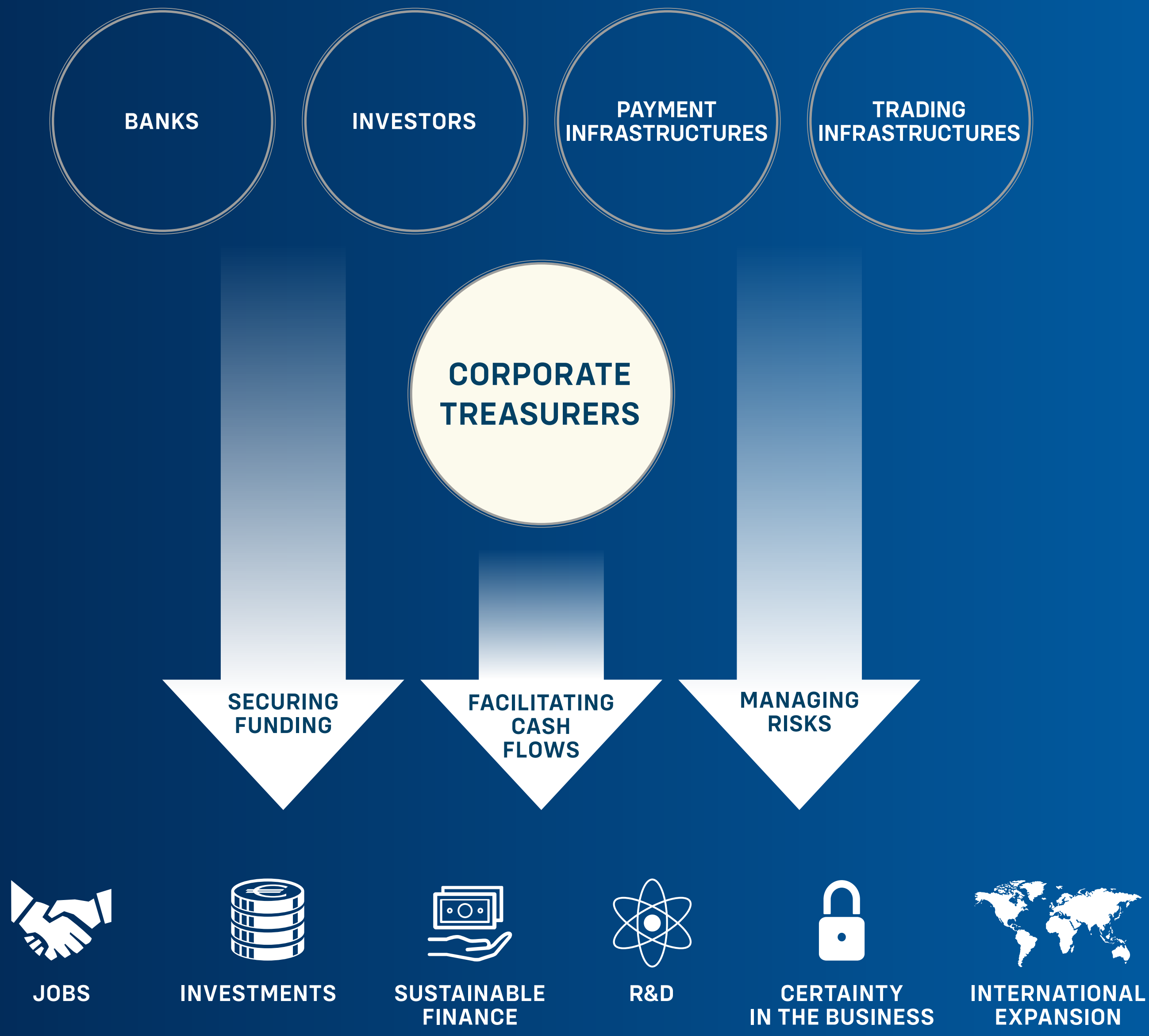
THE EUROPEAN ASSOCIATION OF CORPORATE TREASURERS

THE VOICE OF CORPORATE TREASURERS IN EUROPE

SOUND EUROPEAN FINANCIAL REGULATION

FOR THE REAL ECONOMY

CORPORATE TREASURERS
LINKING FINANCE AND THE REAL ECONOMY



"Corporate treasurers ensure the financial sustainability of their organisations by managing financial risks and by raising and making cash flow in a responsible way."

IMPACTED BY EU RULES RELATING TO:

- ✔ Anti Money Laundering
- ✔ Payments
- ✔ Banks' capital requirements
- ✔ Ratings
- ✔ Financial instruments trading/clearing/margining rules
- ✔ Financial transactions taxation
- ✔ Financial instruments issuance rules

CORPORATE TREASURERS
A KEY LINK IN THE EUROPEAN ECONOMY

MOST COMPANIES SHARE THE SAME PRIORITIES:

- **Securing funding**
- **Investing in the next growth opportunities**
- **Managing cash and working capital**
- **Mitigating financial risks to bring certainty to the business**

Corporate treasurers address these priorities while operating a very lean structure.

To deliver these benefits, as financial specialists within non-financial companies, they engage with wholesale financial markets and institutions:

- **to meet** the funding needs of their company for planned projects and investments, through the issuance of debt or equity instruments
- **to protect** the business from uncertainties and external risks. They do so by using appropriate financial instruments to hedge commercial risks or unwanted exposures. For example, by using foreign exchange or interest rate derivatives, they protect their company from currency depreciation/ appreciation or changes in interest rates
- **to manage** insurance policies and company pensions where appropriate.

Treasurers also set up the payment infrastructure of the company by putting in place adequate systems and procedures to connect to financial institutions, to make or receive payments.

Treasurers do not take positions in financial markets to impact prices or generate profits for their company. They only seek to mitigate existing risks to their business. Their financial market activity is therefore a strict support function that enables their organisations to carry out their core economic activities. Treasurers are the interface between the financial sector and the EU economy.

Corporate treasurers are end-users of financial services for the benefit of the real economy. As such, they are often either directly or indirectly impacted by EU legislation aimed at the financial sector.

Corporate treasurers are financial specialists within non-financial companies

As end-users, they are often impacted by EU legislation aimed at the financial sector

Three main goals:
- securing funding
- facilitating cash flows
- managing risks

FINANCIAL LEGISLATION
SHOULD SERVE THE REAL ECONOMY'S NEEDS

Following the financial crisis, Europe has introduced legislation to better regulate the financial services industry, reduce systemic risk, and better protect citizens' deposits and investments. However, unintended consequences for non-financial corporates have not always been considered.

Whilst all real economy funding flows through corporate finance departments, their transactions only represent a small and non-systemic fraction of overall derivatives volumes.

According to ESMA's 2015 review report on EU rules for derivatives (EMIR), the derivatives transactions of the non-financial sectors represent less than 2% of the outstanding notional market volume.

To preserve the ability of corporate treasurers to serve EU businesses, it is fundamental that EU policy makers factor in the potential impact of any regulation on end-users of financial markets. This approach was already adopted in the context of EMIR, where non-financial counterparties were allowed a proportionate treatment.

Looking to the potential impact of future EU policy developments on capital markets, below are some of the core priorities for the EU end-user corporate treasury community:

overstandardisation

Over standardisation in financial markets can negatively impact non-financial corporates' ability to serve the real economy. Straightforward and cost-efficient access to liquidity is essential for their ability to meet the diverse funding needs of their companies. Bespoke financial instruments allow them to match different funding horizons and to hedge specific risks. To do this, they rely on customisable bond, foreign exchange and interest rate derivatives products transacted in the so-called over-the-counter (OTC) derivatives markets.

This means that standardised financial instruments traded on organised exchanges such as 'futures', are not suitable because they provide at most only one settlement date per month. Standardising corporate bond issuance or imposing trading mandates on foreign exchange derivatives negatively impacts the ability of non-financial corporates to meet their funding needs and hedge their risks.

EXAMPLES

- A manufacturer producing in Germany and selling in the USA needs to purchase a foreign exchange forward contract to mitigate the euro-dollar exchange rate fluctuation until the specific due date of the invoice.
- A telecoms operator receiving a milestone delivery on November 16th might need to pay the equipment manufacturer with the proceeds of a specific bond issuance.

#capitalmarketsunion

The real economy would benefit from greater integration of European capital markets. In many cases, companies seeking funding in Europe are reliant on their home market out of necessity rather than choice. A lack of harmonisation in insolvency regimes across member states means that global fixed income investors remain hesitant to direct their capital flows to companies across different member states. On the other hand, the international success of the USD is partly the result of the depth and liquidity of the US capital markets. In order to deliver a truly European Capital Markets Union, European policymakers need to continue their efforts to avoid fragmentation of EU27 markets after Brexit.

#digitalisationbenefits

Corporate treasurers seek to maximise the benefits of digitalisation. This has the potential to meet compliance requirements in an easier and more efficient way, in particular Know-Your-Customer (KYC) and Anti-Money-Laundering (AML) obligations imposed by many bank counterparties. However, digitalisation may create greater exposure to cyber risks. As a result, Europe should develop a legislative framework that leaves enough space for innovation while promoting collaborative initiatives on cybersecurity.

#innovativepayments

Corporate treasurers are already benefiting from innovative developments in the payments space, whether in instant payments, open banking – PSD2 - or other areas. The European legislative framework needs to further encourage these positive trends.

#financialtransactiontax

Taxing all financial transactions could result in additional costs being passed through to non-financial end-users. Treasurers are price takers in financial markets and depend on having access to markets to support their core business functions. This means that taxing market activity, for example through a financial transaction tax, would make transactions more costly for financial institutions - who would simply pass those cascading costs down to end-users of financial services.

Corporate treasurers need a wide variety of financial instruments that match the diversity of the real economy

They need to be considered when regulating the financial sector

They are avid new technology users in highly secure environments

CORPORATE TREASURERS

PARTNERS IN FINANCING THE TRANSITION TO A SUSTAINABLE ECONOMY

Corporate treasurers are potential partners in achieving a shift to a low-carbon and more sustainable economy. They can help through raising capital for sustainable long-term investment projects - including green bonds- and designing investment policies that address ESG concerns. To help treasurers contribute to this overarching sustainability objective, policymakers should consider several issues:

#taxonomy

Developing a sustainability taxonomy that enables rather than hinders economic activity. When designing the EU sustainability plan, the taxonomy should ensure an inclusive approach that allows and encourages all sectors and industries to be part of the solution.

#disclosure

Consider the impact of complicated and duplicative disclosure rules on corporate treasurers when reviewing financial and non-financial reporting rules.

#ratings

When meeting the funding needs of their companies, corporate treasurers rely on credit ratings for pricing. Systematically incorporating ESG criteria in credit ratings may not always be appropriate to measure creditworthiness.

#greenbondstandard

When developing EU standards for the issuance of green bonds, it is important to consider appropriate incentives to encourage broader uptake of green bonds.

Europe's economy needs a well-calibrated taxonomy

Green bonds with the appropriate incentives can support climate transition

New disclosure requirements should add both transparency and value

IN SUMMARY

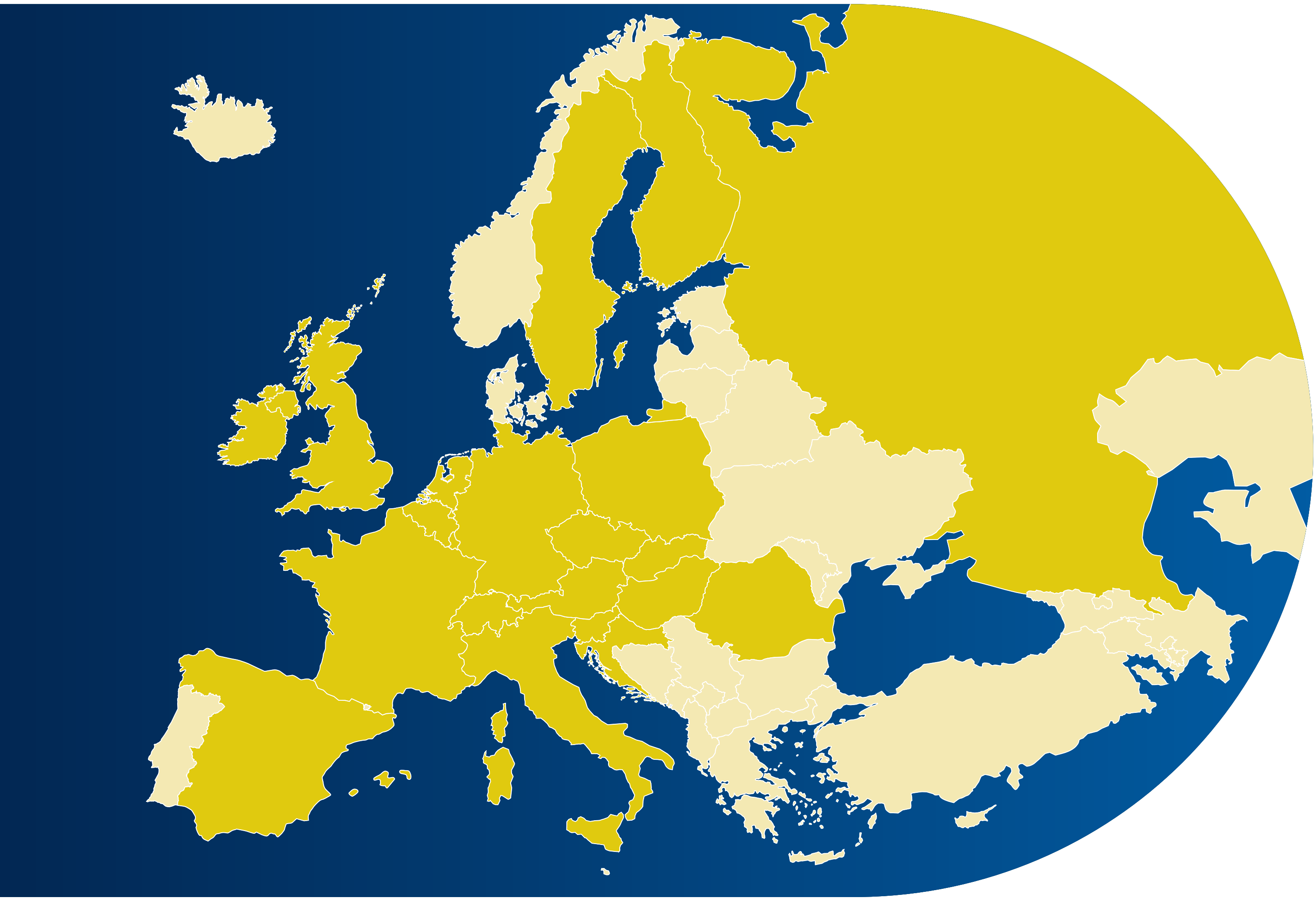
CORPORATE TREASURERS LINK FINANCE AND THE REAL ECONOMY

About Corporate Treasurers	Corporate treasurers are financial specialists within non-financial companies	As end-users, they are often impacted by EU legislation aimed at the financial sector	Three main goals: ■ securing funding ■ facilitating cash flows ■ managing risks
Financial regulation should serve the real economy's needs	Corporate treasurers need a wide variety of financial instruments that match the diversity of the real economy	They need to be considered when regulating the financial sector	They are avid new technology users in highly secure environments
Corporate treasurers: partners in financing the transition to a sustainable economy	Europe's economy needs a well calibrated taxonomy	Green bonds with the appropriate incentives can support climate transition	New disclosure requirements should add both transparency and value

THE EUROPEAN ASSOCIATION OF CORPORATE TREASURERS

2002	ESTABLISHED
23	NUMBER OF ASSOCIATIONS
21	COUNTRIES
13 000	PROFESSIONALS
6 500	COMPANIES REPRESENTED

Member associations



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