GTNEWS GUIDE TO

Impact of Regulation on Cash and Trade

Underwritten by Nordea

"Best Trade Finance Bank 2014 in the Nordic Region"
Trade makes the world go round, and we are pleased to be a part of it.
To be awarded best trade finance bank 2014 is a recognition that makes all employees in Nordea Trade Finance very proud. It is their effort and dedication that helps make your trade possible.
To learn more about how Nordea Trade Finance Global Network can create value for your business, please contact us by phone at +45 22 68 64 56.
Making it possible
Awarded Best Trade Finance Bank 2014 in the Nordic Region by Global Finance
Nordea
45/65/70 TON

GTNEWS GUIDE TO

Impact of Regulation on Cash and Trade

Welcome to the gtnews Guide to Impact of Regulation on Cash and Trade

Sometimes it can seem that your business is being affected by things outside of your control – for example, changes in regulations that can put you in a reactive mode; but it does not have to be that way.

In this guide we will take you through some of the current regulations and describe how they impact your cash management and trade finance business.

Compliance with regulations is often seen as yet another cost of doing business, a burden imposed by regulators; but in a case study presented in this guide we show you how one Nordic multinational, GN ReSound, responded to the EU's Single Euro Payments Area (SEPA) directives – and turned compliance into a business opportunity.

It is essential for any company to keep on top of regulations. The landscape of regulation is always changing, and at Nordea our mission is to help you navigate these changes, so that you can manage their impact on your business. We work hard to smooth the path for customers like you.

Nordea, Transaction Products

Contents

Introduction	1
How does regulation affect treasury?	1
Basel III	2
Single Euro Payments Area (SEPA)	6
Anti-money laundering regulation and economic sanctions	13
Conclusion	15

Introduction

New regulations affect corporate clients, as they can alter the availability and relative cost of different banking products. In many cases, treasury practitioners face a choice between making sure they can continue to perform their core tasks in the new environment and using a regulatory change to improve the efficiency of their processes. In this guide, we review a series of recent, ongoing and prospective regulatory changes to understand how they affect corporate treasury practitioners. We then take this information and examine how practitioners can use these changes to effect improvements to their core cash and trade practices.

How does regulation affect treasury?

Aside from the development of the Single Euro Payments Area (SEPA) in Europe, the drivers behind much of the current regulatory change are threefold:

- First, in the aftermath of the 2008 financial upheaval, there is a desire to ensure that banks and other financial institutions (including asset managers) are more robust and better protected against future market events;
- Second, there is a desire on the behalf of the same regulators to do more to protect consumers both in terms of reducing banking and other costs and also in terms of preventing market abuse, whether in the form of the manipulation of interest rates or by imposing unreasonable costs on consumers; and
- Third, with the expansion of straight-through processing meaning that ever fewer processes require a manual intervention, there is a recognition that there is a greater risk of fraud, including money laundering, some of the returns of which are diverted towards financing terrorism. This recognition has been reflected in an increased focus on 'know your customer' controls within banks and, from a trade perspective, a greater awareness on behalf of banks of the need to manage the counterparty risk inherent in the network of counterparty banks required to support the processing of trade finance documents.

It can be tempting to view these regulatory changes as simply another additional cost of doing business. New regulations arise for a variety of reasons. Some seek to prevent an event reoccurring, whereas others are designed to give organisations a financial incentive to operate in a particular way. These regulations often require market participants to put in place additional processes. This can result in a significant increase in costs for corporate treasurers either directly, where the burden of compliance falls on companies, or indirectly, where the burden falls on banks or other providers. Having said that, it is not always the case that a prudently run organisation will face additional cost as a result of a regulatory change.

In this context, the challenge for corporate treasury practitioners is twofold. First, they need to be able to understand the implications of all regulatory changes. For example, a banking regulation may result in banks simply setting slightly higher margins on loans or offering a slightly reduced return on certificates of deposit. Alternatively, the regulation may require a bank to change its behaviour, meaning that it is prepared to pay a greater rate of interest on deposits with a three-month maturity than had previously been the case. In some cases, a bank may withdraw from offering a particular service or market or the service itself may become less available more generally.

> "Treasurers must be able to identify how regulatory changes will affect the way their company does business"

Second, treasurers must be able to identify how regulatory changes will affect the way their company does business. Wherever possible, they will also want to try to anticipate how to use a regulatory change to improve the efficiency of internal operations or to manage risk more effectively. Again, there are a number of different variables. The first is to identify opportunities for greater efficiencies within the treasury department or the wider supply chain. This is likely when the focus of the regulatory change is to achieve competition. For example, many of the EU regulations in the single market, such as the Payment Services Directive and SEPA, have sought to reduce the complexities associated with cross-border transactions, offering significant benefits for corporate treasury practitioners seeking to manage cash efficiently across Europe. The second is to identify how regulatory change might allow companies to reduce an exposure to risk. A common example is the risk for international companies to trade in breach of economic and other sanctions. Increased focus by banks can be used to support a 'know your customer' environment within the corporation, reducing the chance of trades in breach of sanctions.

Many regulations do not offer a clear set of potential benefits for corporate treasury practitioners. As we shall see in this guide, some changes can impact corporate treasury departments either by adding cost to established practice or by forcing corporate treasurers to identify alternative techniques when established tools become

Return to Contents

 © 2014 gtnews. All rights reserved. gtnews is a registered trademark of the Association for Financial Professionals

too expensive or are withdrawn. In many cases, these changes are the by-products of regulations that are targeted at making the banking system more robust, primarily for the benefit of retail consumers. In this environment, where governments and regulators are seeking to try to prevent future credit events, there is a very real risk that actions taken will have significant unintended consequences. In these circumstances, there is a responsibility on corporate treasurers to lobby regulators and administrators to ensure their interests are fully understood before legislation is passed.

In this guide, we examine three broad regulatory reforms: Basel III, the introduction of SEPA and the deepening of anti-money laundering regulation. In each case, we highlight the main elements of the reform and identify how treasurers can use them to their advantage. As with all regulations of a global nature, there are significant differences in the way rules are applied on a national basis. This means that while the broad thrust of the regulation is the same, treasurers will need to work to understand the precise ramifications in each relevant jurisdiction.

Basel III

The 2008 global financial crisis has shown how banking stability has become a cross-border issue, given the internationalisation of the banking system over the last 30 years. The Basel-based Bank for International Settlements (BIS) has adopted a series of capital accords designed to provide a minimum level of standards for member central banks to adopt to try to ensure stability within national banking systems. Developed after the most recent crisis, the Basel III accord is the latest in this series and it focuses on three core features of banks' balance sheets and funding structures.

First, it examines banks' capital to asset ratios. The objective of the Basel capital accords is to set minimum standards to be implemented by national regulators. Second, it sets maximum leverage ratios. This sets reserve requirements that restrict banks' ability to create money through loans. Together these minimum standards are important because they ensure there is no 'race to the bottom' between jurisdictions and avoiding banks to become overextended by leveraging lower standards of governance.

Third, it examines bank's liquidity ratios, with a view to ensuring banks have sufficient liquidity to survive a short-term (defined as within 30 days) or a longer term (over a year) market liquidity event. This means banks are better positioned to continue to operate from their own funds should they not have access to external funding sources.

Basel III is the latest capital accord and complements the two earlier Basel II and Basel 2.5 accords. The original proposals were made by the BIS Committee on Banking Supervision in 2010. Implementation started in 2013 and is due to be finalised in 2019. Because the accords are implemented at national level, there are some differences between the rules applied between countries. However, the underlying requirements are important and are already having a significant impact on corporate treasury practitioners.

Understanding Basel III

To strengthen approaches to the three issues outlined above, Basel III includes three main measurable requirements:

Minimum capital requirements. At the centre of the Basel III accord is a requirement for all banks to hold 7% of risk-weighted assets in common equity or core tier one capital (2.5% of which is considered capital conservation buffer). In addition, some global systemically important banks will be required to hold an additional 1% to 2.5% (this value is determined by the relative importance of the bank) of risk-weighted assets in core tier one capital. Finally, some regulators may require banks to hold up to 2.5% of risk-weighted assets in common equity as a countercyclical buffer.

These capital requirements were introduced at the beginning of 2014, with full implementation by 2019. (The capital conservation buffer is to be introduced from January 2016.)

Maximum leverage ratios. Under Basel III, banks will be restricted to a leverage of 33 times their core one capital. Leverage will be calculated without any risk weightings being applied and all exposures, including all off-balance sheet items, will be included in the assessment.

Banking supervisors are already tracking bank leverage, although bank compliance is not yet mandatory. From January 2015, supervisors will disclose the level of bank compliance, although banks will only be required to comply from January 2018. Because of the imminent disclosure of their leverage ratios, banks are already beginning to adjust their behaviour to comply.

Liquidity ratios. There are two elements to the Basel III accord focus on liquidity. The first is a liquidity coverage ratio, which will require banks to hold enough high-quality liquid assets to cover any net cash outflows over a period of 30 days. The required level of assets is determined by the results of stress tests approved by the relevant national bank supervisory authority. Banks will have to hold 60% of the required assets from January

Return to Contents

© 2014 gtnews. All rights reserved. gtnews is a registered trademark of the Association for Financial Professionals

2015, with the requirement rising by 10% each year until full compliance by January 2019.

The second element is a net stable funding ratio, which will require banks to hold sufficient assets with a residual maturity of one year or more to finance longer term, illiquid assets. This is aimed at ensuring banks access more stable long-term funding to finance longer term lending and therefore to avoid situations where banks rely on money market funding to finance residential mortgages. The net stable funding ratio is being implemented in January 2018.

> "From a corporate treasury perspective, most banks have already started to evaluate the impact of the accord on their propositions, and in some cases have already adjusted them to meet the new requirements"

Differences in implementation

Although there are some significant differences in the way national regulators are implementing the Basel III accord, the underlying requirements are fundamentally the same. From a corporate treasury perspective, most banks have already started to evaluate the impact of the accord on their propositions, and in some cases have already adjusted them to meet the new requirements.

Legislation is in place in the key markets around the world. For example, the EU response – the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD), which are collectively known as CRD IV – was published in July 2013. Because it is a regulation, the CRR was immediately binding in all member states from January 2014 and requires no further legislation by those states. The CRR sets the rules on capital requirements and leverage and liquidity ratios. On the other hand, the CRD is a directive, meaning that national legislators were required to adopt their own rules by the end of 2013. The CRD covers prudential supervision of banks and the use of countercyclical capital buffers, as well as other measures not included in Basel III. This means there are some differences between regulatory requirements for banks in different EU member states.

Legislators and regulators also face the challenge of trying to remove inconsistencies between national rules and Basel III requirements. For example, the US Federal Reserve has had to ensure its implementation of Basel III rules is consistent with the Dodd-Frank Act, the US Congress's response to the financial crisis. In Canada, the capital adequacy requirements are stricter than Basel III, with banks having to maintain a minimum ratio of consolidated total assets at no more than 20 times capital.

Note that with the gradual implementation of Basel III, and national regulators' responsibility for providing much of the detail, the precise regulations will continue to develop and evolve over time, especially if unforeseen consequences become apparent.

Impact of Basel III on corporate treasurers

Unlike many other regulatory changes, there is no direct requirement on corporate treasurers to meet new requirements. However, corporate treasurers will still need to understand the implications of Basel III for their businesses. Banks and, in some locations, other financial institutions, such as asset managers, will need to comply with the requirements of the accord, as regulated in their particular location. Treasurers may find that services offered by their banks will change or be removed; where services are still provided, pricing relative to other products may change. In particular, banks may react to the incentives applied by the new Basel III rules and the relevant local regulators by adopting new pricing structures. These changes will have some important implications across the full range of cash management and trade finance activities.

Cash management activities

LIQUIDITY MANAGEMENT

Notional cash pooling. As banks will be required to set aside additional capital for risk management purposes, there may be a significant reduction in the availability of notional cash pooling structures from banks. In most locations where it is available, banks rely on cross-guarantees to be permitted to offset credit and debit cash balances for regulatory capital purposes. It is effectively the regulator's assessment of the reliability of the cross-guarantee that allows the bank to offer notional cash pooling. This becomes more complicated when cross-guarantees are offered on a cross-border basis because the arrangement has to be approved by more than one regulator, each of which is primarily concerned with financial stability in its own jurisdiction.

Banks will continue to offer notional cash pooling on the same way as now, until they are required to alter the level of assets they have to set aside to cover the debit positions in the pool. If they are required to set aside additional assets, they are likely to respond in one of three ways. First, they may simply withdraw from offering notional cash pooling, either on a cross-border basis or altogether. Second, they could apply additional charges on debit balances, reflecting the additional cost associated with compliance. This would have the effect of making notional cash pooling uneconomic for most users. Third, they could offer a similar product based on the use of mirror accounts to mimic the attributes of a notional cash pool, but where any cash movements are physical

Return to Contents

© 2014 gtnews. All rights reserved. gtnews is a registered trademark of the Association for Financial Professionals

rather than notional. These products are already offered by a number of banks in a number of locations, and are sometimes referred to as interest optimisation.

Centralisation of treasury activities. Corporate treasurers may also decide to centralise some of their own activities into in-house banks or similar structures. One reason for this is the additional cost that regulators may impose on over-the-counter derivatives that treasurers use to hedge interest rate and currency positions. Regulators may require banks to hold additional assets against derivatives not traded on an exchange (if they are not cleared via a central counterparty). Centralising cash management allows the group treasury to offset any natural hedges within the organisation, thereby reducing the number and size of any external hedges required. Additionally, where external hedges are required, corporate treasurers may choose to transact via exchanges, depending on how pricing changes.

BORROWING

A key focus of the Basel III accord is an attempt to require banks to ensure all lending is backed by sufficient capital, both in terms of quantity and quality. Banks have already begun to reset their strategies in the context of the anticipated new regulations. Their previous activities and funding strategies determine, at least in part, the degree to which their approaches to lending will change as they seek to ensure their balance sheets are compliant with the new rules. In some cases, this has resulted in banks reducing the amount of lending they are making as they seek to comply with both capital standards and, especially, the forthcoming net stable funding ratio.

Broadly speaking, each bank will have to ensure loans (long-term and short-term) are appropriately priced, so that any applied fees and margins reflect the overall cost of capital. As well as the overall leverage ratio, each bank will also have to ensure that any short-term loans, including overdraft facilities, will meet liquidity coverage ratio targets and any long-term loans meet the net stable funding ratio. (See below for the 2014 revision, which affects the treatment of short-term trade finance facilities.)

> “Companies reliant on particular banks for working capital finance will need to ensure they will continue to be supported by those banks. Treasurers should not wait until credit facilities are up for renewal or renegotiation before doing so”

Because of these changes, banks are likely to become even more selective when extending credit to companies. Clients that manage daily operations through banks will be rewarded with credit facilities, as operating cash will be considered attractive from a regulatory perspective.

This means corporate treasurers will need to understand how each of their banking partners plans to respond to Basel III. Companies reliant on particular banks for working capital finance will need to ensure they will continue to be supported by those banks. Treasurers should not wait until credit facilities are up for renewal or renegotiation before doing so.

Note that the changes resulting from the implementation of Basel III are in addition to the generally anticipated increase in borrowing costs over coming months.

INVESTING

The introduction of the liquidity coverage ratio will have a significant impact on the availability and pricing of short-term investing products. Banks need to manage their short-term positions, such that they hold sufficient assets to cover the stress-tested outflow of cash over a 30-day period. Under the terms of the regulation, banks will have to characterise short-term (defined as those with a maturity of less than 30 days) cash deposits as either operational or non-operational cash balances. Broadly speaking, operational cash is that cash used for working capital purposes and includes cash held for transactional purposes. Regulators have made the distinction because they consider companies are likely to hold operational cash with their cash management banks, rather than seek to place the cash elsewhere in search of a better return. Regulators consider that companies are more likely to place non-operational cash away from their transactional banks, primarily as a tactic to diversify counterparty risk. As a consequence, banks will have to hold assets against 25% of operational cash balances against 40% of non-operational cash balances, reflecting the relative stickiness of operational and non-operational cash. Banks will also need to show how they distinguish between operational and non-operational cash balances, which may require companies to share their cash management policies with their banks.

This will have a number of effects. Banks may refuse to accept ‘hot money’ deposits for terms of less than 30 days. At the same time, they may offer a better interest rate on short-term surpluses on transaction accounts, as an incentive for treasurers not to sweep cash to money market funds, especially from liquidity management header accounts. Some banks will also need to hold more liquid assets to meet the liquidity coverage ratio, meaning they will be competing with investors and asset managers (including money market funds) for the most highly rated short-term instruments, such as treasury bills and commercial paper issued by the best-quality issuers. As a consequence, there is likely to be a change in relative pricing of short-term assets, with the increased demand driving up prices and therefore reducing yield. This will also affect the returns from asset managers, including money market funds, which are already subject to tighter restrictions. (Further changes have been adopted in the USA. Most money market funds will have to use a

Return to Contents

© 2014 gtnews. All rights reserved. gtnews is a registered trademark of the Association for Financial Professionals

fluctuating net asset value by October 2016. The EU is expected to introduce additional changes, but probably not before 2017.) As a result, treasurers may have fewer options when placing short-term cash.

There will also be an impact on longer term investments as the net stable funding ratio becomes a factor, although this will be more of a concern for treasurers with responsibility for managing longer term assets, such as the company pension fund.

Trade finance activities

There had been some concern among trade finance practitioners that traditional techniques, including letters of credit and guarantees, would attract treatment that would not reflect the relatively low-risk nature of the instruments. (According to ICC statistics based on 2012 data, short-term trade finance products have default rates of up to 0.241%. Moody's calculated the default rate for all corporate products to be 1.38%.) Since the initial publication of the Basel III accord, trade finance practitioners have lobbied hard to ensure the collateralised nature of the instruments is adequately considered in any regulatory treatment. This has met with some significant success. In Europe, CRD IV has exempted trade finance loans from the assessment of risk-weighted assets, meaning banks will not have to set aside so much capital to cover any trade loans.

Another concern surrounded the implementation of the liquidity coverage ratio. CRD IV recognises the guarantees of payment inherent in letters of credit and other guarantees, so these can now be relied upon when calculating cash flows for compliance purposes (previously banks may have only been able to count on 50% of cash for inflow calculations). Finally, the weighting associated with letters of credit was to be raised from conversion factor of 20% (under Basel II) to 100%. Again, after scrutiny of the characteristics of letters of credit, European banks will only have to consider 20% of the value of letters of credit for the purposes of the leverage ratio.

Following the EU's approach, the Basel III accord was similarly amended to allow the same conversion factors as in Basel II for all off-balance sheet transactions. All these changes mean that the relative cost of trade finance products is unlikely to change dramatically over the next few years. However, because the precise treatment is determined by national regulators, it will vary between jurisdictions and, as with other elements, it will be subject to change.

Wider picture

Although Basel III is already playing an important role in determining how banks will respond to the uncertainty of the last few years, there are plenty of other factors that will affect bank attitudes to cash and trade. Local bank regulators have been responding to particular issues in their own countries, meaning that there continue to be different supervisory rules applied to banks subject to different jurisdictions. The movement towards ring-fencing or separation of investment banking from transactional banking has the capacity to alter the availability of funding and investment instruments over the coming years.

"Corporate treasurers should maintain regular dialogue with their banking partners"

Banks are reviewing their own activities and products, too, as shareholders and regulators all seek to ensure risk is adequately understood and appropriately managed. Corporate treasurers should maintain regular dialogue with their banking partners, knowing that just because a service is being provided or a credit line is being extended today it could be withdrawn at the first opportunity.

Understanding Basel III

As part of their regular process of reviewing bank relationships, treasurers should always look forward to anticipate change. This should be a two-way discussion: first to discuss future company requirements such as an extension to credit facilities or support for a new supply chain finance initiative. It should also include a discussion of the bank's future plans: whether they intend to change the level of support they provide the company and how they view the existing relationship.

To understand the impact of Basel III more clearly, treasurers should review three key elements in particular:

- Provision of credit facilities. Treasurers should try to identify each bank's view of credit facilities. Is the bank going to continue to extend the same level of financing, for the same terms under the same conditions? If necessary, would the bank provide additional credit facilities? Would the company have to provide additional business to the bank to obtain these facilities?
- Investment opportunities. Is the bank (and other counterparty) changing its approach to attract short-term investment? Are these changes consistent with the company's short-term investment policy? If not, is it appropriate to amend the policy?
- Liquidity management. Will the bank continue to offer the same liquidity management products? If so, will there be significant changes in pricing? Are there alternative ways of managing group liquidity (see SEPA below)?

Return to Contents

© 2014 gtnews. All rights reserved. gtnews is a registered trademark of the Association for Financial Professionals

Single Euro Payments Area (SEPA)

The SEPA project is an important extension to the introduction of the EUR in the EU. It is aimed at reducing the inefficiencies associated with processing payments that remained when the EUR was introduced in 1999. Until the SEPA project, most payments denominated in EUR were processed in national specific payment formats and processed in domestic payment clearing and settlement systems. This meant that EUR-denominated cross-border payments were more expensive to process than domestic payments and, therefore, initiate, even if both the initiator and the beneficiary were located in the eurozone.

The objective of the SEPA project is primarily to transform the countries covered by the project (34 countries: the 28 EU countries, the four EFTA countries plus Monaco and San Marino) into a single domestic payment area for EUR-denominated retail payments. The SEPA project covers retail payments where both the sender and beneficiary are located in the SEPA area. If one party is outside SEPA, the payment is beyond the SEPA project's scope, even if it is denominated in EUR. Consumers would be able to purchase goods and services from across the SEPA without facing additional payment processing costs for purchasing from a business located in another state. Businesses would be able to manage payments and collections from across the SEPA from a single bank account, using payment formats that are the same for all participating countries. From the European Commission's perspective, this will enhance competition across the EU, and as such it represents the last key step in creating a true single European market.

Progress so far

By the beginning of August 2014, all credit transfers, direct debits and card payments (except for pre-agreed niche payments) denominated in EUR and made in the eurozone had to be prepared and processed in the relevant SEPA format. This marked an important milestone in the implementation of the SEPA, even though it was reached six months late. (The European Commission recognised the fact that a number of organisations were finding it difficult to meet their obligations, so it moved the initial deadline to August from February 2014.)

Note that banks may continue to use terms such as 'payment in EUR' rather than a specific 'SEPA payment' when communicating with their corporate clients, even though these transactions will be effected as SEPA payments with the associated requirements and conditions.

CORPORATE RESPONSE

For many treasurers in domestically focused organisations, SEPA has been more of an irritant than an opportunity. Without significant cross-border payments, these treasurers have simply had to accept the cost of replacing an established way of working without any realistic prospect of achieving significant benefits.

Even in companies with more cross-border transactions, the response to SEPA from corporate treasurers has varied significantly. At one end of the scale, many simply sought to ensure they could make and receive SEPA payment instruments where necessary by the 2014 deadline. At the other, some others used the SEPA project as a catalyst for a group-wide review of cash management policies and processes, sometimes resulting in some significant change, especially on the accounts payable and disbursements side.

This means that corporate treasurers face the next stage of the SEPA project from a variety of different positions. Broadly speaking, there are three core positions:

- Basic compliance. A number of corporate treasury organisations have focused on ensuring compliance with the core requirements of SEPA: to ensure they can effectively make and receive SEPA credit transfers and direct debits. This would have required very little change to bank account structure and consequently the use of cash management banks. This strategy employs bank-provided (or those from another third-party intermediary) services to translate legacy format payments into SEPA formats for processing. This is a short-term solution, because the intermediate service will add to processing cost and this will not be permitted beyond 2016.
- Partial transformation. The next level of response has been to ensure the treasury can initiate and process SEPA payment formats via a treasury management system upgrade or the adoption of a standalone solution. This strategy means the treasury is not reliant on third-party providers to translate domestic payment formats into SEPA formats. It also means that the company is relatively future-proof with respect to SEPA compliance. The company may still need to update its direct debit mandate management process or to transfer from niche payments to SEPA payments by 2016.

  However, this does mean that there are potentially additional savings and/or gains that can be achieved from a full-scale review of cash and liquidity management processes. The reasons for waiting to perform a wider review of processes vary. For example, many organisations have been reluctant to invest in internal projects at a time when they have sought to preserve cash and reduce exposure to external borrowing. Others would have wanted to avoid becoming committed to a particular liquidity management structure or partner bank (or banks) until the impact of both SEPA and other regulation (including Basel III) is clearer. In addition, some treasurers may have reviewed their processes and concluded that their processing volumes or corporate culture did not justify any further structural changes.

Return to Contents

 © 2014 gtnews. All rights reserved. gtnews is a registered trademark of the Association for Financial Professionals

- Full transformation. Finally, some treasury departments have already taken full advantage of SEPA to review their cash management activities and adopt a more streamlined structure. In these cases, the company will already have adopted the technology upgrades to process SEPA payment instruments. They may have rationalised their bank account structure, and/or centralised payment and collection activities to a payment and/or collection factory and started to use the factory to make payments and collections on behalf of group entities.

These differing approaches will determine how a corporate treasurer will need to respond to the next stage of the SEPA project, as well as indicating how a company can benefit from further changes.

> "If they operate in countries where niche instruments are still used, treasurers will need to have a migration plan in place to manage the transition to SEPA credit transfers or direct debits"

Next steps

Having reached August 2014, treasurers should now be focused on the next deadlines in 2016, which impose a combination of requirements they must meet and provide some opportunities from which they can benefit.

Current SEPA deadlines

August 2014 – all EUR-denominated payments, excluding accepted niche payments, must have been replaced by SEPA instruments in eurozone (except direct debits in Latvia, where the deadline is January 2015).

February 2016 – all niche payments in the eurozone must have been replaced by SEPA instruments.

October 2016 – all remaining EUR-denominated credit transfers and direct debit payments within the scope of the SEPA project must be replaced by SEPA instruments.

COMPLIANCE

The twin deadlines of February and October 2016 represent further key milestones in the SEPA project and impose three core requirements on corporate treasurers.

First, by February 2016, all niche payment instruments in the eurozone must have been replaced by SEPA instruments. Under the terms of SEPA, a number of countries have been able to continue to use so-called niche instruments after the August 2014 deadline.

Country	Instrument Name	Instrument Type
Austria	ELV	Electronic direct debit initiated by card-based point-of-sale transaction
	ATIB	Paper-based credit transfer
France	Télérèglement	Electronic payment order
	Titre Interbancaire de Paiement	Interbank payment order
Germany	ELV	Electronic direct debit initiated by card-based point-of-sale transaction
Greece	Non-automatic credit	Credit transfer
Italy	RID finanziario	Direct debit
	RID a importo fisso	Direct debit
Spain	Anticipo de credito	Direct debit
	Recibos	Direct debit

These niche systems mainly fall into one of two categories: paper-based credit transfers or direct debit schemes that require the approval of the payee before each payment.

Second, SEPA requires all payment service providers and organisations submitting bulk credit transfers or direct debits denominated in EUR to use ISO XML 20022 payment formats. Compliance is required across the eurozone by February 2016. This will apply to almost all companies in the eurozone (only micro-enterprises, defined as enterprises with an annual turnover and/or balance sheet total not exceeding EUR 2 million and employing fewer than 10 people, are exempt).

Finally, by October 2016, all EUR-denominated retail payments in non-EUR countries must also be effected by SEPA payment instruments. After this deadline, it will only be non-eurozone countries that will continue to use legacy national payment instruments, which will be processed via legacy national payment systems. For example, the UK direct debit scheme will continue to be processed via BACS.

NECESSARY COMPANY ACTIONS

To ensure compliance, corporate treasurers need to review three elements.

First, if they operate in countries where niche instruments are still used, they will need to have a migration plan in place to manage the transition to SEPA credit transfers or direct debits. With direct debit transactions, much of the work will be in managing client relationships, as new direct debit mandates may need to be signed. These new

Return to Contents

© 2014 gtnews. All rights reserved. gtnews is a registered trademark of the Association for Financial Professionals

mandates will need to be stored by the company (rather than the bank), so a robust solution should be in place, not least to avoid the risk to reputation should data be lost or compromised. Treasurers and client relationship managers should work closely with their banks and systems vendors to manage this process. Both will have learned from their experiences in supporting this process in countries where niche instruments are not still used, via the required adoption of the SEPA direct debit before this year's deadline.

Second, treasurers will need to ensure their systems are able to initiate and process ISO XML 20022 payment formats. Realistically, to meet the February 2016 deadline, most treasurers will want to complete any outstanding transition by October or November 2015, before management time and resource is required by the regular end-of-year reporting activity. Again, there is already significant expertise available in banks, systems vendors and consulting firms, as well as from other treasurers, to guide those yet to make the change.

There are a number of issues that need to be addressed when the project plan is developed. These include:

- There are slight differences in the application of the XML format between banks and countries. Treasurers need to understand the implications of these differences for straight-through processing.
- Although ISO 20022 messages usually permit a greater degree of data to be transmitted with an individual message, they are less suitable for payment instructions to settle multiple invoices. Treasurers need to understand how this information can be processed efficiently. This may require changes to accounts payable and/or receivable processes. Any client-facing changes, in particular, will need to be addressed sensitively.

Finally, treasurers should also be mindful of the October 2016 deadline for compliance for EUR-denominated payments outside the eurozone.

How corporate treasuries can take advantage of SEPA

As well as ensuring compliance with the next deadlines in the SEPA project, the August 2014 deadline also gave corporate treasurers a good opportunity to take stock of their progress and make plans for the next stage.

As indicated, there are a number of actions treasurers must take to ensure compliance by the twin 2016 deadlines. However, there are also a number of additional changes treasurers may choose to make in order to improve the efficiency of their operations, either by reducing processing costs or improving visibility of cash. The potential benefits of these changes will vary significantly according to both an organisation's presence across the SEPA and the nature of its cash management activities. For example, a company performing the overwhelming majority of its activities in one country may not benefit greatly from the opportunity to rationalise bank accounts domestically, but it may be able to compete more effectively in other eurozone countries as cross-border collections become easier. On the other hand, an organisation with a presence in a number of European countries may be able to rationalise its bank account structure, reducing its processing costs and achieving a more streamlined use of liquidity across the group.

REVIEW BANK ACCOUNT STRUCTURE

The introduction of SEPA allows companies to review their bank account structure. In the past, corporate treasurers had to rely on their banking partners to route payment instructions via their own internal books to obtain access to cheaper local payment systems. In the case of collections, companies needed to operate bank accounts in all those locations in which they wanted to collect customer payments (as it was difficult and expensive, especially for consumers, to make cross-border payments without a credit card).

Now within the SEPA, EUR-denominated payments can be made and received as domestic payments between any locations. In addition, the new payment formats also mean that group treasury departments (or shared service centres) can make payments on behalf of other group entities by inserting a reference into the payment instruction.

This means that with SEPA, treasurers no longer need to maintain bank accounts in every location in which they do business. In particular, the group treasury department can control group disbursements from a single bank account, giving greater visibility over their impact on group cash flow. However, it may not be possible, or desirable, to consolidate all EUR activities to a single EUR-denominated bank account. Companies may still require local EUR bank accounts for petty cash and to manage any niche payment instruments. In addition, companies may still prefer to manage collections via local bank accounts; reconciliation of collections data may be much easier and more efficient via a local rather than centralised bank.

From a liquidity management perspective and especially in Europe, companies have adopted ever more complex structures to consolidate credit and debit balances in cross-border cash pools. These have often included bank accounts held with a number of different banks, which are pooled to a header account through an overlay structure held with a third bank. This means companies have had to rely on banks' own relationships and internal processes to achieve an efficient liquidity management structure. Although many banks provide cross-border liquidity management services via service level agreements with partner banks, maintaining relationships with more than one bank does complicate the task of both establishing a structure and managing group-wide liquidity on an ongoing basis. The uncertainty over the Basel III accord treatment of notional cash pools in particular, described above, provides a further

Return to Contents

 © 2014 gtnews. All rights reserved. gtnews is a registered trademark of the Association for Financial Professionals

justification for seeking an alternative method to manage group liquidity. The use of fewer bank accounts will reduce the need for the more complex structures when managing liquidity within the SEPA.

> "The treasurer should consider the balance between the potential efficiency benefits from reducing the number of bank accounts and the additional counterparty risk if this consolidation incorporates a reduction in the number of cash management banks"

Using a smaller number of bank accounts to make and receive European-wide payments will improve efficiencies for most organisations. (For US-based organisations required to comply with FBAR, this is an additional benefit.) However, the treasurer should consider the balance between the potential efficiency benefits from reducing the number of bank accounts and the additional counterparty risk if this consolidation incorporates a reduction in the number of cash management banks.

REVIEW BANKING PARTNERS

This change will allow treasurers to perform a fundamental review of their banking partners. Instead of deciding to maintain bank accounts in each country of operation, the company could reduce its cash management banks to either one for the SEPA area or to maintain only those banking relationships in locations where a network presence is important (although the increasing use of electronic payment instruments means a network presence is much less important than ever). However, companies will still need to maintain bank accounts to manage non-EUR denominated and niche payments, with access to the relevant local payment systems where necessary.

Instead, treasurers will prioritise other requirements when reviewing banking relationships, with the provision of credit facilities, including trade finance services, becoming more important. Cross-border liquidity management services between SEPA and other locations will remain important, especially if a treasurer is using SEPA as an opportunity to centralise activities on a wider scale.

However, as Basel III and other regulatory measures will make any global pooling structures more expensive to provide, access to better quality information will also be a greater determinant of bank selection. Corporate treasurers will want to work with those partner banks that can provide accurate and timely bank account and transaction information, facilitating as good as possible visibility over cash. Together with the effect of reduced bank accounts, this should help treasurers forecast cash positions more accurately, facilitating a more accurate use of short-term borrowing and allowing for a more efficient management of short-term investment.

REVIEW INTERNAL TREASURY STRUCTURE

The final stage for treasurers is to review their own internal treasury policies, structures and procedures. In one sense, SEPA is simply another driver towards greater commoditisation of the core products used by corporate treasury departments. This commoditisation continues to lend itself to more centralisation of treasury activity as products are standardised and can be processed on a straight-through basis.

As well as reviewing European activities, treasurers will also want to ensure international cash and trade functionality is as efficient as possible. Fundamentally, treasurers will need to decide whether the opportunities for treasury transformation justify the cost of a treasury transformation project. This could be as simple as consolidating bank accounts in the eurozone through to implementing a payments and collections factory processing payments on a global basis. Any use of a centralised structure of this nature will also have to include a decision on which group entities to include. Again, it could simply be a case of improving processing efficiencies in Europe or trying to extend the same processes to as many entities around the world as possible.

> "The key is for corporate treasurers to consider how the parameters of realistic and cost-effective operation have changed as a result of SEPA"

Reviewing processes does not require change

This discussion highlights the range of potential responses a corporate treasurer can make to SEPA, as well as the timeframe over which they can be made. As with many other similar regulatory changes, there is no single correct response to SEPA and no single ideal liquidity management structure that should result. Instead, the key is for corporate treasurers to consider how the parameters of realistic and cost-effective operation have changed as a result of SEPA. It may well be that the potential benefits of a particular change do not justify its cost in terms of time and resources at this stage. However, it is just as important to consider and discard a potential change as it is to go for full implementation.

Return to Contents

© 2014 gtnews. All rights reserved. gtnews is a registered trademark of the Association for Financial Professionals

Reviewing a SEPA project

As part of any review of any SEPA-related project, a number of key issues should be addressed.

- How has the company responded to SEPA so far? Simple compliance versus wider treasury transformation. How successful has this process been?
- Regarding the ability to process SEPA instruments, does the database have any errors with respect to IBAN and BIC? Is the treasury management system or other internal system able to operate SEPA instruments? If the organisation uses SEPA direct debits, are details of debtors stored appropriately? Note the reputational risk attached to any breach of security. Are all mandates live? How does the company plan to chase any non-live mandates?
- What does the treasury department need to do to ensure full compliance by the twin 2016 deadlines? Does the department have a project plan for these remaining activities? This might include the use of XML ISO 20022 formats and the migration from niche direct debits to SEPA direct debits and the associated data management requirements. It is possible to manage direct debit mandates electronically, with a number of different dedicated services available. Note that many of these challenges will already have been met by organisations in other countries, so speak with a consultant or bank to use tips learned from experience. The big question is the timing of the transition. Do not assume there will be a delay as there was in 2014.
- How has the work so far affected group cash flows and liquidity management? There are theoretical benefits for working capital by reducing the time taken to collect payment or to disburse cross-border payments from a single bank account. Has the cash flow forecast been adjusted to accommodate these changes? Is it necessary to allow for direct debit payment reversals?
- What is the company's approach to bank account use? Has the company consolidated bank accounts? How has it decided when to continue to use particular banks? How important is payment functionality compared to trade support or the provision of credit lines and other facilities?

CASE STUDY: GN RESOUND – MAKING A SUCCESS OF SEPA

About GN ReSound

GN ReSound is a subsidiary of GN Store Nord, a Denmark-based multinational with offices in 34 countries. GN ReSound manufactures and sells hearing instruments and related diagnostic equipment, with around 3,800 employees and revenue of around DKK 3.9 billion.

Challenge

Like all businesses dealing across the EU, GN ReSound faced the looming February 2014 deadline for compliance with the Single Euro Payments Area (SEPA) directives.

SEPA harmonises processes for cross-border payments, including direct debits and credit transfers. It requires the use of BIC/IBAN numbers, standardising payment speeds and the exchange of information using particular XML data formats. For businesses and their banks, this has a number of implications, not least changes to software systems, such as ERP, and financial processes.

Ahead of the SEPA deadline, GN ReSound's German business unit, the second-largest country market for GN, started to investigate the implications of becoming compliant.

Approach

In February 2013, the German Finance Team, led by Alexander Wulf, Finance Director for GN ReSound Germany, began initial analysis of the company's processes. GN had already worked with its bank to implement a cash pooling solution with great success, as part of its SEPA preparation.

Wulf credits GN ReSound's great working relationship established with its bank as a huge asset in getting the project going: 'Nordea was invaluable at every stage. We met regularly face to face and even today we know that we can always pick up the phone.'

The bank presented to Wulf's team, outlining the challenges they might encounter, and giving specific advice about how SEPA would affect GN's documentary requirements and cash pool structure. This gave Wulf the information he needed to verify that GN could handle the necessary changes in-house, and to develop realistic timelines.

Wulf soon found that SEPA would demand changes to the company's Navision ERP system, and approached parent company, GN ReSound A/S – which managed the central IT function for all subsidiaries – for assistance. The parent company recognised the importance of the SEPA migration and began its own global programme, with Germany as the pilot location.

Return to Contents

 © 2014 gtnews. All rights reserved. gtnews is a registered trademark of the Association for Financial Professionals

Implementation

Wulf's team faced three main challenges during implementation.

1. MIGRATING DIRECT DEBIT CUSTOMERS

GN ReSound Germany was a big user of direct debits to collect small payments reliably from the thousands of individual stores that it sold to across the country. Of 50,000 invoice transactions each year, around 20% were handled via direct debit. This delivered huge benefits to the company, as Wulf explains: 'Small retailers can misplace one invoice in five. Direct debit helps us avoid these errors, minimise manual collections effort, and improve our cash flow.'

Each direct debit customer had to be migrated to a new SEPA-compliant direct debit mandate, designed in collaboration with the bank. This created a significant challenge, because the new mandate had to be sent to each customer for written approval. There was a real risk that customers would ignore the mandates and lapse out of direct debit authorisation.

Wulf decided to treat this challenge as an opportunity to clean and validate customer data, and encourage the broader customer base to convert to the direct debit system. Although it did take a lot of time and effort to get some customers to respond to the mandate request, ultimately GN ReSound managed not only to avoid losing any direct debit customers, but also to increase the overall direct debit invoice volume by the end of the project.

Wulf knew that it was vital to minimise the disruption caused to customers. It would be disastrous if incorrect payments were collected or if mandates had to be reissued due to an error. GN ReSound worked closely with the bank, the group IT department, and a handful of customers to pilot the new direct debit process, ensuring that the right data formats flowed between the ERP system, bank and customer.

2. COORDINATING STAKEHOLDERS

Dealing with customers was not the only challenge that Wulf had to deal with: his team also had to coordinate a number of different stakeholders effectively, including the group's IT specialists, none of which was on site in Germany.

The bank played a key role in this, acting as a common point of contact between the subsidiary and group contacts. Wulf notes that the bank was not afraid to get its hands dirty. For example, the bank set up a complete test environment, and offered feedback, planning and implementation support to help GN ReSound understand how large batch transactions would work using new SEPA data formats. 'That's not what we'd expect from a bank,' says Wulf. 'If we ever needed help, Nordea always had a German-speaking contact ready to respond and solve our challenge, often on the first call.'

3. CUSTOMISING FOR LOCAL NEEDS

With Germany acting as the pilot for the whole GN group, it was important to check that the proposed solution worked well in each operating country, to maintain the effectiveness of its European cash pool.

Wulf says: 'Everyone needs to understand the local payment formats and the information they contain. The devil is in the detail, and every data field and file format we created had to be checked locally for compatibility with our ERP systems, and by the bank.' Wulf was determined that they could not afford any problems that would affect customers or cash flow, and the business had to come first in system design; the payment method and technology had to fit around the way customers and local business units are used to operating, even at the expense of technical complexity.

Wulf discovered that, while SEPA is all about harmonisation, there are important differences in the business environment that had to be taken into consideration. For example, Spanish buyers tend to pay in installments, even when using direct debits. Without clear reference numbers on each transaction to help collate these payments, reconciliation becomes a real challenge. By drawing on its experience of helping companies across Europe, the bank provided an invaluable source of solutions to issues like these.

Results and lessons learned

Although the primary motive for the project was achieving SEPA compliance, Wulf has reported positive impact on the business. The cost of migration – in time spent by the IT department and the finance teams both in Germany and across the group – has been offset by improved process efficiency. With more payments now coming through direct debit, the cost-to-serve per invoice has dropped by around 5%. Cash flow has improved and forecasts have become more accurate. Wulf is also sure that proactively approaching customers about the upcoming compliance requirements has earned GN ReSound goodwill and a clear position as a first mover in the market.

Wulf credits a number of decisions for that success:

- Establishing a strong project plan. GN ReSound Germany recognised the impact SEPA had on its business, took the deadline seriously, and committed to achieving compliance. With the bank's help and as a team effort with other departments in the GN group, it developed a clear understanding of the

Return to Contents

 © 2014 gtnews. All rights reserved. gtnews is a registered trademark of the Association for Financial Professionals

requirements and developed a clear project plan with definite milestones.

- Conducting a pilot first. Wulf says that he would definitely recommend a pilot-based approach, involving local staff as much as possible. The chosen country or business unit should have plenty of transactions of different types to give the migration a thorough test.
- Focusing on collaboration. Sound collaboration with customers and the broader group, was vital, but so was a good relationship with the bank. SEPA projects involve lots of iterations during implementation and testing, and there has to be honesty and respect on both sides: 'Projects like this are a team exercise, and it was key to have Nordea and our GN colleagues from Finance and IT on board.'
- Looking for continuous improvement. With the migration complete, Wulf is planning ahead. The bank is playing a vital role, keeping GN up to date with new opportunities: 'We see Nordea as a sparring partner, working with us to make constant small improvements. They know us, and our solutions, very well and that makes them a key advisor to us.'

EU Payment Services Directive 2 and EU Interchange Fees Regulation

The development of technology has led to the emergence of new types of payment services that are outside the scope of the first EU Payment Services Directive. At the same time, the introduction of SEPA does not cover the complex web of interchange fees levied by the different participants in the processing of a card payment. As a result, the European Commission plans to extend the reach of regulations by adopting both a second Payment Services Directive (PSD2) and a regulation addressing EU interchange fees.

UNDERSTANDING PSD2

The first part of PSD2 is a proposal to extend the scope of the first PSD to cover two additional classes of transaction:

- Payments sent between a payment service provider (PSP) based in the EEA and one based outside the EEA. These are sometimes referred to as 'one leg out' transactions; and
- Transactions executed within the EEA but denominated in non-EEA currencies, such as the USD.

The second part of PSD2 is a proposal to extend the scope to cover new types of payment service provider that simply did not exist when the first PSD was being negotiated. This reflects the increase in mobile and internet-based payment and banking solutions, some of which are developed and provided by organisations outside the traditional financial services sector. In particular, the European Commission is increasingly concerned about the security of these transactions, with the expectation that the European Banking Authority will require banks to invest in new security standards. It is also likely that corporations will have to accept more of a responsibility to protect consumers against these threats.

Note that, in addition to PSD2, the European Commission has proposed a directive on Network and Internet Security. This is wider in scope than PSD2 in that it covers corporations storing customer data.

Under PSD2, consumers will be offered the same level of protection as they currently enjoy under the first PSD. This will mean that providers registering as PSPs for the first time may need to develop compliant terms and conditions, although those providing services to businesses may be able to opt out of some transparency requirements.

Because most of the measures are intended to benefit consumers, most of the impact of PSD2 is likely to fall on companies operating in consumer-facing industries. For example, companies will have to take more of a responsibility to ensure the authenticity of the payer, as part of a wider campaign to ensure the robustness of all payment instruments. Companies will bear a greater responsibility for any errors, with the limit of a consumer's liability being lowered from EUR 150 to EUR 50 and consumers obtaining the right to a full refund in the case of a disputed direct debit payment for up to eight weeks.

Depending on how the directive is implemented, the rules may also impose a greater responsibility on companies to store customers' details more securely, including payment preferences. Although this may be an additional regulatory requirement, best practice suggests companies control this data carefully anyway, as a loss of such information represents a significant reputation risk.

UNDERSTANDING THE EU INTERCHANGE FEES REGULATION

As well as extending the EU PSD, the European Commission has also issued a proposed regulation addressing the application of interchange fees between issuing and acquiring banks in card payment transactions. The regulation proposes a cap on the interchange fee (the fee charged to the acquiring bank by the card issuer) of 0.2% of value on debit card payments and 0.3% of value on credit card payments to be introduced over a two-year period, with cross-border transaction fees capped first and domestic transactions to follow (22 months later). Commercial card payments and three-party payment schemes, such as American Express, are outside the scope of the regulation.

Return to Contents

© 2014 gtnews. All rights reserved. gtnews is a registered trademark of the Association for Financial Professionals

Unlike the SEPA credit transfer, which can be effected from anywhere within the SEPA, merchants are still charged varying fees to accept card payments from different locations, especially on a cross-border basis. From the European Commission's perspective, the application of interchange fees is a disincentive to competition as it imposes additional costs on a merchant wishing to accept card payments on a cross-border basis, with them often forced to accept more expensive credit card payments rather than those effected by debit card. Even larger multinationals are forced to employ a number of different domestic acquiring banks to reduce processing costs and to provide a more familiar payment experience to their customers. This creates a much less efficient solution and result in a disincentive to adopt some of the potential responses to SEPA outlined above.

Like the PSD2 proposals, the primary intended beneficiaries of this regulation are retail consumers. By adopting a level playing field across card, internet and mobile payments, the European Commission believes the costs associated with processing these payments will fall, allowing consumers easier and cheaper access to cross-border markets. Merchants will benefit by being able to accept payments from different locations through the same acquiring bank, improving efficiency.

However, banks will want to recoup the loss of revenue from interchange fees. In theory, the reduced cost of processing card payments will encourage consumers to use them (rather than cheques and cash, which are more expensive to process), which could replace some of the lost revenue.

"The proposed PSD2 is not yet finalised, so treasurers will need to speak with their banks to understand the implications fully as the detail becomes clearer over time"

From the corporate treasurer's perspective, this is simply another measure designed to move payment processing away from expensive paper-based instruments dominated by banks towards electronic instruments that provide greater opportunity for efficiency. The proposed PSD2 is not yet finalised, so treasurers will need to speak with their banks to understand the implications fully as the detail becomes clearer over time.

Anti-money laundering regulation and economic sanctions

Anti-money laundering regulations, know-your-customer requirements and economic sanctions can have a significant impact on corporate treasury departments operating internationally. Over recent years, changes to migration patterns, the reduction in exchange controls and the development of regional trading blocs such as the EU, NAFTA, ASEAN and Mercosur have led to a significant increase in the number of cross-border transactions. This has been accompanied by the introduction of electronic payment formats that facilitate straight-through processing and provide treasurers with the opportunity to derive significant internal efficiencies when managing these transactions. At the same time, governments continue to seek to impose some controls on international trade, whether to try to reduce money laundering, to control or prevent the trade of certain goods or to try to penalise rogue governments. Although financial institutions are at the frontline of the protection against money laundering and compliance with economic sanctions, corporate treasurers also need to be aware of the various regulations.

The focus of financial institutions is to know their customers, including the individuals with the authority to make and receive payments, and to understand the beneficial ownership of any entities effecting payments and using trade services. If third parties or intermediaries are used, this will also require a further level of due diligence on behalf of the financial institution. This can apply, for example, when banks offer services via partner banks or when confirming a letter of credit issued by a bank in a new location.

"Treasurers will need to ensure that their record-keeping incorporates appropriate audit trails in case banks have to check unusual transactions"

This means that financial institutions will have to ensure they fully identify clients at the beginning of a business relationship, which may be the opening of a new bank account or the adoption of a new signer on an established bank account. Each institution will have its own processes in place for performing these checks, meaning requirements can vary even between institutions in the same location. To avoid delays in opening or operating bank accounts, cash managers need to understand how these processes differ to ensure the correct procedure is followed. Technology solutions exist that allow treasurers to communicate electronically with banks to understand their requirements. In locations where electronic

Return to Contents

© 2014 gtnews. All rights reserved. gtnews is a registered trademark of the Association for Financial Professionals

signatures are accepted to open bank accounts, this can be a true electronic bank account management solution (eBAM). Yet, despite these technologies, bank account opening procedures can be time-consuming and expensive, especially where documentation has to be prepared and notarised in the local language.

Treasurers will also need to ensure their own record-keeping incorporates appropriate audit trails in case their banks have to check any unusual transactions. This is in addition to any local requirement to comply with exchange controls by providing documentary evidence to support cross-border transactions.

"Where a treasury department operates as an in-house bank or via a shared service centre, it is likely to be responsible for performing its own know-your-customer checks"

Where a treasury department operates as an in-house bank or via a shared service centre, it is likely to be responsible for performing its own know-your-customer checks. These will need to be documented carefully, with records kept for at least five years, in the event of any regulatory checks. This will require treasury departments to maintain their records of initiated and received payments, including associated bank account details.

Note that the US Foreign Account Tax Compliance Act (FACTA) legislation may also impact corporate treasury departments, especially if they are considered to be Foreign Financial Institutions (FFIs). In some cases, such as interest, dividend and royalty payments, companies may be required to withhold 30% of the value of a payment to a payee considered to be non-compliant. To avoid having to withhold, treasurers need to be able to identify the payee and determine whether it is FATCA compliant or exempt from withholding. Treasurers should seek specialist advice to understand any obligations under FATCA.

As well as the general responsibility to protect against money laundering and to know-your-customer, treasurers are also increasingly exposed to the impact of economic sanctions and import and export sanctions as their organisations seek to expand their global reach. Economic sanctions include those imposed by the United Nations, as well as those imposed by national governments (including the EU or US authorities). Such sanctions can be imposed quickly, with additional restrictions added with very little notice. In addition, most countries apply some restrictions on imports and exports. These restrictions range from requiring a licence to import/export particular items (or classes of items) to a prohibition of import/export (for example, some countries prohibit the importation of foodstuffs considered to be a threat to the natural environment). The sale of some goods, especially certain types of chemicals or dual-use goods, may require both export and import licences.

Sanctions can affect corporate treasury departments in three key ways. First, there may be restrictions on payments being made to or received from countries, organisations or individuals subject to economic sanctions. Banks, in particular, may refuse to process payments via any part of their network and may withdraw bank facilities from organisations subject to sanctions. Second, banks may try to refuse to make payment, preventing settlement under the terms of a compliant letter of credit. From the treasurer's perspective, either restriction can result in uncertainty over cash flows, which may have further consequences for the business. The challenge for the treasurer is to understand the often complex rules that apply when economic sanctions are applied. The recent application of sanctions against Russia shows how sanctions can expand in scope quickly. In addition, where sanctions are applied unilaterally, they can have an uncertain effect. For example, if a European company wants to effect payment to a country subject to US sanctions, it can face difficulties making payment via a bank with a US branch. It is not always possible to predict when sanctions are going to be applied. However, treasurers should always refuse to accept a sanctions clause in a letter of credit that brings into question the bank's obligation. Third, treasurers should try to understand how any requirement for an import and/or export licence will affect cash flow. Having appropriate documentation is in place is vital to ensuring payment where a letter of credit is used. In addition, it can also prevent goods being delayed at the port of entry with the consequent implications for payment collection.

The use of letters of credit and other trade documents can reduce the uncertainty associated with international trade. However, it places additional responsibility on the treasurer and wider finance team to ensure documents are prepared correctly and the relevant supporting documentation is available.

Return to Contents

 © 2014 gtnews. All rights reserved. gtnews is a registered trademark of the Association for Financial Professionals

Conclusion

Coping with regulation requires a twin-track approach. Most importantly, treasurers should understand each regulation, how it affects their organisations, both directly and indirectly, and how and by when it needs to make changes in order to comply. At the same time, treasurers should always review their activities to try to identify ways in which improvements can be made to their internal processes. All three regulatory changes discussed in this guide place requirements on treasurers and all offer opportunities for treasurers to effect internal change. However, just because change is possible, as with any project, it is always important to ensure the change is justified from a cost-benefit analysis. When there is a series of regulatory change over a number of years, treasurers may want to try to effect the majority of any internal changes in one process. Otherwise there is a very real danger that the process of compliance diverts too much attention and resource from the treasury department's daily responsibilities.

Return to Contents

© 2014 gtnews. All rights reserved. gtnews is a registered trademark of the Association for Financial Professionals

Trade Finance

Contact Trade Finance Sales
Susanne Riis
Head of TF Sales
susanne.riis@nordea.com
Tel: +45 23 685 822

Contact Trade Finance Baltic & Int. Units
Lena Hedengran
Head of TF Baltics & Int. Units
lena.hedengran@nordea.com
Tel: +46 70 576 7490

Contact Trade Finance Global Development & Business Expertise
Kim Sindberg
Executive Adviser
kim.s@nordea.com
Tel: +45 23 115 880

Contact Trade Finance Bank Management
Axel Stridsberg
Director
axel.stridsberg@nordea.com
Tel: +46 10 156 1305

Contact Trade Finance Processing
Nina Groth
Head of TF Processing
nina.groth@nordea.com
Tel: +45 33 336 136

Cash Management

Contacts Cash Management Sales Wholesale
Jesper Ramsö
Head of Cash Management Sales Wholesale, Nordic
jesper.ramso@nordea.com
Tel: +46 8 614 79 18

Henrik Jørgensen
Head of Cash Management Sales Wholesale, Denmark
henrik.j@nordea.com
Tel: +45 3333 6841

Vesa Paukku
Head of Cash Management Sales Wholesale, Finland
vesa.paukku@nordea.com
Tel: +358 9 165 56506

Olof Stålfors
Head of Cash Management Sales Wholesale, Norway
olof.stalfors@nordea.com
Tel: +47 48 15 35 58

Johannez Agrell
Head of Cash Management Sales Wholesale, Sweden
johannez.agrell@nordea.com
Tel: +46 8 534 916 85

Contact Cash Management Sales Baltics
Juris Paegle
Head of Cash Management Sales Baltics
juris.paegle@nordea.com
Tel: +371 67005075

Return to Contents

© 2014 gtnews. All rights reserved. gtnews is a registered trademark of the Association for Financial Professionals

A new era for cash management
Your partner, every step of the way
Times are changing in treasury, and it has never been more important to have the right partner by your side. Nordea's cash management solutions can support you. We offer everything from intuitive online tools that optimise your day-to-day payments and reporting, to global cash pooling and strategic advisory services that transform how you manage your liquidity.
To find out more, visit nordea.com/cashmanagement
Making it possible
tmi AWARDS 2013
Awarded Best cash management bank 2013 in the Nordic region by TMI magazine
Nordea

About the Author

WWCP LIMITED

WWCP's team of financial researchers, journalists and authors provides its WorldWideCountryProfiles service to banks, financial institutions and professional bodies. Purchasers use the individual country profiles, which are researched and written to their specification, for their customers and prospects, sales literature, their intranet and extranet sites and sales training. WWCP researches over 190 countries.

WWCP researches, authors and publishes authoritative Treasury Managers' Handbooks for: Africa; the Americas (five editions); Asia/Pacific & Australasia; Central & Eastern Europe; Europe (five editions); Middle East and Scandinavia/Nordic/Baltic countries.

Publications also include a number of definitive WWCP authored treasury guides: Best Practice and Terminology; with The ACT, Investing Cash Globally (four editions), International Cash Management and Trade Finance; and, with AFP, Treasury Technology and a series of treasury guides.

www.worldwidecountryprofiles.com

www.wwcp.net

Return to Contents

 © 2014 gtnews. All rights reserved. gtnews is a registered trademark of the Association for Financial Professionals

About AFP®

Headquartered outside Washington, D.C., the Association for Financial Professionals (AFP) is the professional society that represents finance executives globally. AFP established and administers the Certified Treasury Professional™ and Certified Corporate FP&A Professional™ credentials, which set standards of excellence in finance. The quarterly AFP Corporate Cash Indicators™ serve as a bellwether of economic growth. The AFP Annual Conference is the largest networking event for corporate finance professionals in the world.

AFP, Association for Financial Professionals, Certified Treasury Professional, and Certified Corporate Financial Planning & Analysis Professional are registered trademarks of the Association for Financial Professionals.© 2014 Association for Financial Professionals, Inc.
All Rights Reserved.

General Inquiries AFP@AFPonline.org
Web Site www.AFPonline.org
Phone 301.907.2862

About gtnews

gtnews, part of the Association for Financial Professionals, is the leading online knowledge resource for global treasury, finance, payments and cash management professionals. Under the guidance of an advisory board of European and Asian treasurers, *gtnews* provides weekly updates and an archive of over 8,500 articles, research reports, commentaries, webinars, and whitepapers with a global finance focus.The annual *gtnews* Awards for Global Corporate Treasury and Finance celebrate best practice in finance projects and provide executive level education and networking opportunities.

Follow @gtnewsdotcom
Web Site www.gtnews.com
Sales sales@gtnews.com
+1.240.744.3691

Return to Contents