity to contribute a great deal of their expertise in the domain of payments because of its relevance to other aspects of a business. For example, treasury can bring financial and payments knowledge to procurement. The result can be a happy end user and a more digital procure-to-pay process whilst meeting the company's financial goals.

How can treasury managers apply card payment technology into their business?

Virtual cards have been used for twenty years for payments for hotel accommodation. But they are now part of an ever-evolving

digital world where physical cards are no longer needed for online spending. They are easy to use and save time in making purchases. There are two types of virtual cards, single-use and multi-use. With single-use cards, a new card is created for each transaction. After the first transaction, the card can no longer be used for further payments. A multi-use virtual card can be created for recurring payments with the same vendor. After the first purchase, the virtual card is locked to that specific vendor and guarantees a smooth payment experience. All transactions are gathered into a single statement from AirPlus and enriched with flexible data (such as PO number, cost center, employee id) that is unique to every single card and purchase.

Why should companies consider the use of virtual cards?

Reluctance to accept virtual cards is disappearing as suppliers see enhanced operational efficiency

THERE ARE EVEN SOLUTIONS WHERE NON-CARD-ENABLED-SUPPLIERS CAN BE PAID WITH VIRTUAL CARDS.

and security and the benefits in account receivables. Through automated virtual card integration in TMS solutions or long-tail spend solutions, the payment is automated and enriched with data that will ultimately facilitate the reconciliation. There are even solutions where non-card-enabled suppliers can be paid with virtual cards. This means that practically every expense can be done with a virtual card. AirPlus can help firms analyze their AP files to decide where virtual cards can best be used. AirPlus adds value in showing which category of suppliers best suits a company profile; where virtual cards can help extend payment terms or increase the data quality of existing finance processes. —

NAVIGATING EMIR OBLIGATIONS FOR NON-FINANCIAL COUNTERPARTIES (NFC)

The European Market Infrastructure Regulation (EMIR) was established to regulate derivative¹ trades and mitigate risks. EMIR imposes stringent obligations on market participants including Non-Financial Counterparties (NFCs)², such as corporations and non-financial sector entities, provided they engage in derivatives trades. The recent energy crisis and the latest regulatory updates which are introducing a significant redesign of the reporting obligation under EMIR REFIT, have once again put EMIR under the spotlight of both market participants and supervisory authorities. This article delves into the obligations for NFCs and provides insights for regulatory compliance.

UNDERSTANDING EMIR OBLIGATIONS FOR NFCs

EMIR recognizes that NFCs utilize derivative contracts to hedge risks related to their commercial or treasury financing activities. To reduce the administrative and regulatory burden of NFCs, the applicability of EMIR obligations is based on the NFC's classification and volume of trading activities. NFCs can be classified as 'NFCs above the clearing threshold'³ (NFC+) and 'NFCs below the clearing threshold' (NFC-). The obligations can be categorized into three main areas:

1. Clearing obligation: Clearing certain standardized OTC derivatives through central counterparties is only applicable to NFC+. NFC-, while not subject to clearing obligations, need to apply the EMIR risk mitigation techniques.
2. Obligation to apply 'Risk Mitigation Techniques': The risk mitigation techniques include timely confirmation, portfolio reconciliation, portfolio compression, and dispute resolution processes. For NFC+, additional requirements such as daily valuation of outstanding contracts and bilateral collateral exchange must be met.
3. Reporting obligation: NFC+ are required to report the details of all concluded OTC and ETD derivative contracts to approved trade repositories. While an NFC+ may delegate its reporting to another entity under certain

conditions, it is important to note that the responsibility for data accuracy still lies with the delegating counterparty. NFC- are only responsible and legally liable to report details of OTC contracts when they are not trading those derivatives with an FC established in the European Union (EU). When trading with an EU FC, they are only obliged to provide the correct reporting details to their counterparty.

ENSURING EMIR COMPLIANCE

In Luxembourg, the Financial Sector Supervisory Commission (CSSF) is overseeing EMIR compliance and has already engaged with multiple NFCs to ensure that they fulfil their EMIR responsibilities. It is important to highlight that the CSSF requires all NFCs that are not subject to prudential supervision, which conclude derivative trades (OTC and ETD) to provide the CSSF with details of the person responsible for ensuring the on-going compliance with EMIR. While regulatory compliance may seem daunting, posing both operational and technological challenges for NFCs, it is not impossible to achieve. NFCs can take key actions to facilitate this. Firstly, NFCs need to understand and assess the applicability of EMIR obligations. They must ascertain their classification and regularly monitor their derivative positions against clearing

thresholds. Doing so would allow them to take appropriate actions in compliance with specific clearing obligations or if necessary, adjust their trading strategies to stay below the thresholds. The calculation of the thresholds however can be a complex task and should not be underestimated, since the group wide trading data needs to be consolidated and calculated. If an NFC chooses not to calculate its position, it will be subject to the strictest requirements of the clearing obligation. Also, if NFCs choose not to calculate its positions against the clearing threshold or when they exceed or fall below clearing thresholds, they must notify the CSSF and the European Securities and Markets Authority (ESMA) to aid in the authorities' regulatory oversight.

The authorities insist on a strict application of EMIR through dedicated processes and controls. These processes and their outcomes (e.g. clearing threshold calculation) have to be properly documented in order to be able to prove to the authorities that all the requirements are fulfilled. In general, a process that is not documented in detail is considered non-existent. A similar diligence should also be demonstrated when applying for an intra-group exemption. While it is in principle possible to obtain certain exemptions for intra-group trades (e.g. reporting or collateralization), entities applying for these exemptions usually have to provide proof to the authorities that the risks related to the derivative trades are understood and correctly managed.

The latest updates to the EMIR reporting have come into force in October 2022, requiring all entities in scope to report in a new format from the 29th of April 2024 on. These updates introduce a significant increase of reporting fields (from 129 to 203 fields), a completely new data format (ISO 20022 – XML), as well as other obligations for the reporting counterparties (e.g. pairing and matching of reports). Consequently, the controls, processes, ICT framework and organization around the reporting must be adapted to achieve compliance. As a reminder, in case an NFC- trades derivatives

with an FC established in a third country, the NFC- is responsible for reporting the trade under EMIR⁴.

CONSTANTLY EVOLVING FRAMEWORK

Since EMIR is a constantly evolving framework, it is crucial for NFCs to be well-informed on the regulatory developments and industry best practices. The processes and the controls framework must be regularly updated since the authorities are insisting on a strict application of the regulation. Also, NFCs should be aware that an update to EMIR has been drafted and is currently being reviewed on EU level. While these texts still haven't been validated, they are foreseeing important changes which will impact NFCs. Some of the updates which are being discussed are a removal of the intra-group reporting exemption as well as changes to the hedging definition while calculating the clearing thresholds. ■

1. A derivative contract or derivative is defined in EMIR Article 2(5) as a financial instrument as set out in points (4) to (10) of Section C of Annex I to Directive 2004/39/EC.

2. EMIR introduced a classification of the derivatives trading parties into Financial Counterparties (FC) and Non-Financial Counterparties (NFC).

3. The clearing threshold calculation is carried out on the basis of the aggregate month-end average position for NFCs within the group for the previous 12 months in the respective derivative classes.

4. If the reporting regime of that third country is not deemed "equivalent" to EMIR.



Philippe Förster,
PwC



Admir Fejzic,
PwC

B2B PAYMENT TRENDS FOR SMEs

Bruno Mellado, Head of Payments & Receivables, BNP Paribas, spoke to us about what's new in the B2B payments space and the possible implications for treasurers of digitalisation in B2B payments.

Payments innovations tend to focus on the B2C space, for obvious reasons. Why is it important that we give B2B flows similar prominence?

On the consumer side, around 70% of all purchases are made electronically from order to fulfilment. For businesses, only about 30% are treated digitally end to end from procurement to fulfilment but it increases drastically in the coming years. That means there's plenty of room to digitalise how small businesses order and pay their suppliers – and also how they themselves get paid. Rather than processing this manually and checking emails to find out the status of payments, the entire workflow could easily be automated on fully digital process. In addition to the potential benefits of automation, there are new mandatory requirements to send B2B electronic invoices in the pipeline in Europe. This requirement already exists in other parts of the world, such as in Mexico with its local XML format CFDI, and Brazil, which has regulations for various electronic invoices, covering supplies of goods, services, freight and more. The European Commission is progressing with its "VAT in the digital age" legislative proposal,

which includes obligations around VAT reporting and e-invoicing. Following a public consultation in the first half of 2022, Commission adoption is the next stage due. Sovereign European nations have been implementing their own e-invoicing formats in the meantime, all of which need to comply with the European standard for e-invoicing. Many are looking at an invoice clearance model, where the national tax authority sees the invoice before it is issued to the recipient. This model requires authorisation from the EU to be implemented, something that Italy received back in 2019. Poland and France have also been granted authorisation and plan to roll out e-invoicing mandates in 2023 and 2024 respectively. Many other countries have also begun the legislative process that will lead to requesting authorisation. Small businesses will have to comply and be able to receive fully electronic invoices. This means that it's no longer possible to work with paper, but also with PDF invoices, for example. Instead, it will be more like a dematerialised invoice in XML format – think of it like an Excel spreadsheet with 130+ fields, one-third of which are mandatory.

And how is the rise in e-commerce impacting small businesses? Are they managing to keep up with the demands of emerging digital payment methods?

We saw with the pandemic that consumers were comfortable buying everything online. While small businesses today are more open to buying online from other companies, their customer journey is not as easy as it is for a consumer. For example, if a business is purchasing widgets for €50,000, that would probably be too much to pay via credit card. The business would need to arrange a bank transfer. But if a bank transfer is used, the supplier must know they will get paid so that they can ship the goods. That is one example of where the B2B customer journey needs to be more integrated and the technology is available to do it. Some fintech players have been trying to propose a customer journey that fits an e-commerce-style experience for small businesses. There's also the notion of creating B2B marketplaces where small businesses can sell their products – this topic is certainly a trend right now and one to watch in 2023 as Corporates revisit the marketing strategies.

As discussed, small businesses can dramatically expand their geographical reach with a digital shopfront. What challenges does this create for them, and how are banks supporting this change in business model?

It is all about how Small and Medium businesses can not only collect and pay from their home market but also achieve a higher reach – and have this functionality in other regions and countries. That is a change that's happening right now, but it brings with it questions around currency management. For instance, how do they collect from countries that maybe aren't too far away but aren't critical for that business?

As an example a small business might not want to deal with a few payments in RON [Romanian leu] if they don't have an account in RON. The financial industry has solutions to offer them transparent ways to get only euros in their account, even though they have sold their products in a foreign currency. That might only be small amounts, it doesn't have to be huge volumes of cash, but the critical point is that it all has to be automated with solutions like Dynamic Herdging. This dramatically improves transparency, as the party buying sees the rate they're buying at, while the party collecting knows how much they will get in their home currency, all from a platform model.

Our vision at BNP Paribas is to help small businesses in every country where we serve them. We need to ensure they can work from their bank account, which gives them rights for financing and additional services. They can use that as their treasury account, even if they are collecting from abroad or a platform, and they can easily link to new payment methods, such as wallets.

Are there any other challenges around B2B payment flows that you'd highlight?

B2B payment flows have to be cost-efficient in value. If a business collects many small amounts from faraway countries, it cannot have fees that are too high for the value they are collecting. One of the challenges is proposing the

correct method through which to collect and pay. Businesses need something that adapts to the transaction's value and their speed requirements, for example. Depending on the situation, this could be a wallet or a traditional international bank transfer. It is worth noting that the latter has improved in terms of speed. Think of the corridor between the US and Europe, for example. This is an efficient corridor with fast and cost efficient payments made in less than 30 minutes. Businesses must make sure they propose a suitable payment method to their clients. Then if we come back to the earlier topic of e-invoicing, it will be a challenge, but it's also an opportunity. If a small business can present an electronic invoice, it can also offer the preferred payment method and a link that so it doesn't have to be manually reconciled. They can propose the payment method they want to use and eventually track it, to know where and when they are going to be paid. That's a challenge for small businesses but there are also great potential benefits.

How does everything we've spoken about here impact cash forecasting and working capital management? What do treasurers need to know?

The objective for small businesses will be to keep that treasury account as efficient as possible. They should be able to manage their business from a single account. We have been integrating some third-party fintech solutions behind BNP Paribas to show small businesses the benefits of cash forecasting from their main treasury account, for example. We also help them to send and receive electronic invoices and to integrate the reporting that comes with it. This means that they can see the up-to-date situation of their cash flow. That's a way to support SMEs as they adapt to electronic invoicing requirements.

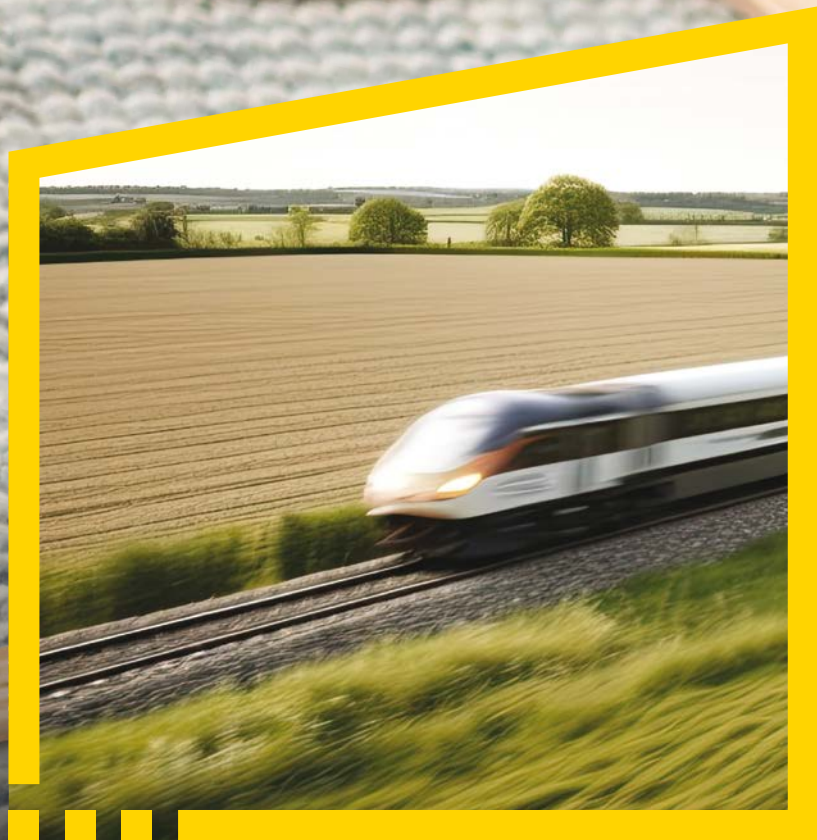
For large corporates, it's a bit different. The major challenge for them today is their relationship with small businesses, mainly where there's a lot of work. Payments between two large corporates are already quite efficient, but large-corporate-to-small-business payments still require end to end automation. Each industry is different, of course. A big company with plenty of negotiating power with their small business suppliers can impose some ways of working that can save time. But if the large corporate cannot drive this kind of change, they will have to manage some of that complexity.

Are there any other steps you think treasurers should take to help prepare for the future of payments, given the trends we've discussed?

Yes – given all the changes in the payments landscape and other government requirements, treasurers need to consider how to use that as a catalyst to review the end-to-end paying out process with their procurement colleagues. Corporates also need to contemplate how to review their marketing processes, which tend to think about payments only as a result of a sale. The changes to the payments landscape that we've discussed are the perfect excuse to take a broader view within the organisation because, in the end, everything will be visible in the treasury account. —



Bruno Mellado,
Head of Payments
& Receivables, BNP Paribas



How do corporate treasurers reshape today to reinvent their tomorrow?

Bold choices to transform the treasury function could be the key to your company's future success.

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The better the question. The better the answer. The better the world works.

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KEY MARKET TRENDS IMPACTING TREASURERS

Corporate treasurers are facing another complex market environment this year. The pandemic has created significant economic uncertainties, which have been compounded by geopolitical tensions, supply chain disruptions, and changing regulatory regimes, resulting in a high inflation. In this article, we will explore some of the key market trends that are likely to impact corporate treasurers in the coming years.

In 2022, according to Reuters, major central banks hiked rates at the fastest pace (and by the largest amount) in more than 20 years. The U.S. Federal Reserve hiked 7 times totalling 425 bps for the year while the Bank of England (BoE) hiked 350 bps across 9 hikes and the European Central Bank (ECB) hike 250 bps across 4 consecutive hikes. 2023 has also seen already several hikes, and the year is far from over! All of this in order to fight against inflation.

“ONE MIGHT WONDER WHETHER THE END JUSTIFIES THE MEANS”

However, with recent news, one might wonder whether the end justifies the means...We are all glad that the financial system is much more resilient compared to 2008 financial crisis, after the numerous reforms banks had to go under, allowing them to have high levels of capital today to pass the ongoing storms with a shaky banking environment and market turmoil. In my view, what is going on is a good (and necessary) refreshing cure that yes, banks can still go bust... and counterparty risk is still all around us.

“A GOOD (AND NECESSARY) REFRESHING CURE”

As the cheap/zero-cost money came to a brutal end after more than a decade of free money, corporate treasurers have (again) to adapt to this new situation. The current environment results in tighter debt market, with also foreign exchange hedging getting more expensive. The recession risk, together with uncertainty puts higher focus on cash forecasting (like if it wasn't already priority #1...) For companies not too much leveraged (i.e. not too reliant on debt to fund their activities) this shock can be absorbed, while SMEs struggle with inflation and stricter access to funding combined with higher borrowing costs.

“HIGH INTEREST RATES ARE NOT ONLY A CONSEQUENCE OF RATE HIKES BY THE CENTRAL BANKS TO FIGHT INFLATION”

Treasurers need a much more active management of cash, both on the borrowing side and the investment side. As a result, Money Market Funds providers are getting a lot more attention, and requests for short-term deposits are increasing

all over the place. The duration of investments has changed as well (impacted by the speed of rate hikes, and the uncertainty). However, there's no free lunch: high interest rates are not only a consequence of rate hikes by the central banks to fight inflation. Pointing on the horizon are also coming higher counterparty risk and, maybe, liquidity shortage. Therefore, treasurers will need to find the right balance, with a risk-adjusted return on their excess cash vs simply benefiting from almost “risk-free” returns.

“EXPECT VOLATILITY TO PERSIST IN THE SHORT TERM”

In conclusion, Corporate treasurers need to consider implementing and updating their hedging strategies to mitigate the impact of currency fluctuations, closely monitor interest rates and counterparty risk to ensure that they are managing their cash and debt portfolios effectively, and in good household manner, so that they can position their companies for success in the coming years. They will need to stay vigilant and adapt to changing market conditions, and expect volatility to persist in the short term. —



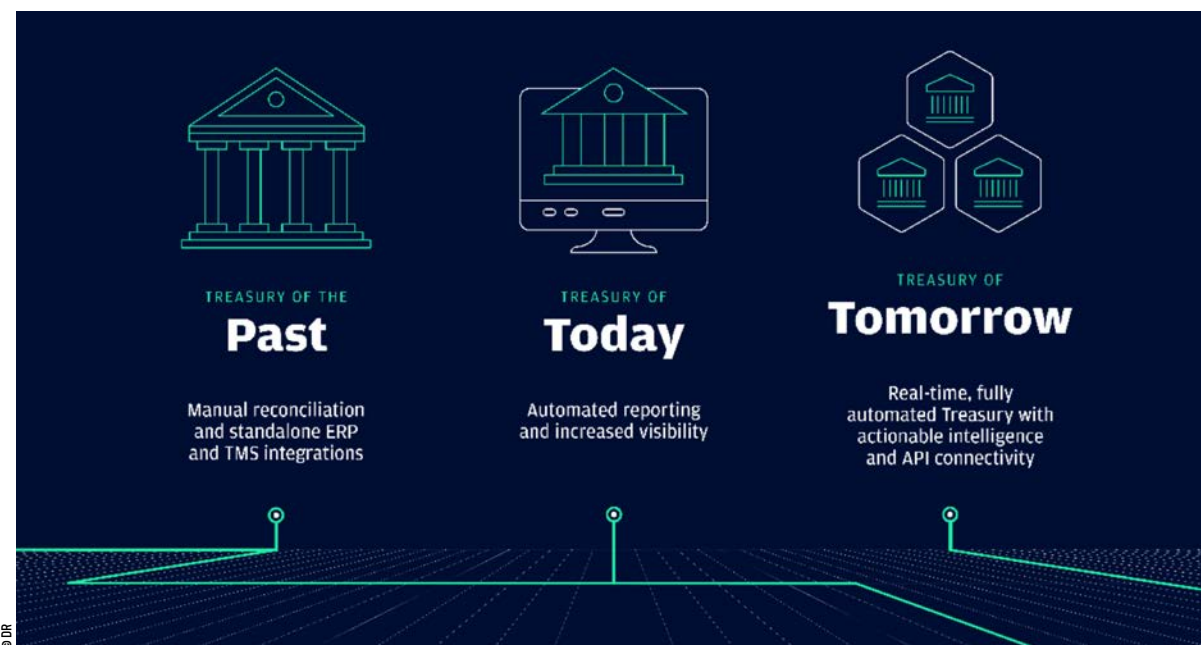
Benjamin Defays,
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Treasury/OTC at Kach
Engineered Solutions

HOW APIS ARE DELIVERING REAL-TIME DATA FOR CORPORATE TREASURERS

Treasurers are using APIs to move from traditional manual processes to the treasury of tomorrow. Here we explore some of the pillars behind this digital transformation strategy: automated treasury operations, real-time visibility, real-time payments and multi-bank data.

THE POTENTIAL FOR APIS TO AUTOMATE TREASURY TASKS IS SUBSTANTIAL AND ON THE RISE

And in the current environment, automation and digital transformation are more necessary than ever as corporates strive for real-time monitoring of cash flows, optimisation of working capital and the flexibility to respond to rapid changes in the macro landscape.



Of course, the cost of these rewards is the investment in tech integration. This has been a perennial challenge, particularly when working through legacy systems.

One potential solution is to think of technology and treasury as one unit. Consider the following real-life examples of how treasurers have unlocked synergy to drive growth.

ACHIEVE REAL-TIME RECONCILIATION WITH TREASURY APIS

Traditionally, treasury operations have relied on an end-of-day reconciliation process using SWIFT MT940. Treasurers are now looking to use APIs to provide real-time data to guide and enhance more immediate decision-making on liquidity and investments.

API case study:

A global leasing firm had a fast-moving, account-intensive business model and wanted to move to real-time provision of account data into their TMS, rather than the traditional D+1 via MT940.

The firm worked with J.P. Morgan and their treasury management system (TMS) provider to implement an API gateway that delivered real-time balance reporting, followed closely by real-time transaction reporting. This integration delivered many benefits, including:

- Instant visibility of the company's cash position ensures that idle balances across J.P. Morgan accounts are minimized.
- Real-time balance and transaction reporting help treasury to track the movement of cash effectively.
- Reconciling transactions across accounts daily helps to minimize the risk of fraud.
- Real-time reporting has enabled the treasury team to come closer to its goal of closing month-end on the first day of the month.

GET STARTED IN A MATTER OF DAYS WITH PLUG-AND-PLAY APIS

APIs can help reduce manual error and increase operational efficiency throughout the end-to-end payment chain. This in turn can deliver data for the treasury department to build a simple portal where they can get visibility into all their transactions, whatever stage they are in, without having to contact their bank. That's the intelligent part of intelligent automation.

API case study:

J.P. Morgan worked with a manufacturing firm who had an ambition to obtain real-time treasury data. With factories and business across the world, it was vital that Autoneum obtained a comprehensive and accurate view of their global liquidity. Following initial discovery discussions, the firm installed our spreadsheet plug-in as its channel to access account data. The entire solution was installed, tested and implemented within nine days. The treasury team can now access real-time information, improving its reconciliation and forecasting processes and redressing the previous lack of visibility over their accounts, resulting in several benefits:

- Ability to retrieve real-time data from its accounts across the world at the click of a button and consequently reconcile transactions in real-time.
- All data is imported directly into the existing spreadsheet software, which contributes to easier reconciliation, forecasting, and integration with existing processes. Additionally, all data is materialized in pre-configured templates, further enhancing the ease of use and facilitating the data's integration into existing processes.
- APIs facilitate a real-time view of activity on accounts and users' entitlements, helping to prevent fraudulent access and activities.

TAKE ADVANTAGE OF NEW REAL-TIME PAYMENTS RAILS

Similarly, in the payments space, treasurers have been adopting APIs to take advantage of new real-time payment rails in Europe and the U.S. Perhaps the most significant example is SEPA Instant – the first cross-border faster payments scheme. SEPA Instant regulations stipulate that payments must move from point A to point B within 10 seconds, so API integration is a must.

API case study:

A consumer technology firm wanted to move to real-time cash-out for suppliers and vendors. In particular, the lack of instant cash-out for their delivery vendors was leading to retention and onboarding challenges at a time of increased demand for deliveries during the pandemic. J.P. Morgan delivered a fully API-driven end-to-end payment solution that allowed the firm to validate accounts, manage real-time driver payment initiations and report on transactions. The extra security can reduce transaction costs through improved approval rates and can also reduce administrative automated clearing house (ACH) returns or unauthorized transactions. The firm has reported that over 60% of their vendors have taken up the new instant cash-out feature.

START SMALL AND KEEP IT SIMPLE

Connecting through APIs can initially seem overwhelming, but it can be much simpler than it looks, particularly as adoption grows throughout the financial services ecosystem. We believe that it is sensible to start exploring the possibilities now. Even if you are not ready to execute a project, consider discussing your needs and requirements with your bank, as this may be beneficial further down the line.



Sara Berujon,
Head of Payments
Luxembourg for
J.P. Morgan Payments

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).

TYPE OF 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.

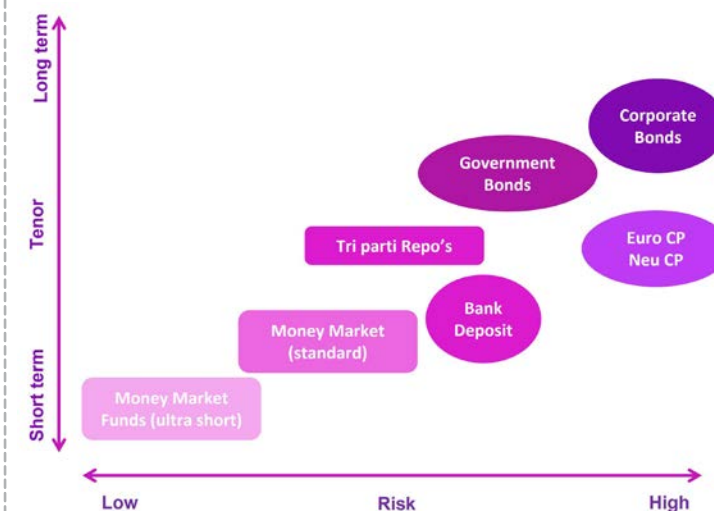
“PLUSES” AND “MINUSES” OF SHORT-TERM INVESTMENTS

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.

WHAT IS THE PERFECT STRATEGY?

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

POTENTIAL INVESTMENTS FROM A RISK/RETURN PERSPECTIVE



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	+++	--	--

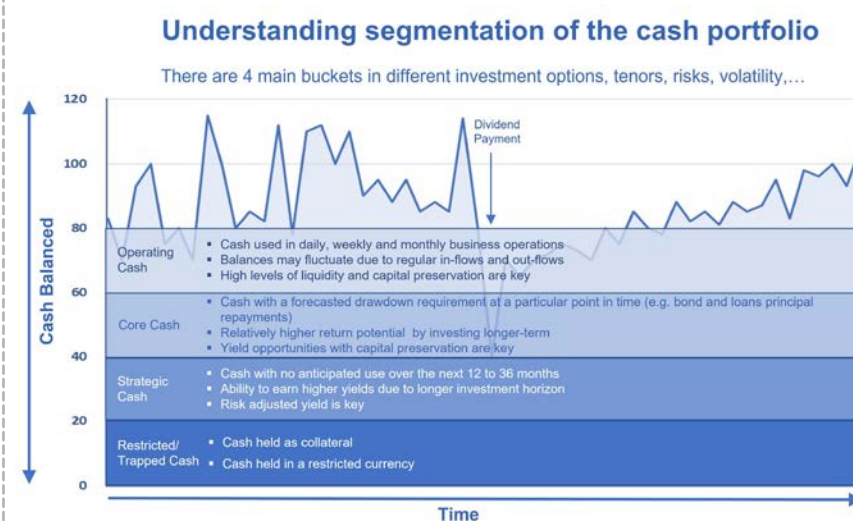
instruments to optimize the return without compromising the preservation of the principal and the correct accounting treatment. Diversification remains one of the best ways to mitigate counterparty risk. Automation is a factor to be considered. We forget that return is essential, but the risks are also 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

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).

SEGMENTATION OF EXCESS LIQUIDITIES PER CATEGORY



THE FOUR CORE CHALLENGES OF THE MODERN GLOBAL TREASURER (AND WHAT TO DO ABOUT THEM)

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Gary Conroy

The last few years have been, as the saying goes, “interesting times”. We have had a global pandemic, global supply chain failures, surging costs and rising inflation, an uncertain geopolitical environment, the ongoing climate crisis, a series of bank failures, and potentially a recession coming.

The list of tactical challenges any global treasurer faces is long, so for today I’d like to quickly break down the strategic challenges into four distinct categories, leading from a risk mitigation foundation to advanced treasury operations.

1. MANAGE RISK IN CHANGING EXTERNAL ENVIRONMENT

Market events like the Silicon Valley Bank and Signature Bank collapses, and the difficulties seen by Credit Suisse, have led to significantly increased volatility in the financial markets. This management of ongoing risk is the core function of any treasurer, but there are good and bad ways to do it. For instance, at TransferMate, we don’t lend against our funds; they are fully segregated and safeguarded. TransferMate customers can be assured of the security of their funds.

2. ADDRESSING IMPACTFUL INTERNAL RISKS

The second challenge is ensuring you have the right controls in place from a process and access perspective to monitor risk within your internal environment. Cyber, for example, is an area where risks can escalate over the coming years. Tactics like phishing spams will get more difficult to prevent with the rise of AI, which will help create highly targeted attacks on employees and businesses. You



Mélanie Coutin

TREASURERS CAN USE THE GLOBAL ACCOUNTS TO RECEIVE, HOLD AND PAY LOCALLY AS IF THEY WERE DOMICILED IN THOSE COUNTRIES, AND REPATRIATE FUNDS WHEN IT SUITS THEM.

need to arm your finance team with a B2B payment fraud prevention platform to ensure your company pays the right third party on the right bank account. TransferMate has implemented Enterprise level security controls for its customers and achieved ISO27001 certification as evidence of its own controls.

3. FOUNDATIONAL TREASURY TO OPTIMIZED OPERATIONS

Managing internal and external risks are urgent priorities, but what is the next step beyond that? Cash optimization is the “north star” here for treasurers to aim for – not so much accounting-type measures, such as the cash flow statement or the profit-and-loss statement – but discipline around how cash is moving through your organization. TransferMate has the ability, via its e-money licenses, to hold funds in over 30 currencies (with each account having addressable BIC and IBANs). Treasurers can use the global accounts to receive, hold and pay locally as if they were domiciled in those countries, and repatriate funds when it suits them. With the ability to execute international payments within 24hrs and at full value there can be significant liquidity benefits for organisations.

4. ADVANCED TREASURY

The day when one single ERP was managing everything is over. Nowadays, corporate treasurers can benefit from having a wider range of platforms doing niche jobs because of the advanced technology. Many of these platforms like TransferMate operate globally and offer multiple connectivity options and ease of integration.

As treasurers, you will have more choices and more vendors. To achieve advanced treasury operations, leaders need to gain intimate knowledge of these solutions and how they fit together to meet your organizations’ demands. Lean on your partners and extract the knowledge from them – the answers are out there. —

Gary Conroy,
Chief Product Officer
at TransferMate Global
Payments

ABOUT TRANSFERMATE

TransferMate is the world’s leading provider of B2B payments infrastructure as a service. With 92 payment licenses as the foundation of our global infrastructure, we can solve complex payment challenges for partners and customers in 200+ countries and territories and in 140+ currencies.

For more information, please visit our website, www.transfermate.com, or feel free to contact:

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GROWING PAINS

SOLVING TREASURY HEADACHES FOR FIRMS SPREADING THEIR WINGS OVERSEAS

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Technology and novel business models are emboldening increasing numbers of small firms across sectors such as e-commerce to tackle new overseas markets in the quest for rapid growth. Here, HSBC's Ray Suvrodeep and Jon Denny shed light on the myriad of finance and treasury challenges these firms face and offer advice on how to overcome them.

The rise of e-commerce, and the digital economy more broadly, has been a notable feature of the global economic landscape over the past few decades. Recent upheavals, not least the pandemic, have accelerated that trend, presenting, fast-growing firms in these sectors with even more opportunities to expand their footprint. But, inevitably, rapid business growth also translates into challenges for finance and

treasury functions. For many of these established firms, treasury operations will be in their infancy. Jon Denny, Head of Payment Solutions and Propositions for HSBC Global Payments Solutions says while it is not unusual for an experienced treasurer to be brought in from a larger firm to kick-start treasury specialisation, they will have to be versatile. For beyond being an expert in risk management,

treasurers of rapidly growing firms must undertake non-treasury tasks, including overseeing operational processes and controls and potentially reviewing legal contracts. They will also need to have a flair for technology and systems, even become good trainers of new staff with no treasury background. Ray Suvrodeep, Global Head of Deposit & Investments Product Management, HSBC, further observes that these firms generally perform well in the initial rapid-growth phase, onboarding customers successfully and at volume as they enter new markets and diversifying their offering. He says, with investor funding support being in place: "at that stage things look extremely good, with a fast growing customer base. It's what comes after, when they have to scale up, that more impactful challenges arise. Timely, top-level buy-in and communication are therefore key to identifying potential future challenges and having a plan to

deal with them early." Suvrodeep adds that where these companies often struggle is supporting the growth with limited treasury specialisation and budget: "There is always a tipping point for treasury in a fast-growing company. Finance or treasury will usually have plans to cope with their CEO's ambitions for scaled growth, but without appropriate budget and increased headcount they can run into challenges."

MANAGING RISK

There are many risks for firms engaged in rapid international expansion, including liquidity and funding risks, interest rate risk, and FX risk. Depending on specific industries and companies, other issues may also be at play, such as commodity risk. All can be magnified if the finance and treasury functions do not develop expertise and scale at the same pace as the business. FX can be an especially thorny issue with fast growth and market expansion creating heightened risk on this front. While that implies the need for more complex FX tasks to be undertaken, Suvrodeep says these will often need to be absorbed within the firm's existing, limited resources. An effective FX management policy, however, is an essential first step in helping the firm to minimise

DEVELOPING AND DOCUMENTING TREASURY POLICY THAT IS IN LINE WITH THE COMPANY'S RISK APPETITE AND SUPPORTS THE GROWTH AGENDA, IS KEY HERE.

adverse effects of currency movement, he adds. There is also a plethora of non-financial risks – referred to as operational risks – that will need careful management. These can typically result from breakdowns in internal procedures and systems. Too many bank accounts, multiple banking arrangements and market level differences – such as cut-off times and regulatory reporting requirements – are yet more sources of this type of risk. Denny says that to avoid elevating operational and other risks, firms need to avoid creating a financial management regime ill-equipped to cope with rapid expansion across international markets. And the way to do that, he says, is to "get the fundamentals right" with risk management. He explains: "In order to manage risk, treasury must first have the right information and capability to access that information on an ongoing basis. For example, having visibility of cash across bank accounts in various markets and currencies and having an understanding of who can access and control payments from these accounts. Although it sounds straight-forward,

in a high-growth business environment, such information might not be always readily available. "Developing and documenting treasury policy that is in line with the company's risk appetite and supports the growth agenda, is key here. The policy needs to be practical with appropriate responses when managing risk."

CROSSING REGIONS

At the strategic level, Suvrodeep points to the crucial importance of clear alignment of aims and objectives at the top of the organisation. "As these companies grow, funding that growth has an implication for the capital structure of the company. That needs to be agreed on a forward-looking basis at board level, which treasury then executes," he says. While a highly centralised treasury model may not be practical for early-stage firms, Suvrodeep says standardisation of processes and controls for financial and banking transactions for all units and geographies should nonetheless be on their agenda. Adding to this, Denny says that depending on their sourcing and distribution model, it is recommended that firms work with a banking partner to implement a fit-for-purpose payment and collections model in the target market. That will help,

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for example, meet jurisdictional payment scheme requirements, tax and statutory payment needs, and capital and FX regulations. Cross-regional expansion, for example from Europe to Asia, or indeed vice versa, can give rise to further challenges. While entry barriers generally tend not to be high in such instances, competition is invariably high. A key task for these firms therefore, says Suvrodeep, is to address how much of their current business model can be replicated and what modifications it needs, if any, for the target market. At a more granular level, cross-regional expansion often exposes firms to varying legal and regulatory requirements, different customer expectations, and dissimilar buying behaviours. Regulatory requirements across both commercial and financial aspects vary by jurisdictions, and, moreover, dependent on the firm's legal entity structure.

HOLISTIC SOLUTIONS

When considering how banks themselves can help these rapidly growing firms to scale their treasury functions efficiently and effectively, Denny first notes HSBC's mission is to work with businesses of all sizes to support their growth at all stages. He adds: "Fast-growing digital businesses require an international partner with the right solutions and network to meet their needs

AS THESE COMPANIES GROW, FUNDING THAT GROWTH HAS AN IMPLICATION FOR THE CAPITAL STRUCTURE OF THE COMPANY. THAT NEEDS TO BE AGREED ON A FORWARD-LOOKING BASIS AT BOARD LEVEL.

and growth ambitions. We have the size to complement rapid growth, but we also have the tools to help our clients accelerate their digital transformation." For example, HSBC offers API-enabled bank connectivity that works across multiple markets and payment schemes, enabling companies to leapfrog traditional treasury tech and benefit from leading-edge solutions primed for the real-time economy. Banks can also provide valuable analytics that can help treasuries with, for example, actioning more effective payment strategies, better liquidity planning, and forecasting, Suvrodeep adds. HSBC recently launched its Treasury Solutions Group (TSG) specifically to help finance

and treasury teams with their transformation journey. Denny says: "We have clients, large and small, at different stages of their journey, and with that comes a significant amount of experience and insight they can share. At HSBC we recognise the incredible opportunity we also have to learn from our clients, to share and develop insights and best practice." Denny concludes: "We have many clients operating digital business models, such as e-commerce tech companies. In terms of solutions that banks make available to them, HSBC for one prefers to look holistically at the many challenges they will face across transaction banking because that is how the treasurer sees it in their world. That way, we solve pain points and enhance end-to-end journeys that have a longer-term material impact for their business and promote its resilience – which can only be beneficial for all parties." —



Jon Denny,
Head of Payment Solutions
and Propositions for HSBC
Global Payments Solutions



Ray Suvrodeep,
Global Head of Deposit
Columnist & Investments
Product Management, HSBC



Kam Patel,
Columnist

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Simply Treasury

WHITE PAPER

FOCUS

CORRELATED CURRENCY AND COMMODITY RISK MANAGEMENT — HOW TO OPTIMIZE IT SIMPLY?

SPOTLIGHT

VOICES OF THE INDUSTRY

DESPITE TECHNOLOGY EVOLUTION, THERE ARE STILL PAIN POINTS IN TREASURY

“The management of the risk of fluctuating commodity prices should be integrated into the broader framework of treasury management, as its volatility, hedging methods and financial or accounting approach and patterns are intimately linked. In our opinion, it is a mistake to manage these two essential risks separately (especially since the start of the war in Ukraine and the COVID crisis)”.

Marco Pescarolo, FERRERO

AUTOMATION TO PREVENT RISKS

“Even though a commodity specialist may not be a treasurer, treasury department is best placed to oversee the management of this particular risk, which has become crucial to remain competitive and profitable due to the volatility of the environment”.

Fabrizio DICEMBRE, Finegan

DIGITAL POWERS OF SIGNATURE TO GAIN TIME

“Commodity risk management is far from simple. Entrusting it to specialists seems sound. However, who better than a treasurer equipped with the right tools to manage this type of risk? And if there are no dedicated tool, time to consider new emerging solutions”.

François Masquelier, EACT

François Masquelier

Chairman of Luxembourg Treasury Association, ATEL and Vice-Chairman of EACT



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Maintaining banking relationships requires the exchange of documents.



INTRODUCTION

Market risk, one of the most important for treasurers. Commodity price risk is consistently a top concern for treasury and risk management officers (according to last year's European surveys - see EACT annual survey or PwC global survey). We always think about FX when we see “market risks”. However, it covers many other risks as Interest Rates and Commodities. But, as treasurers are already managing FX and interest rate risk, arguments can be made for adding commodity price exposure to the fold. It is even more accurate when IT applications now enable to manage both in a same solution. We can notice that eventually, treasury is increasingly becoming more involved or even responsible for managing commodity exposures. Treasurers are well fit for commodity hedging programs. Nevertheless, treasury risk managers who have not previously handled commodity hedging will need to be educated or to get knowledges and basis on certain areas. A treasurer needs to understand perfectly which commodity derivative will best match the underlying risk being hedged. Treasurers also must be equipped in tools to (fair) value the hedging instruments and register underlying risks to apply hedge accounting. Furthermore, it is important to fully understand the different reference prices for commodities and why prices vary. With commodities, we must nonetheless keep in mind the storage and transportation issues, which can or is

physical. It is rather different and more complicate compared to electronically managed OTC derivatives. This part of commodity management must be handled by logistic and operations (when the delivery is included into the product – which is not always the case). Another important problem is the potential absence of financial hedging instruments and indices for the commodity risk you want to hedge. Therefore, treasurers must find the closest commodity and best correlated to the commodity risk they want to protect (e.g., Brent for jet fuel or, price of natural gas to be used in a product in Chicago is likely to be based on the NGI Chicago Citygate natural gas price rather than the NYMEX Henry Hub price). Although sometimes the hedging instrument is not perfectly correlated, it should be partly correlated to mitigate risks. And while both price indices which normally closely correlate over time, a local disruption in one market can always arise in a large spike in price with very little movement in the other market. This is a major difference as locational variances are not observed in currency prices.

INFOGRAPHICS

FOCUS

RISK MANAGEMENT IS #5 PRIORITY FOR TREASURERS

Risk Management (incl. FX and commodity risks) is ranked

#5th

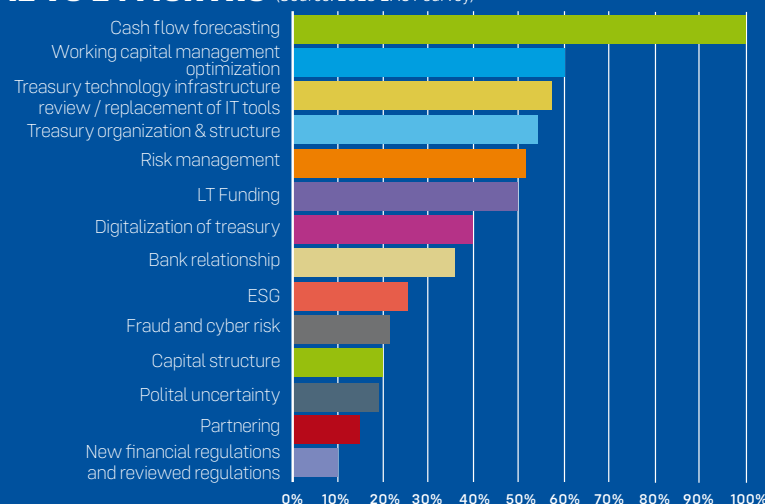
It reflects the current situation of CFOs & Treasurers in a fast-changing environment. Therefore, we are not surprised to see **Cash-Flow Forecasting as number one priority.**

Of course, it includes FX and commodity risks. We also know that the **working capital optimization** (number 2 priority) can be explained by need for additional funding and it is the prime source a company should play on. **The financial supply chain has been disrupted** several times over last years, for several unexpected reasons. **It may impact production and inventory of commodities.**

Eventually, the **IT systems replacement and digital transformation** are also highly ranked (i.e., number 3 & number 7). Typically, **risk management, still highly manual requires automation for getting efficiency and enhancing internal controls.**

TREASURERS MAJOR PRIORITIES OVER THE NEXT 12 TO 24 MONTHS

(Source: 2023 EACT survey)



“ **Applied to Risk Management, CFOs need to centralize management of risks, to get access to real-time dashboard and reports, to easily revalue and stress-test portfolios, to manage more dynamically FX and other financial risks. For achieving these objectives, they need to recourse to API's, fintech's and automation solution in the cloud.** ”

François Masquelier, Chair of EACT

TOP 3

OF GREATEST INTEREST YOUR TREASURY OVER THE NEXT 12 TO 24 MONTHS (Source: 2023 EACT survey)

1. Centralisation & standardisation
2. Real time reporting and dashboarding
3. Real time liquidity

IDENTIFYING FINANCIAL RISKS

Geopolitical, economic, health and demographic events have a direct impact on financial markets, and consequently on SME's. The international financial environment is subject to strong variations on the foreign exchange and commodities markets. It is difficult for companies to anticipate these erratic movements which directly impact their sales, purchases and therefore their gross margins, whilst these margins are under high pressure given a fierce competition. Experience shows that major currencies fluctuate up or down by about 10% per year. While we see even greater volatility in commodity prices, their volatility averages around 30% over a 90-day horizon. For example, Brent crude oil can vary by 300% in 1 year, Nickel varied in recent past by 60% in 6 months, CO2 is also fluctuating over time up to 70% + and we could continue a long list of volatile underlying assets. It is therefore important to identify the financial risks that can strongly influence the company's results. We should not underestimate the correlation between currency risks and commodity risks. They are intimately linked. For example, oil is linked to the US dollar (USD), iron ore to the Australian dollar (AUD), gold to the Indian rupee (INR), agricultural raw materials to the Canadian dollar (CAD), etc... Correlation is a fact treasurers or CFOs must contemplate and analyze. The currency and/or commodity risks are important because of their magnitude and high probability of occurrence. These risks affect the value and profitability of companies, whether they are financial, industrial, or commercial.

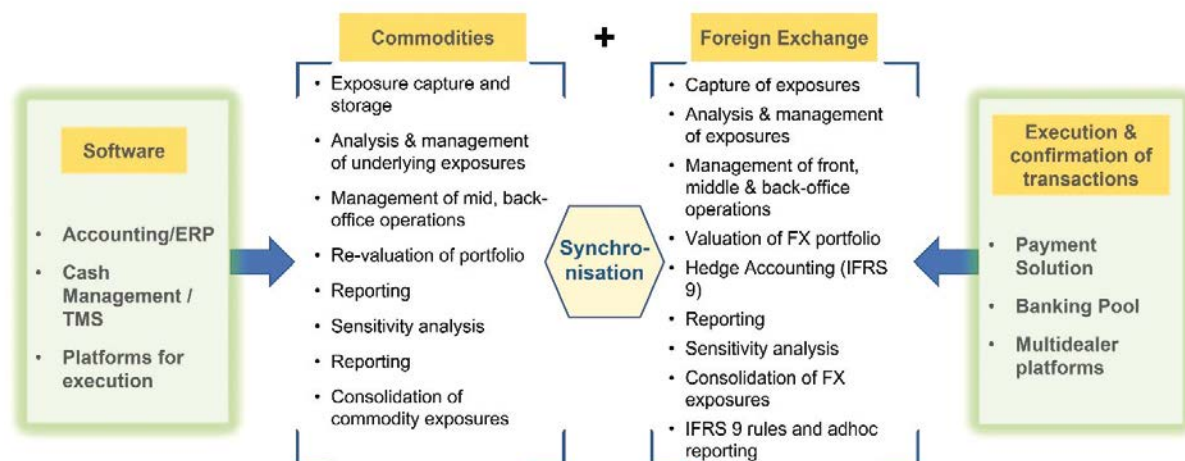
KNOWING YOUR EXPOSURE (KYE)

Identifying risks is an essential, but not sufficient, prerequisite for any risk management. There are 4 main sources of financial risks we can distinguish: (1) Those arising from industrial and commercial operations, commonly known as industrial and commercial risks; (2) those directly linked to the functioning of financial markets and their operations; (3) those inherent to operational techniques and operators; and (4) those attributable to the management mode. The last thing to tolerate would be to lose money due to financial market fluctuations, without reacting. to the Canadian dollar (CAD), etc... Correlation is a fact treasurers or CFOs must contemplate and analyze. The currency and/or commodity risks are important because of their magnitude and high probability of occurrence. These risks affect the value and profitability of companies, whether they are financial, industrial, or commercial.

HOW TO APPROACH HEDGING OF FX RISK?

An economic approach, hedging operations (forward transactions, vanilla options) aim to protect the company against random market fluctuations that could penalize its results or reduce the value of its assets. It allows to compensate or reduce potential losses that the company could suffer on the spot market, on the day of the purchase or sale of its real asset. In this approach, the objective is to protect the asset from possible exchange rate fluctuations. The company does not seek to make a gain but to protect its margin. It is the main objective of any treasurer. When the hedging transaction is settled, the company will pay or receive the price guaranteed by the hedging instrument. If market conditions are unfavorable at the time of settlement, the company will be satisfied with its hedge. On the other hand, if market conditions are favorable, the company will have missed out on a profit (i.e., opportunity gain). But and it is essential, no one could have known or guessed the price levels at the outset. The company wants always to cover its operating margin to the management mode. The last thing to tolerate would be to lose money due to financial market fluctuations, without reacting. to the Canadian dollar (CAD), etc... Correlation is a fact treasurers or CFOs must contemplate and analyze. The currency and/or commodity risks are important because of their magnitude and high probability of occurrence. These risks affect the value and profitability of companies, whether they are financial, industrial, or commercial.

COMMODITY (AND RELATED FX TRANSACTIONS) MANAGEMENT



EVOLVING AND EFFECTIVE METHODOLOGY

Why setting up a dynamic hedging strategy? What are the objectives pursued? There are multiple and complementary. The company may try to cover the totality of the position to be managed, to systematically protect the target price, the reference price, the worst-case price, or its budget price. It may try to keep enough flexibility to take advantage of favorable evolutions or to absorb the risks on the amounts to be managed. Under these conditions, building a strategy within the framework of dynamic management means combining different available hedging instruments to meet the criteria mentioned above. The choice of the instruments and their respective weight in the strategy will condition the quality and the efficiency of this necessary dynamic management.

THEREFORE, HOW TO ACHIEVE IT?

The simplest strategy consists in combining forward transactions with what we could call "stop-losses". These are predetermined parity levels which, if reached, should trigger forward transactions. For example, let's imagine a strategy as followed: 30% of the position to be hedged sold forward at market conditions, i.e., 1.20 EUR/USD; 70% of the position kept open but protected by the following stop losses; 20% to be sold forward if the price reaches 1.18 EUR/USD; 25% to be sold forward if the price reaches 1.16 EUR/USD.

HOW TO ASSESS COMMODITY RISKS THE BEST?

1. Identification of commodity contracts with direct and correlated risks (close link with procurement / purchase department / operations) and interface with the Commodity Hedging Management tool (i.e., CHM).
2. Quantification of expected commodity purchase volumes.
3. Simulation of volatility of commodity pricing.
4. Calculation of projected commodity exposure.
5. Definition of strategies to manage or mitigate the exposure (based on internal policies and risk appetite – which must be aligned to FX policy).
6. Integration of contracts with collective commodity exposure.
7. Assessment of the aggregate impact.
8. With a proper assessment, you can enter in ad hoc hedging instrument strategies.

Olivier Lechevalier
CEO of Defthedge

INTERVIEW

“Market risk is one of the most important for treasurers. Commodity price risk is consistently a top concern for treasury and risk management officers, according to last year’s European survey” says Olivier Lechevalier, CEO of Defthedge.



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WHAT SMES NEED?

- Pieces of information about markets and economic overviews
- Revaluation tools (upon demand).
- Data storage of commodity hedging instruments, and related FX hedges.
- Technical and financial support when they don’t have dedicated treasurer.
- Ad hoc financial and accounting reporting.
- Interfacing of the commodity risk solution to the ERP and other IT solutions.
- A global better understanding and monitoring of commodity risks.

First, now that we have identified the risks, are there any SaaS solutions that could simplify the life of treasurers or better yet CFOs of SMEs without a dedicated treasurer? Aren’t there enough FX/Commodity solutions for everyone?

There are many solutions available for managing financial risks, and especially foreign exchange risks. These are more or less expensive, easy to deploy and more or less simple for a company to use. At present, only Defthedge is as easy to implement as Excel, and reasonably priced too. As far as commodity risk management is concerned, this is a risk that is more difficult to monitor, control and manage on a day-to-day basis. That’s why we created this innovative solution, to democratize risk management and make it available to CFOs, treasurers and buyers in a collaborative tool.

But beyond an FX and commodity management tool, aren’t CFOs looking for a decision support tool, which is often missing?

Indeed, financial managers are looking for tools to manage financial risks. In general, they lack the ability to value simple or complex hedging instruments live or on closing rates, to display the relationship between orders, invoices, and settlements, to match these last elements to the hedge, to obtain clear

reporting for the various company functions dedicated to accounting, consolidation, treasury and general management. Finally, there is generally a lack of real financial risk experts to support customers in implementing the tool. We propose a solution to these initial shortcomings.

Often, we have seen CFOs of medium-sized companies manage their commodity risks on spreadsheets. Is this still acceptable? What would be the risks of managing these risks in XL?

It’s amazing to see companies tracking their risks in an Excel spreadsheet. We regularly see Excel spreadsheets managing close to a billion dollars’ worth of risks. Data entry and copying errors are common.

The main risks are as follows:

- Calculation errors: there is always an error within a sheet on a calculation or formula, and few people reread or check their formulas regularly, as well as the data used.
- Impossible to share the file within the team, Excel is a complex one-person tool. It’s usually an internal, unsecured creation containing sensitive data.
- In general, an average of 3 tables needs to be created to make a decision, and it is generally difficult to reproduce them identically, which can raise questions of reliability.

“

It’s amazing to see companies tracking their risks in an Excel spreadsheet. We regularly see Excel spreadsheets managing close to a billion dollars’ worth of risks.

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- Manual adjustments before a meeting or board meeting are frequent, so there’s bound to be a bias in the information presented.
- It’s difficult to maintain these spreadsheets after a manager has left, changed jobs, or changed mission.

It also seems to us that revaluation, accounting and financial reporting and dashboard view are also elements that CFOs are missing. What do you think about this?

Indeed, it’s important to have a dashboard, a cockpit, to steer your risk and make the right decisions about financial risks. Obviously, depending on the size of the company’s structure, the needs will differ. For example, the risk manager, CFO, or treasurer will have a particular appetite for controls, performance measurement, calculating accounting exchange rate differences and matching hedges to underlying assets. Finally, it is necessary for groups to control the valuation of simple or extremely complex hedging instruments.

Does it seem reasonable to you to manage currency and commodity risk separately?

This is a very good and divisive question! First, it’s important to understand (in general) that currencies are managed by the finance team and raw materials are

managed by buyers. I’ve often noticed that these two teams find it difficult to work together on a day-to-day basis within the same company. This makes it more difficult to manage and control these risks. It is necessarily reasonable and strongly recommended to manage these two risks jointly. The value of raw materials is often inversely related to the value of the currency in which they are quoted. For example, if raw materials are quoted in dollars, when the value of the dollar rises against other currencies, raw materials become more expensive for international buyers, which can reduce demand and thus drive down raw material prices. Conversely, if the value of the dollar falls, raw materials can become cheaper for international buyers, increasing demand and potentially commodity prices. However, it is important to note that while this inverse relationship may often exist, it is not always present and can be influenced by a multitude of other economic and market factors. So, it’s obvious to manage these two risks in concert to control and protect a company’s management performance, sales, and margins. Good news, there are solutions, and we can help.

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TAKEAWAYS

CONCLUSIONS

- NO ONE CAN DENY THAT WE ARE LIVING THROUGH TURBULENT ECONOMIC TIMES, WHICH ARE **INCREASINGLY COMPLEX AND VOLATILE**. IN THIS CONTEXT, WE MUST PAY SPECIAL ATTENTION TO COMMODITY RISK, WHATEVER IT MAY BE.
- **COMMODITY MANAGEMENT IS INSEPARABLE FROM THE MANAGEMENT OF THE RELATED CURRENCY RISK**. MANAGING ONE SEPARATELY FROM THE OTHER WOULD BE AN ADDITIONAL RISK, WHICH IS NOT NECESSARY IN THESE TIMES.
- TO HAVE AN EFFICIENT, CENTRALIZED, AND DYNAMIC MANAGEMENT, A SPECIFIC SOLUTION IS REQUIRED, WHICH TREASURY MANAGEMENT SYSTEMS ONLY PARTIALLY COVER OR NOT AT ALL. BUT THERE ARE SUCH SOLUTIONS THAT CAN BE ADDED TO OTHER **EXISTING SOLUTIONS AND INTERFACED THROUGH API'S**.
- MAKING A GOOD DECISION IS ONE THING, BUT EXECUTING IT WELL IS ANOTHER. IF YOU HAVE OPTED FOR A DECISION SUPPORT TOOL, AN EXECUTION SUPPORT TOOL (E.G., KANTOX, OR OTHER) CAN BE CONSIDERED TO ACHIEVE OPTIMAL MANAGEMENT.
- **DATA SHOULD BE CONSOLIDATED IN A SINGLE TOOL**, WITH EASY AND QUICK DATA RETRIEVAL CAPABILITY, TO PRODUCE AD HOC REPORTS AND DASHBOARDS.
- MANAGING RAW MATERIALS CAN BE COMPLICATED. **A SIMPLE SPREADSHEET IS NOT A ROBUST OR ADVISABLE SOLUTION**.
- YOU NEED TO CONSIDER AN ABSORPTION CUSHION TO MANAGE THE VAGARIES OF PRODUCTION AND SALES MANAGEMENT. MANAGING RAW MATERIAL INVENTORIES IS A TRICKY BUSINESS. ONE MUST BE CAREFUL NOT TO BE OVER-COVERED IN A WORLD WHERE ANYTHING CAN HAPPEN QUICKLY.
- IT IS NOT UP TO THE TREASURER TO DECIDE THE AMOUNT, BUT TO MAKE SURE THAT IT IS WELL HEDGED AND THAT OPERATING MARGINS ARE PRESERVED.
- AUTOMATING THE MANAGEMENT OF RAW MATERIALS WILL **FREE UP USEFUL TIME FOR MORE ANALYSIS AND ANTICIPATION**, SO CRUELLY NEEDED IN TIMES OF CRISIS. IT IS ALSO NECESSARY TO BE ABLE TO "BENCHMARK" ONE'S MANAGEMENT AGAINST A PREDETERMINED REFERENCE.
- IT IS A CONTINUOUS MANAGEMENT, AN **ON-GOING AND DYNAMIC PROCESS THAT REQUIRES COMPETENCE, APPROPRIATE TOOLS**, AND KNOW-HOW. WE MUST CONSTANTLY ADAPT TO THE MARKET'S CHANGES.

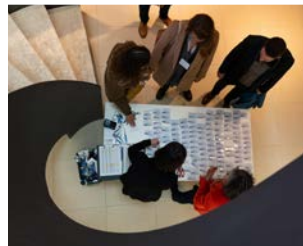
"DESPITE TREASURY MANAGEMENT SYSTEM TECHNOLOGICAL EVOLUTION OVER LAST YEARS, THERE ARE STILL PAIN POINTS IN THE MARKET AND COMMODITY RISKS MANAGEMENT TREASURERS MUST ADDRESS"

(FRANÇOIS MASQUELIER, CHAIRMAN OF EACT)

Commodity management is a complicated mission. It is a double management (i.e., commodity + FX risk versus USD) that makes it even more delicate. Managing one without the other seems to be a bad idea. But managing without an adapted and "best-in-class" IT tool seems risky. It is even less advisable as there are cheap and efficient solutions, with an easy and quick implementation. Why deprive yourself of being efficient? The spreadsheet, the preferred tool of commodity managers, should be banished as it carries the risk of manipulation and calculation errors. Robust, reliable, and complete tools are needed to capture all operations to re-evaluate them and manage them financially and accountably. In a context of hyper-volatility, more than ever, the company must hedge but also to manage properly and efficiently its raw material risk and the related USD risk. Fortunately, this challenge is easy to meet if you know how to find the right tool.

ATEL SPRING CONFERENCE

On April 20th, ATEL organized its 2023 ATEL Spring Conference at ING. Laurent Nittler (China Construction Bank), Jean-Baptiste Gaudemet (Kyriba), Gary Conroy (TransferMate), Marie Barin (Trustpair), Maarten Himpe (ContourGlobal) and Jörg Wiemer (TIS) presented insightful presentations around specific themes. Afterwards the participants enjoyed a cocktail reception.





ATEL SUMMER CONFERENCE

On July 6th, ATEL organized its 2023 Summer Conference in PwC premises. Alain Goebel and Alexandre Maschiella (Arendt), Phillippe Foerster and Admir Fejzic (PwC), Mark Williamson and Anna Tavano (HSBC), Milia Van Mol (FIS) all presented insightful presentations around specific themes. Afterwards the participants enjoyed a delightful cocktail reception.



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An aerial photograph of a modern office floor with large, colorful geometric tiles in shades of purple, blue, and pink. Several business professionals are walking across the floor, their shadows cast long and dark. One person is carrying a briefcase, another is using a laptop. The overall atmosphere is professional and dynamic.

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