Treasury Survey 2016

a·t·e·l
Corporate Treasury Association of Luxembourg
— Founded in 1994 —

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Contents

Preamble

This report is the first ever edition of the Luxembourg Treasury Survey. Its analyses and conclusions are based on data gathered via online surveys that were sent to companies that have treasury activities in Luxembourg.

We would like to take this opportunity to warmly thank all the participants who took the time to answer this survey. Your participation allows us to provide an unprecedented picture of treasury activities in Luxembourg as well as insights on the latest developments regarding the activities and challenges of treasury functions in Luxembourg.

We wish you a pleasant read.

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Chairman,
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Laurent **GATEAU**
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Executive summary

The KPMG Treasury Survey focuses on companies with treasury activities in Luxembourg. It aims to better understand the kind of treasury centres that have been set up, to identify what operations they conduct, and to learn how they measure the performance of their treasury services.

Our panel is predominantly composed of companies headquartered in Europe and Luxembourg (60%), and in North America (40%).

From our overall results we noted the following trends in the field of treasury:

Treasury centres and their main operations

- Most treasury centres are evolving from service centres to more strategic, centralised value-adding or profit centres.
- One of treasury centres' main priorities is to obtain 100% cash visibility within their group while ensuring efficient control over the majority of their cash. In this respect they have begun setting up cash pooling and netting solutions, while a few of them (12%) are also taking advantage of payment factories.
- The majority of treasury centres protect cash by conservatively managing their risks.
- Two-thirds of the respondents apply IFRS hedge accounting.
- Regulations continue to have a substantial impact on treasury activities, especially Basel III, EMIR, the Dodd-Franck Act, the Sarbanes-Oxley Act, and legislation in the area of Base Erosion and Profit Shifting (BEPS).
- More and more treasurers are reporting specific "treasury dashboards" to their CFO/CEOs that highlight their core treasury activities and their performance via a regular reporting of their main treasury key performance indicators (KPIs), in addition to the available cash within the company. The progression of these KPIs is taken into account by senior management to more effectively allocate their available budgets and to better decide on further investments or developments, including the hiring of additional treasurers to handle specific development projects within the company's treasury centre.
- Bigger companies tend to have larger IT infrastructures, and are mostly using a treasury management system combined with enterprise resource planning (ERP), as well as IT reconciliation and market data tools.

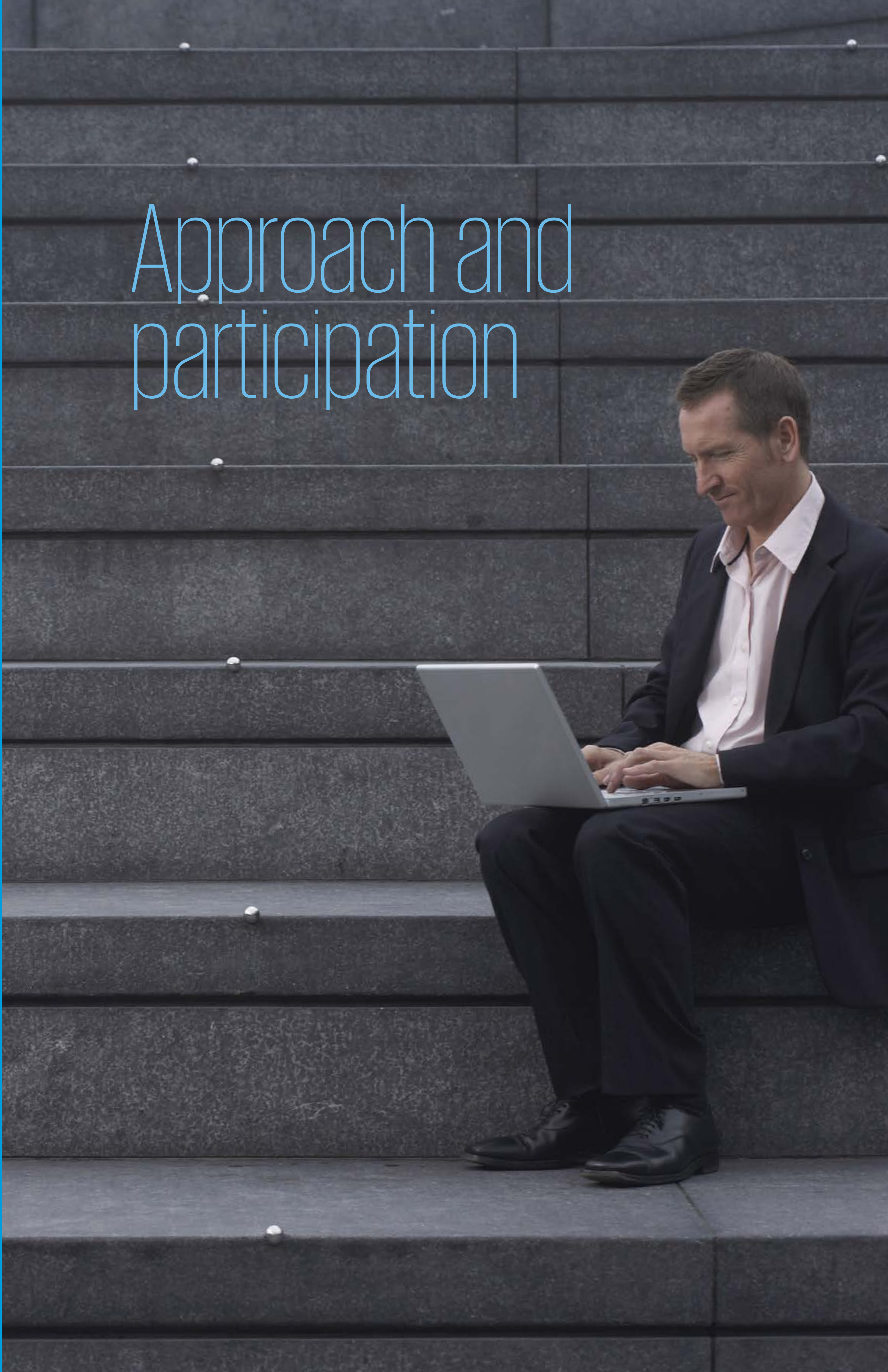
Treasury personnel

- The majority of the Luxembourg treasury offices are run by five to ten people. However, one out of four respondents reported having only one person managing treasury activities.
- Treasury teams are considered to be balanced by 56% of the respondents, and approximately 30% have a high percentage of junior staff in their team.
- Half of the companies are planning to hire new recruits over the next two years, as they look to extend or improve their treasury activities in Luxembourg.

Risk and controls

- Generally, risks are considered to be under control. However, room for improvement exists in dealing with a multitude of new regulation constraints, and the increasing risks linked to cyber-attacks.

Approach and participation

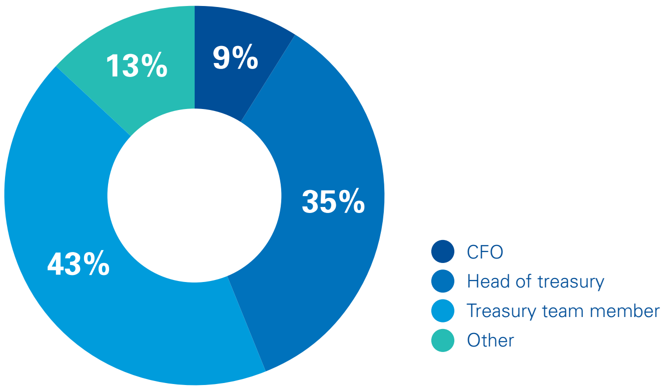


The information in this report stems from responses provided by the executives in charge of treasury activities for their companies in Luxembourg. We are pleased that 23 treasury centres working out of Luxembourg took part in our survey.

We believe that the participation rate, combined with the variation in the respondents' size, market, and segment, creates a high level of relevance and consistency in the figures and trends presented in this report.

More than three-quarters of the respondents work directly in the treasury function, while the remaining respondents are either CFOs or executives in charge of treasury and other finance and accounting activities.

Figure 1: Profile of the respondents



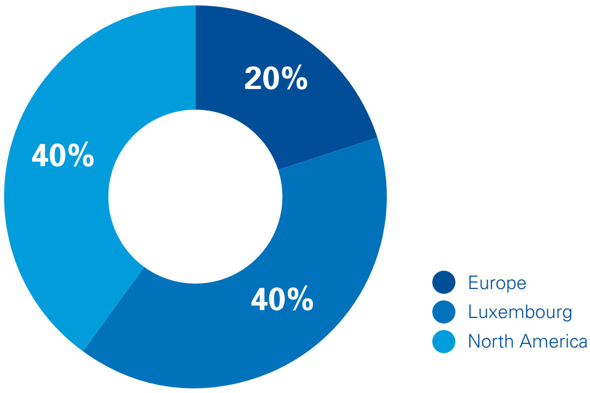
Location of Headquarters

Although the survey was handed out to Luxembourg offices, it shows a strong international dimension.

Indeed, while the majority of the companies have their headquarters in Europe and Luxembourg, 40% of them are based in North America.

This implies ad hoc issues for treasury teams having to deal with the international spread of investments and/or the global involvement of the treasury centres based in Luxembourg.

Figure 2: Location of headquarters



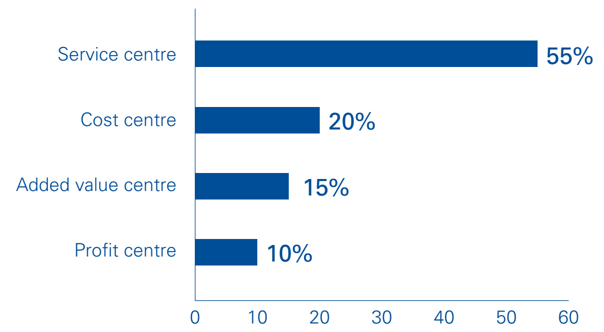
Strategy and organisation

How would you classify your treasury centre?

Fifty-five percent of the organisations surveyed classified their treasury centre as a "service centre", while only 20% called it a "cost centre."

Luxembourg's treasury centres are mainly tending towards service, cost, and added-value centres that focus on generating value for the company and its shareholders.

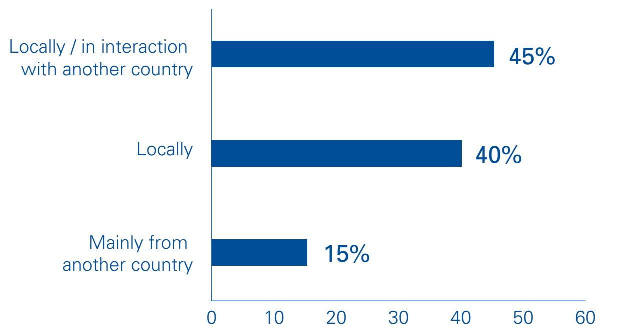
Figure 3: Type of treasury centers



How do you operate your treasury centre?

The treasury centres analysed mostly operate locally (40%), or both locally and in interaction with another country (45%); this is in line with their international footprint mentioned above.

Figure 4: Modus operandi of the treasury centers

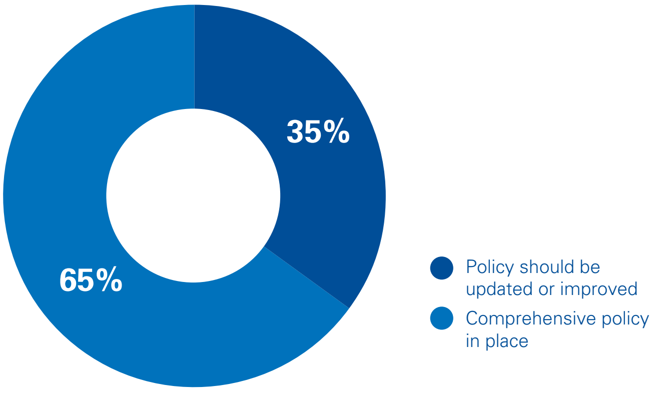


Do you have a comprehensive treasury policy in place?

The entire population of our survey has a treasury policy in place. However, 35% of them report that some improvements or updates to their policies are needed.

This may be due to the numerous tasks treasury centres must now handle, such as dealing with new regulations (EMIR, IFRS, BEPS, tax, and others), and protecting company assets against fraud and cyber-attacks.

Figure 5: Quality of the treasury policy

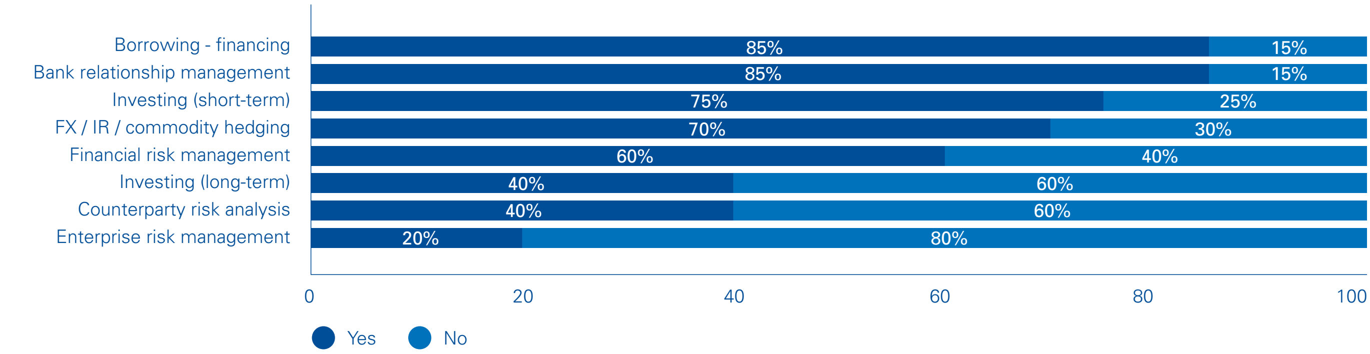


In which functions does treasury play a lead role?

Almost all the treasury centres play a leading role in managing relationships with banks, and in borrowing and financing resources. Furthermore, the majority of the centres manage current accounts and the relationships with banks, and handle currency, interest rate, and commodity hedging.

Only a small part of the treasury function involves enterprise risk management, and fewer than half of the treasury teams manage long-term investments or engage in counterparty risk analysis. Therefore, there is potential to develop activities involving long-term and added-value analysis.

Figure 6: Lead roles of the treasury function

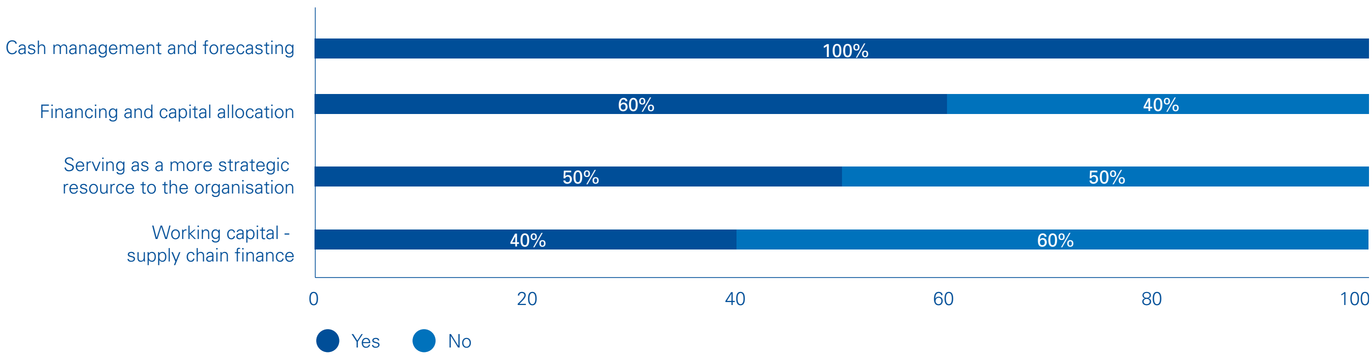


Which areas of the treasury centre's focus are considered key?

As expected, the survey reveals that treasury centres are focused on cash management and forecasting, while only one in two centres serves as a strategic resource to the organisation.

Only 40% of the treasury centres surveyed are focused on working capital and supply chain financing.

Figure 7: Focus areas of the treasury function



Operations

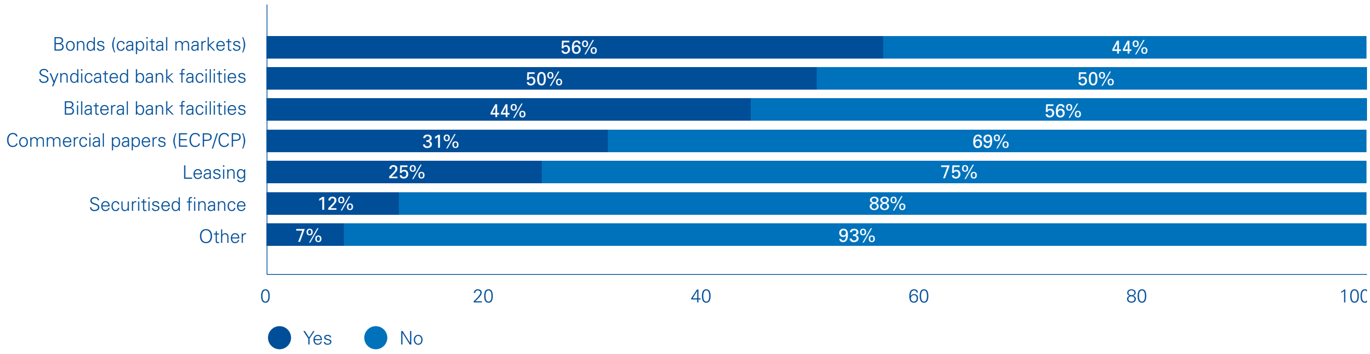
Financing strategy

What are your sources of funding?

The majority of companies find funding by setting up syndicated bank facilities and issuing bonds on capital markets.

Less common sources of funding are leasing (only 25%), bilateral bank facilities, and commercial paper, the last of which may be more or less common depending on the company's size and corporate rating.

Figure 8: Sources of funding



Cash and liquidity management

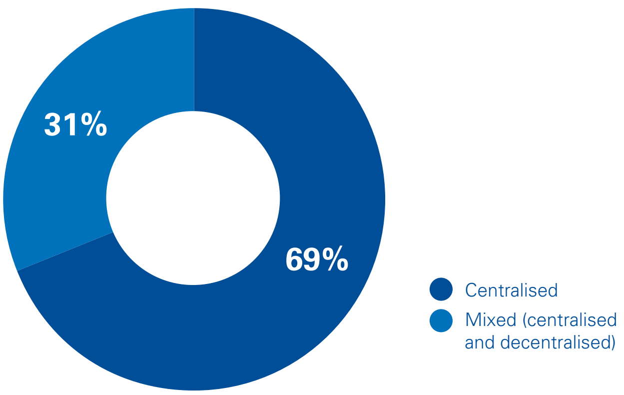
How do you manage the cash of separate groups?

Interestingly, none of the centres completely decentralise the cash of separate group entities. Instead they use both a decentralised and centralised cash management formula.

It is not surprising, then, that for almost seven out of ten respondents, cash management is strongly centralised. It is also unsurprising when considering the internationality of the respondents.

Most of the companies in our survey benefit from the numerous advantages of centralising their cash management.

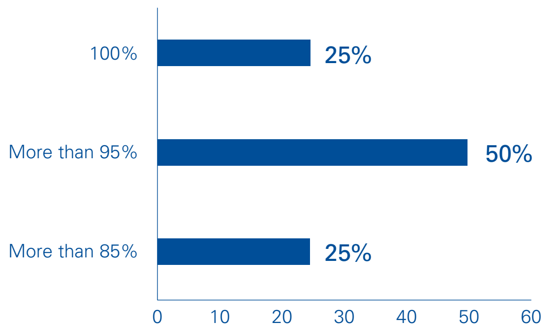
Figure 9: Cash management practices



Over what percentage of your total cash do you maintain visibility and control?

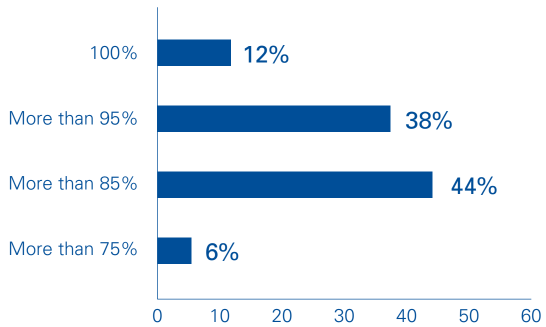
The vast majority of the respondents have visibility over 95% to 100% of their cash, which is in line with the centralised structure of group entity cash management. However, just 51% of the respondents have control over more than 95% of their cash.

Figure 10: Visibility on total cash



The treasury centres' priority is to try to ensure 100% cash visibility within their group but also, when possible, to make sure that most of their cash is controllable. Cash pooling is the most commonly used solution to achieve controllability.

Figure 11: Control over total cash

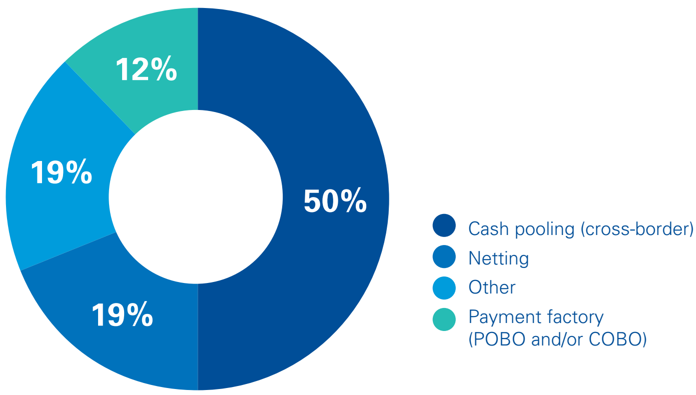


Which "In-House Bank" structure do you have?

The most common in-house banking structure applied by our respondents is cross-border cash pooling. Companies first seek an optimisation of internal resources before turning to external financing. In line with the international position of our sample, almost 20% of the respondents apply in-house netting.

Treasury centres are using or trying to develop the relevant tools that they need to optimise the efficiency of their cash management activities. In this respect they are starting to set up cash pooling and netting solutions. A few of them are taking advantage of payment factories or setting up cost efficient structures based on "virtual bank account structures."

Figure 12: Types of in-house bank structures



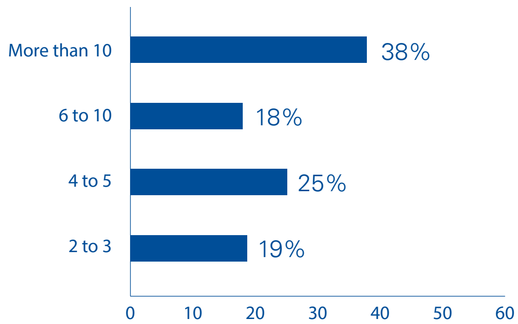
How many core banking partners do you have?

According to the results, all the respondents have more than one bank, and over a third have over ten banks.

This is surprising, given that we used to see that most companies were looking to reduce their bank costs by operating with only two to three core banks.

The higher numbers could be explained by the fact that, due to the recent financial crisis and the reduced confidence in banks, companies are trying to diversify their counterparty risks by operating with a high number of banks.

Figure 13: Number of core banking partners

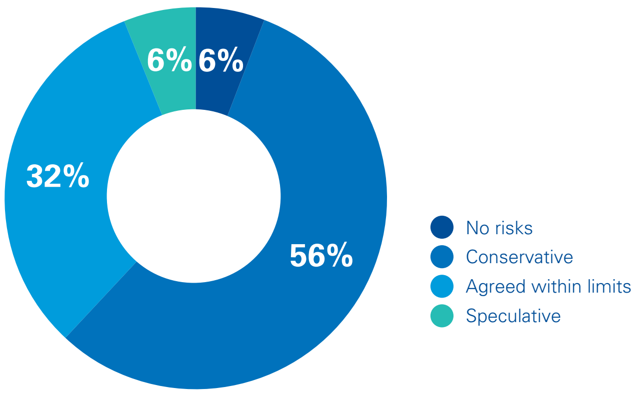


Financial risk management and valuation

How do you qualify your risk profile?
When asked how they qualify their risk profile, 56% of the companies maintained a conservative profile.

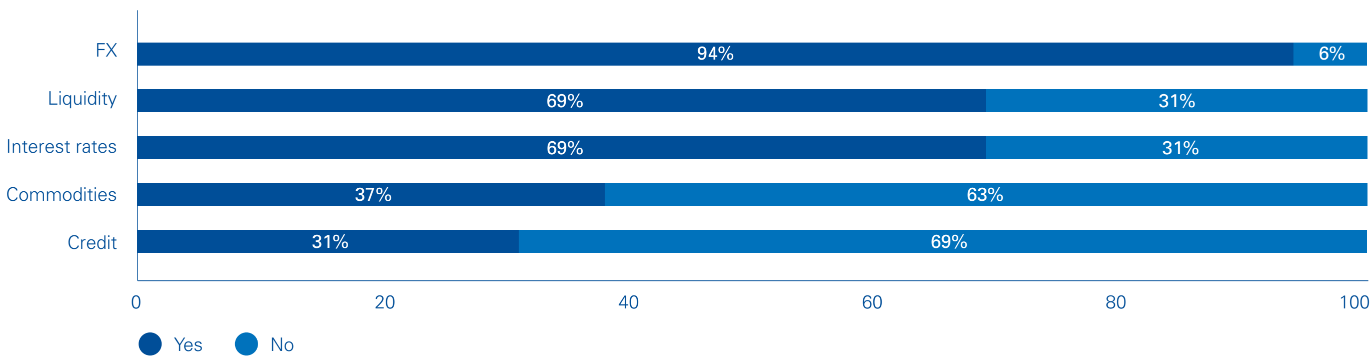
The majority of our treasury survey respondents are focusing on protecting their cash by managing their risks conservatively.

Figure 14: Risk profiles



Which risk management activities do you hedge?
Ninety-four percent of our respondents hedge foreign exchange rates (FX), and seven out of ten hedge liquidity and interest rate risks. Only a minority cover commodities and credit risks.

Figure 15: Risk management activities

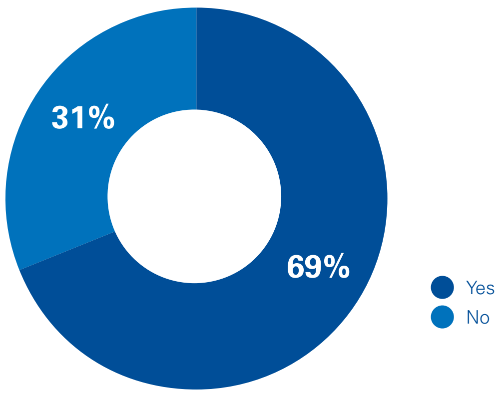


Do you have internal capabilities and ad hoc IT tools to conduct financial instrument valuations?

Our survey highlights how the companies are aware of the importance of having ad hoc IT tools that can help assess the value of financial instruments. Moreover, they have internal capabilities for appraising valuations.

A large majority (69%) of respondents believe that these instruments are already being used in their companies.

Figure 16: Internal capabilities and ad hoc IT tools to conduct valuation of financial instruments

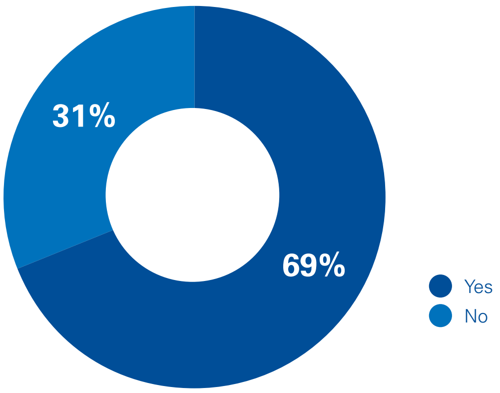


Treasury audit and accounting

Do you apply IFRS and hedge accounting?

More than two-thirds of the respondents use both IFRS and hedge accounting simultaneously.

Figure 17: Use of IFRS



Which hedging instruments do you use?

FX rates often make large sudden moves, and the size and speed of these rate shifts are generally beyond market expectations. Firms are affected in various manners including lower USD valuations of their non-USD earnings.

The most common hedging instruments used are forwards, followed by currency options or swaptions, and interest rate swaps. On the other hand, 25% or fewer apply hedging instruments such as structured products.

It seems that a high number of respondents are not using complex hedging tools. It would therefore be interesting to better understand which companies are effectively operating with a hedging program or strategy validated from their own headquarters' management, and how this could be delegated to the local Luxembourg treasury centre.

Figure 18: Use of hedge accounting

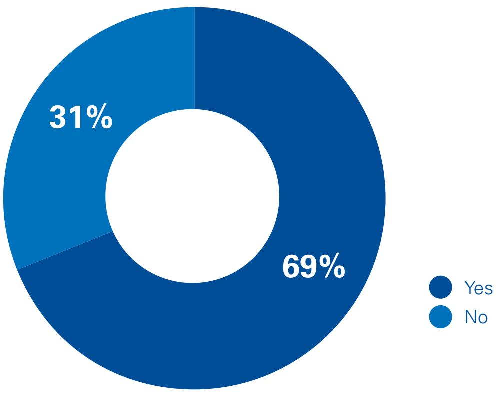
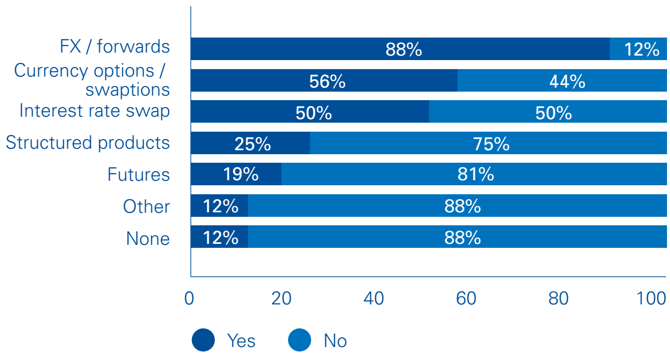


Figure 19: Types of hedging instruments used



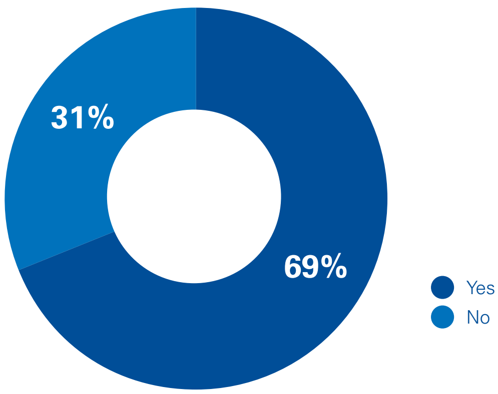
Treasury tax and regulations

Are you involved in the tax optimisation of your treasury activities?

Almost 70% of the treasury teams surveyed are involved in treasury tax and regulations.

This survey shows that treasurers are not only handling treasury operations but also more strategic tasks in order to optimise their treasury centre tax environment and ensure that they are compliant with the numerous regulations in place.

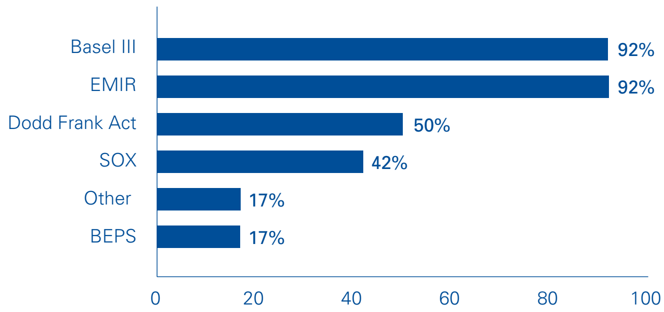
Figure 20: Involvement in tax optimisation



What are the regulations that could impact your business?

Opinions about which regulation has the most influence on the treasury team's work are consistent, with 92% of the respondents believing that Basel III and EMIR have the most significant impact.

Figure 21: Impact of regulations on treasury



Business partnering and adding value

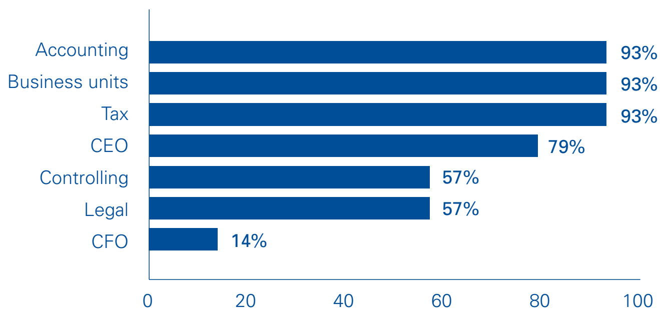
Who are your internal clients?

Looking further into the business partnering and value-adding roles of the treasury centres, it becomes clear that treasury teams primarily deal with internal clients.

In most cases, the internal clients of the treasury centre belong to the Tax and Accounting departments. Often, the internal clients are the affiliate's business units themselves.

CEOs are considered internal clients while CFOs are more rarely seen as such. Controlling and legal departments play significant roles as well.

Figure 22: Internal clients of the treasury function



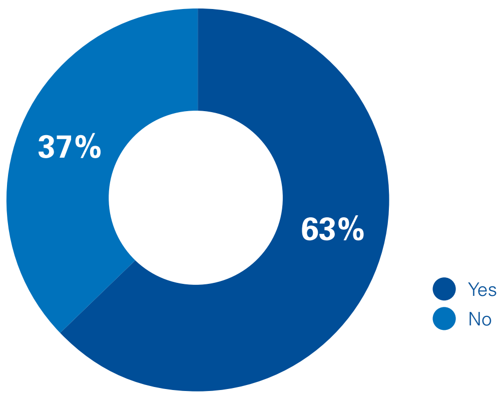
More and more treasurers are reporting specific "treasury dashboards" to their CFO/CEOs that highlight their core treasury activities and their performance via a regular reporting of their main treasury key performance indicators (KPIs), in additon to the available cash within the company.

Do you have a set of KPIs for treasury?

When asked, 63% of the respondents confirm they have a set of key performance indicators, used to measure the performance of their various treasury activities.

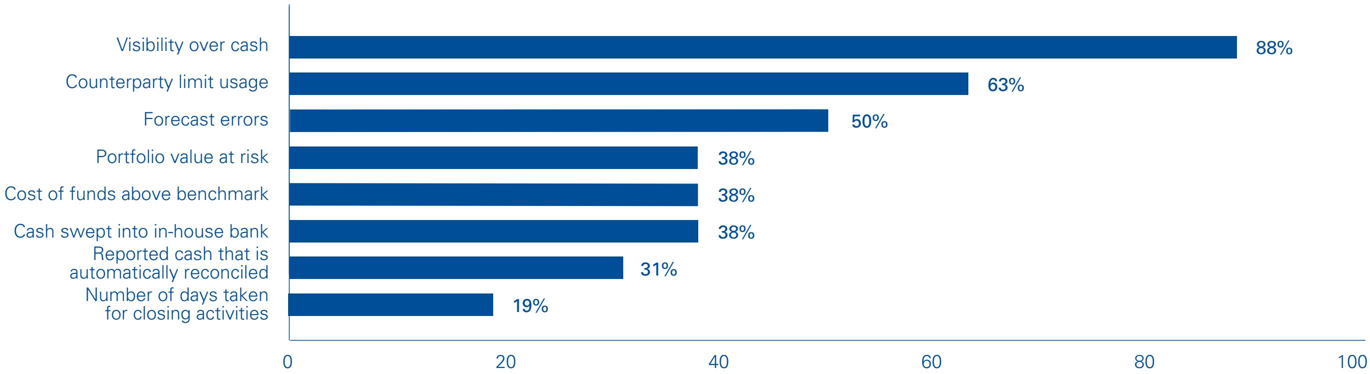
KPIs also allow them to measure the degree of satisfaction of their internal clients and to improve or re-adjust the services they are providing when needed.

Figure 23: Set of KPIs in place for treasury



What are the most important KPIs?

Figure 24: Main KPIs



The most frequent KPIs are visibility on cash and counterparty limit usage.

The importance of these KPIs are different for each company based on the respective mandate they receive from their senior management and board members. Treasury KPIs are regularly analysed, especially as there is an increased demand to consistently monitor the performance and the added value of treasury centres.

Changes in KPIs are taken into account by senior management to allocate their available budget more effectively and to better decide on further investments or developments within the company's treasury centre, including the hiring of additional treasurers to handle specific treasury development projects.

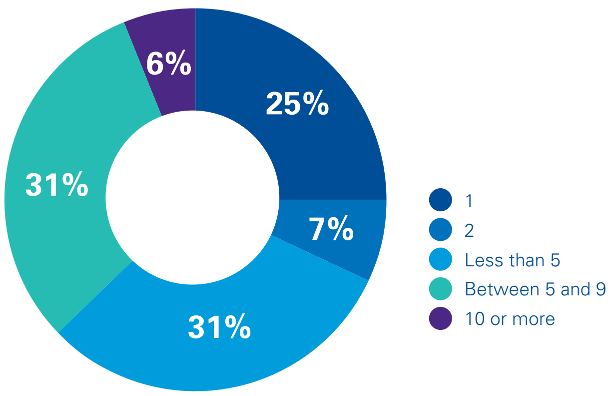
The portfolio value at risk and the cash swept into in-house banks are among the less common KPIs.

Human Resources

How many people do you have on your local treasury team?

Treasury teams generally include between five and ten people, with teams of more than ten people representing only 6%. One quarter of the respondents only have one person in Luxembourg operating their treasury activities.

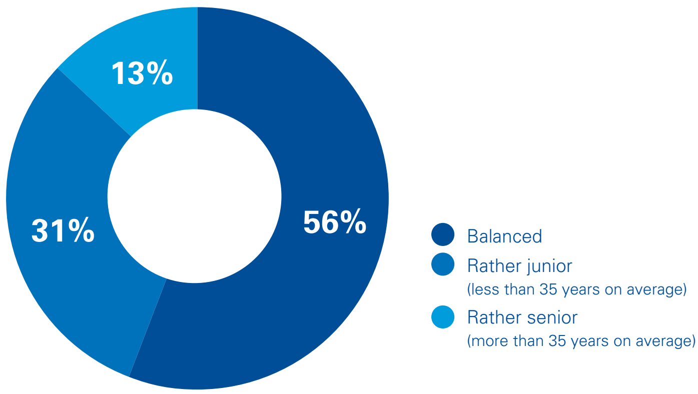
Figure 25: Number of people in the treasury function



Which adjective would best describe your team?

Treasury teams are deemed "balanced" by 56% of the respondents, whereas 31% report that their teams are "rather junior."

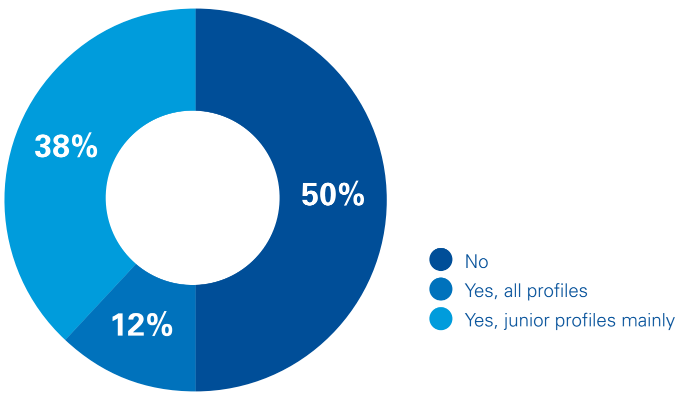
Figure 26: Profiles of treasury team members



Are you planning to recruit in the next two years?

The respondents are split between growing companies that are looking mainly for new junior profiles, and companies that do not plan to recruit.

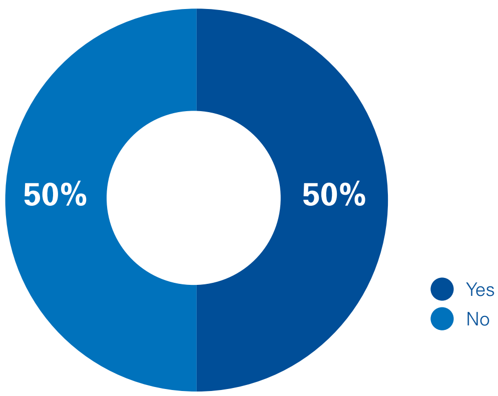
Figure 27: Profiles of treasury team members



Do you have a training plan in place?

Only one in two respondents has a training plan in place for treasury activities, as on-the-job training remains the norm.

Figure 28: Training plan in place



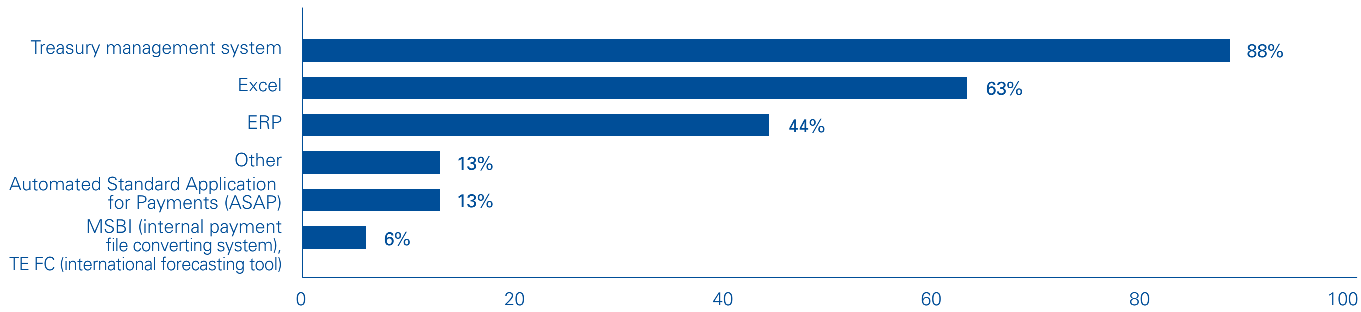
IT systems

IT tools are a relevant part of treasury activities, with most of our respondents (88%) using a specific treasury management system combined with an ERP, IT reconciliation tools, or market data tools.

The survey reveals that the top three treasury management tools used are Kyriba, Reval, and SAP.

Which IT tools/systems do you use to operate treasury activities?

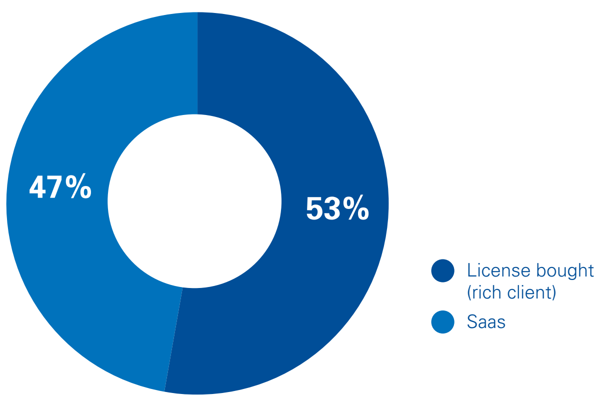
Figure 29: IT Tools used



Are you the owner or the user of the system?

Licensing is used for a small majority (53%) of the respondents, while software as a service is used by 47%.

Figure 30: Type of ownership of IT tools

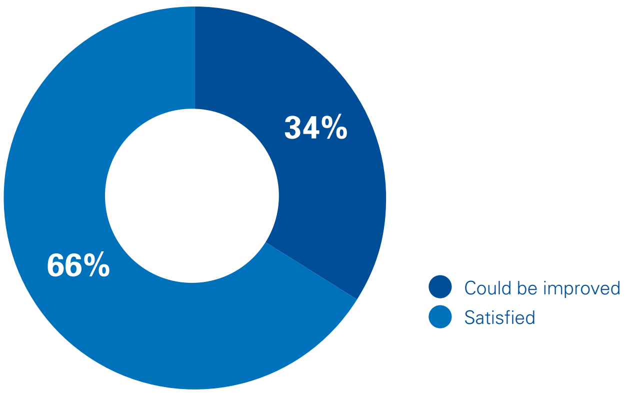


Are you satisfied with the tools you use?

There is a general satisfaction amongst the users of these software programs. However, two-thirds of the respondents would like to see some improvement to the software.

More flexibility and adaptably to business needs would be appreciated. Treasurers are looking for more user-friendly and straightforward functionalities and features.

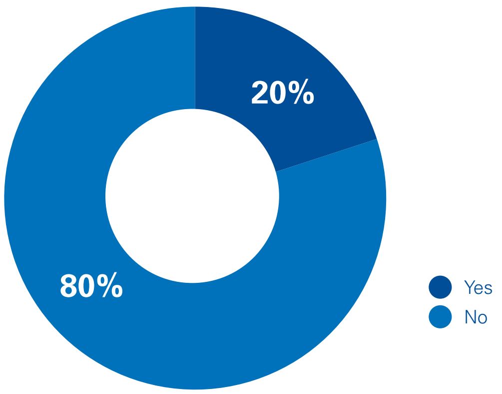
Figure 31: Level of satisfaction with IT tools



Do you plan to change tools in the next two years?

The majority of the respondents are not planning to change their system within the next two years.

Figure 32: Change of IT tools in the next 2 years



Risk and control

Do you have a clear treasury risk and control policy in place?

More than two-thirds of the respondents have a risk and control policy in place.

What are the main risks applicable to your treasury organisation?

The top two risks are directly linked to financial activities (FX and liquidity), whereas the third one is related to operations.

Figure 33: Treasury Risk and Control policy in place

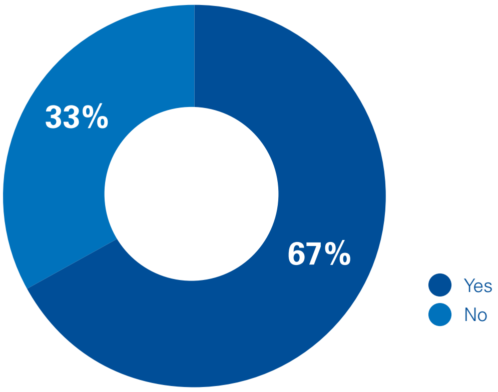
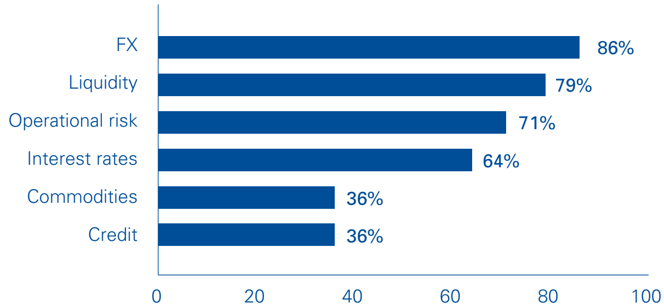


Figure 34: Main applicable risks

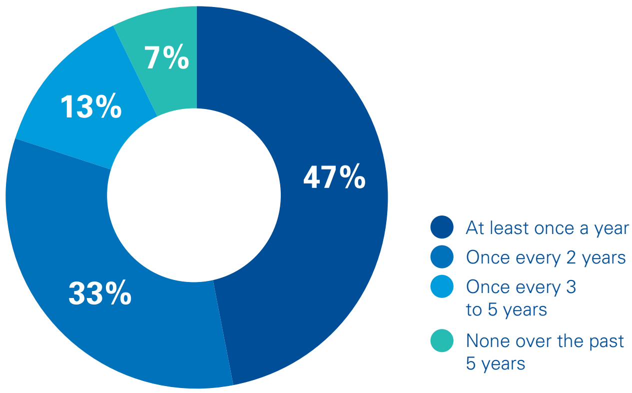


How regularly do you have treasury audits?

To mitigate risks and keep the activities of the treasury centres under control, in 47% of the companies surveyed, treasury audits are made once a year. In only 20% of the cases is the treasury audit carried out once every three to five years, and only rarely has no audit control been applied in the past five years. This emphasises the attention paid by companies to their treasury activities.

Generally, risks that are seen as being under control could still be improved, especially due to the numerous new regulation constraints and new types of risks such as cyber-attacks.

Figure 35: Frequency of treasury audits



How would you assess the effectiveness of internal controls?

When asked about the effectiveness of their internal controls, only 20% of the respondents would define their internal control as effective, leaving room for improvement in four out of five treasury functions.

Controls are tested and documented for the majority of respondents, but, surprisingly, 20% of them do not apply any controls.

Figure 36: Effectiveness of internal controls

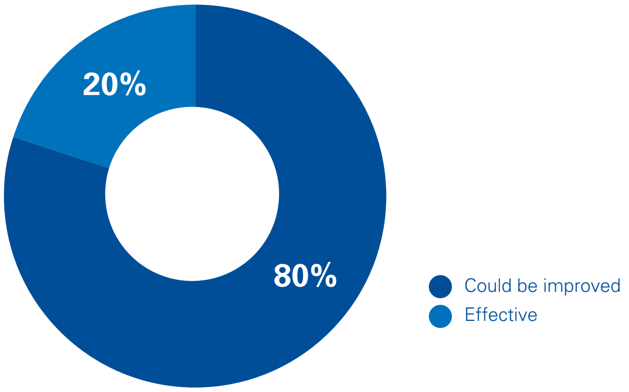
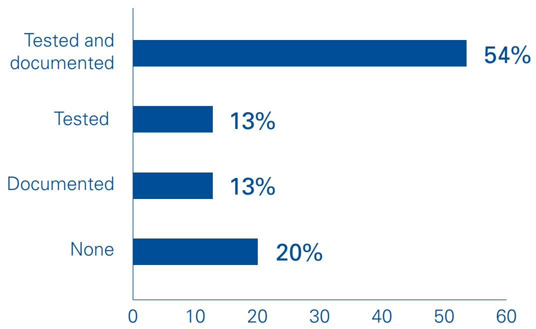
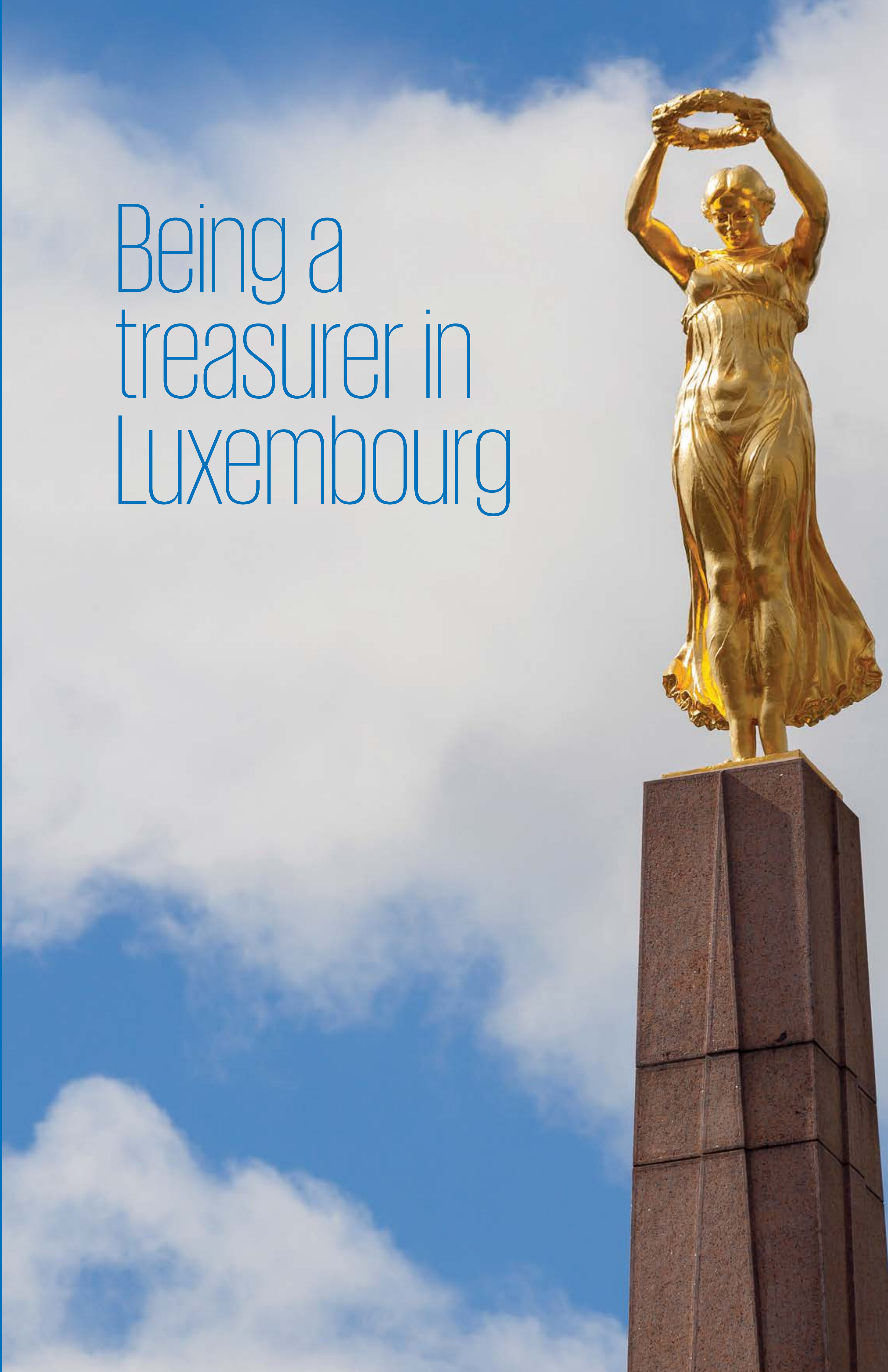


Figure 37: Maturity of controls



Being a treasurer in Luxembourg



To conclude, when asked which area influences the work of treasury centres in the short and long terms, companies most commonly cite worries related to external sources.

Negative interest rates are the most frequent topic reported, followed by the optimisation of fund options. Another recurring concern is the volatility of foreign exchange rates. This is strictly linked to the core activities of the treasury teams, in particular inside international organisations with different secluded offices.

How can Luxembourg become (or remain) the place of choice for treasury activities? The insight from our respondents suggests that focusing on improving the quality of human capital treasury expertise could be key.

Some respondents additionally mentioned that the competition between Luxembourg and other centres based in Switzerland, the UK, Ireland, the US, and Singapore is fierce. One differentiating factor for Luxembourg would come from further promoting the clear model and structure for treasury management in Luxembourg.

NOTES

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