THE EUROPEAN ASSOCIATION OF CORPORATE TREASURERS

2024-2029

EACT

FINANCING & PAYMENTS
EU PRIORITIES FOR THE REAL-ECONOMY

A PERSPECTIVE FROM EUROPEAN CORPORATE TREASURERS

2024-2029 - A NEW EU MANDATE,
PRIORITIES FOR FINANCING & PAYMENTS FROM REAL-ECONOMY BUSINESSES

FRANÇOIS MASQUELIER,
CHAIR OF EACT

"In an unstable and challenging geopolitical environment, we welcome President Von der Leyen's political ambitions to boost European companies' competitiveness on the global stage.

As corporate treasurers we stand at the heart of strategic financing decisions for European corporates, decisions which will in fine contribute to our firms' competitiveness. To input into the priorities for this new EU mandate, we have gathered views from our members, active in 21 European countries and in 6500 companies of various sizes and sectors.

I am delighted to share the results of those reflections with European decision makers taking up their new roles. Our recommendations focus on actions needed in the space of financing, capital markets and payments, areas which are crucial for European companies."

From where we stand in the economy, European corporate treasurers would suggest the following should be part of our EU priorities:

- Europe's transformation continues to require massive investments and political focus should be on **deepening our capital markets** to improve the cost and diversity of financing and investments options for corporates end-users.
- Ensure EU companies are in a position to **manage efficiently the financial impact of geopolitical and economic uncertainty** by using a number of financial instruments, notably derivatives markets to hedge business and price fluctuations risks.
- **Making life simpler** for EU corporates facing tough global competition should be a priority including through more efficient and targeted reporting requirements in the context of their financing activities (derivatives reporting, KYC obligations, ESG reporting, encourage the take-up of digitally friendly solutions, etc).
- Focus policy interventions in areas which can make a genuine difference – including **prioritising EU actions in the payments space** to minimise undue costs from payments systems for end-users and consumers in times of high inflation.

To improve the regulatory environment for corporate treasurers at the intersection of the real economy and financial markets, we propose concrete actions across three areas:

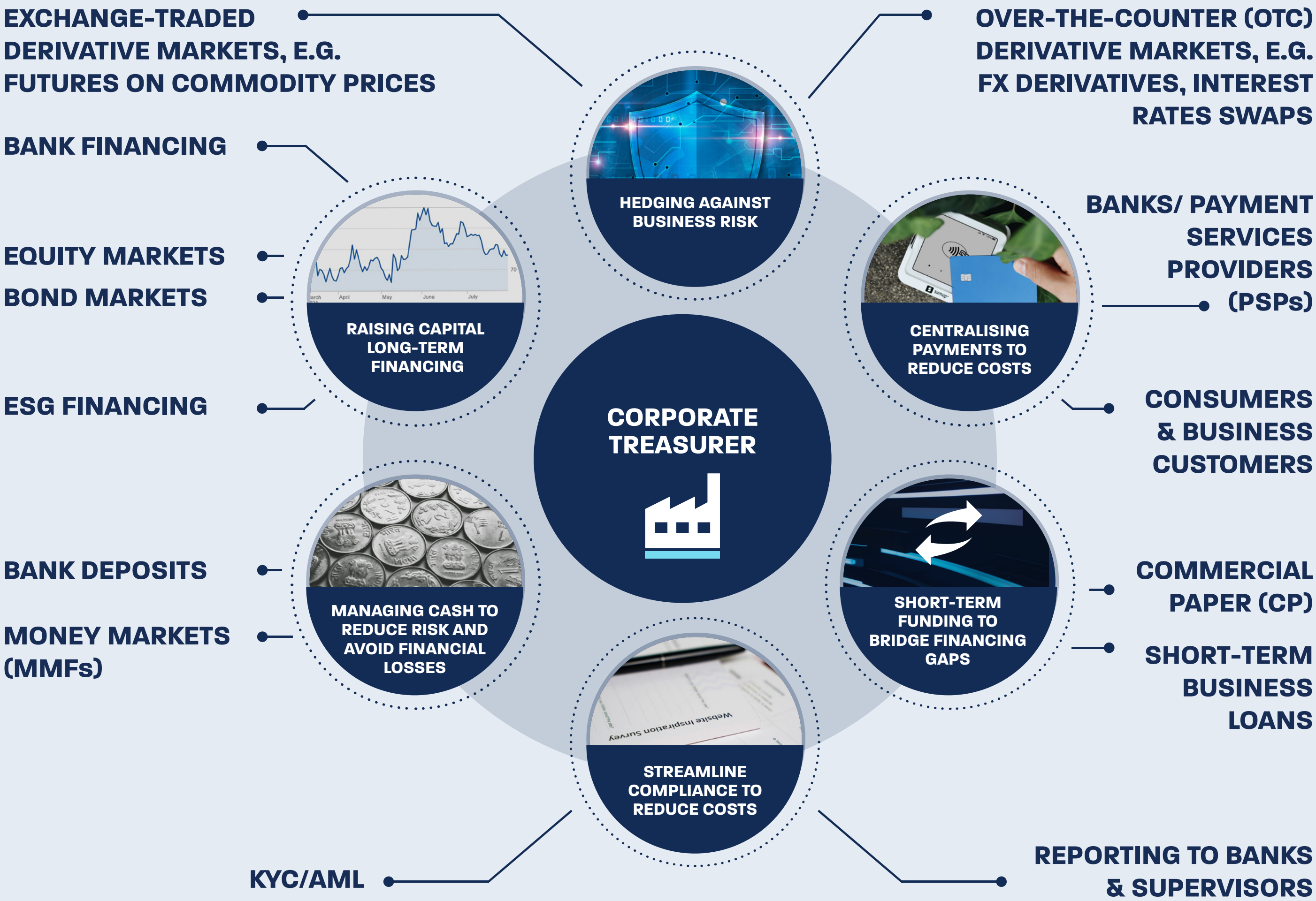
A STRONG CAPITAL MARKETS UNION TO MEET CORPORATES' FINANCING NEEDS	**MANAGING BUSINESS RISKS** THROUGH HEDGING AND LIQUIDITY MANAGEMENT	**SUPPORT BUSINESSES IN KEEPING COSTS DOWN** FOR END-USERS/ CITIZENS

THE EUROPEAN ASSOCIATION OF CORPORATE TREASURERS

THE ROLE OF CORPORATE TREASURERS

Treasurers are responsible for **managing all financial risks** in a company (e.g. foreign exchange, interest rate, commodities, counterparty risk, etc.). Corporate treasurers **manage a company's liquidity**, ensure that the business has enough cash to face all liabilities and optimise and limit the working capital needs. They also play a key role in managing the **optimisation of payments** on behalf of the company.

The reality of raising and managing cash involves a wide array of responsibilities which lead the corporate treasurer to interact with the financial sector (and financial sector regulations) as a key end-user of financial services as described in the graph below:

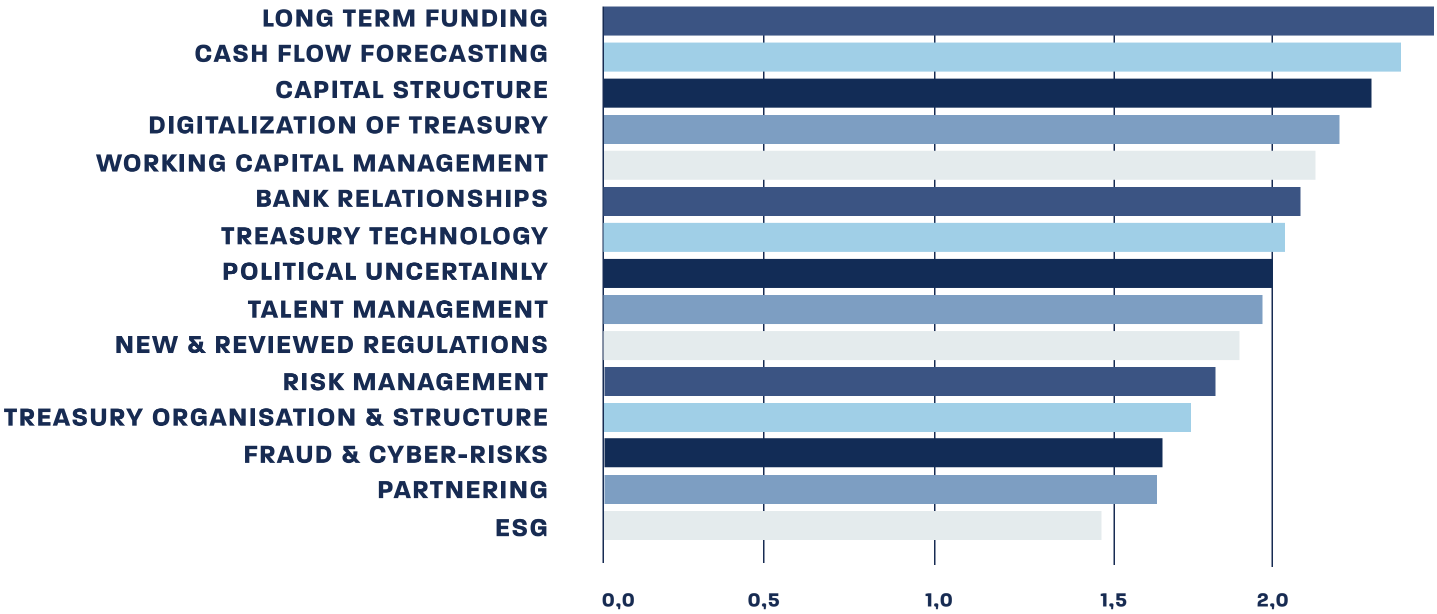


DISCLAIMER: The above overview is not meant to be exhaustive but aims to represent the majority of the financial activities undertaken by a corporate treasurer.

TOP PRIORITIES FOR EU BUSINESSES' FINANCIAL NEEDS

TOP PRIORITIES FOR EU BUSINESSES' FINANCIAL NEEDS

WHAT IS ON THE MIND OF EUROPEAN CORPORATE TREASURERS IN 2024?



In our most recent survey we asked our 14.000 individual members about their top priorities for the next year. Top of mind are questions of how to secure long-term financing, how to forecast and manage cash flow forecasting well for the company's future. Digitisation of treasury functions is also important and shows the central role of digital technology in all areas, including payments, KYC, reporting, among others.

1 PRIORITISE BOOSTING EU COMPETITIVENESS

Europe's challenge for the next decade is to ensure that European businesses can maintain or regain their competitive edge against global competitors. We welcome European Commission President Ursula von der Leyen's ambition to "make business easier" and "help innovative companies grow" in the EU.

This ambition needs to be a guiding principle of how EU conducts it financial regulation.

Focus on the final objective of financial services policy: i.e. funding the real economy. EU financial regulation needs to be consistent in taking into account European real economy businesses' needs when accessing financing markets and payments systems.

"As Airbus intends to generate profits only from its operations and not through speculation on foreign currency exchange rate movements, we use hedging strategies solely to manage the impact on its earnings (EBIT) from the volatility of the US dollar. In order to maintain the EU competitiveness, a dynamic financial derivatives market is crucial for EU companies. Corporate treasurers need a secure and stable EU regulatory framework in order to build their risk management system."

JEAN-BAPTISTE PONS, HEAD OF TREASURY AT AIRBUS

2 SUPPORT EU COMPANIES IN MANAGING GEOPOLITICAL UNCERTAINTY

Many of our business processes have been challenged by supply chain disruptions in the aftermath of a global pandemic and conflicts. This has led to drastically swelling prices for raw materials, energy as well as increased volatility. In short, doing business has become more expensive and riskier in the past 5 years.

This is why hedging and liquidity management strategies are not a 'nice to have' but have become fundamental to EU companies' global competitiveness.

In a fast-changing geopolitical environment, legal clarity should also be a guiding principle for political intervention.

Recognise the importance of hedging products, such as derivatives, by avoiding punitive or burdensome restrictions for businesses faced with geopolitical risks.

The EU sanctions framework needs to be clear and provide legal certainty for businesses.

"The green transition requires the involvement of the entirety of the real economy. Climate and geopolitical issues are financial risks and as corporate treasurers, we have a role to play in mitigating such risks. We bridge the gap between financial markets and the operational realities of businesses. Corporate treasurers' perspectives must be considered to reflect the true economic conditions. Regulations should promote practical solutions and enhance the competitiveness of the European Capital Market."

HENRIK FRIES, GROUP TREASURER, INGKA GROUP (IKEA)

3 EU ECONOMIC TRANSFORMATION REQUIRES MASSIVE INVESTMENTS

Mario Draghi's call for an extra EUR 800 billion a year in financing investments did not come as a shock in the corporate treasury community.

As corporate treasurers turn to capital markets for both funding and reliable investments for cash management purposes, deeper and more liquid capital markets in the EU will benefit all of Europe's economy.

Strong political will is needed to make genuine progress on developing deeper capital markets in the EU, including by addressing remaining fragmentation and existing regulatory burdens to reduce the overall costs of financing and investments in the EU.

4 MAKE LIFE SIMPLER FOR EU CORPORATES FACING EXTRAORDINARILY INTENSE GLOBAL COMPETITION

We welcome the Commission's ambition to cut red tape and reporting to make Europe a more attractive place for business. To help corporates focus on their business, there are many opportunities to improve efficiencies and free up time and costs dedicated to reporting in areas such as EMIR, CSRD, KYC, transaction monitoring, etc.

Streamline reporting and avoid costly duplication of reporting requirements by creating efficiencies.

" Regulations should not ignore basic market mechanisms. As a European industrial company present across many member states, we want to highlight the importance of aligning regulatory frameworks with the fundamental principles of how markets operate and how corporate treasurers work daily. Basic market mechanisms include risk assessment and management. Regulation should enhance, not replace, these mechanisms by ensuring transparency and accountability without removing the ability for market participants to manage risks effectively. Policymakers also need to assess consistently proposals for their impact on the real economic, ensuring they do not create undue burdens that could distort market operations. This includes considering the costs of compliance and the unintended consequences."

NOËLLE BELMIMOUN, SENIOR LEGAL COUNSEL AND HEAD OF COMPLIANCE &
WANDERLEY COSTA, GENERAL MANAGER AND HEAD OF FRONT OFFICE AT ARCELORMITTAL

5 TECHNOLOGY AS A TOOL TO STREAMLINE TREASURY PROCESSES AND REPORTING

In a world of fast-moving digital transformation, EU corporate treasurers face the daily challenge of adapting and staying up to date with the newest trends and innovations such as artificial intelligence, blockchain, robotisation/automation, data analysis. While these technologies bring challenges, they can also streamline treasury processes and regulatory reporting. To make best use of new technological advances, EU regulation should remain technology-neutral and seek efficiencies where possible.

Regulation should remain technology-neutral and help streamline reporting processes with new technologies.

6 ENSURING COST-EFFICIENT PAYMENT SYSTEMS IN TIMES OF INFLATION & HIGH COST OF LIVING

Ultimately, businesses' competitiveness is impacted by all the underlying costs they need to bear to deliver products and services. One important aspect of those underlying costs for treasurer is the costs of payments systems. We continue to see massive costs pressures from the lack of competition in payments in the EU, specifically in relation to practices imposed by international card schemes providers.

Prioritise EU policy intervention in the payments space to ensure end-users can access cost efficient, competitive and safe payments.

MAKING FINANCE WORK FOR EU COMPANIES

THE EUROPEAN ASSOCIATION OF CORPORATE TREASURERS

1. A STRONG CAPITAL MARKETS UNION - TO MEET CORPORATES' FINANCING NEEDS

Making our capital markets in the EU work efficiently for real-economy businesses means focusing on their current financing needs and where the gaps are.

SHORT-TERM FINANCING

An effective and fast way for corporates to raise smaller amounts of capital is to issue short-term debt in the form of commercial paper (CP). Corporate treasurers tends to issue debt on CP markets to bridge short-term financing gaps.

Europe's CP markets have an important potential advantage for EU corporates due to the location of the CET time zone between American and Asian markets.

Support assessment of concrete EU-level actions to deepen and unify the EU short-term financing market, whilst keeping the right levels of flexibility and ease of access for corporate end users.

However, from anecdotal feedback from our members, we still witness that the US markets are likely to offer corporates lower prices and access to a larger pool of investors. Even corporates with a very strong credit profile face higher costs when seeking to issue CP on EU markets compared to the US CP market. We suspect remaining fragmentation of European commercial paper, including the different settlement cycles and varying standards for documentation, could be part of the underlying issues driving this reality.

Assessing what more could be done to deepen EU short-term financing markets is therefore welcomed by corporates. Any EU policy intervention should keep in mind that a key element of success for short-term funding is also the simplicity of issuance processes.

LONG-TERM FINANCING

Securing long-term funding via capital markets or banks remains the number one challenge for corporate treasurers in 2024, as indicated in our annual survey of our members. A higher interest rate environment only adds to this challenge.

To meet the massive funding needs outlined by Draghi and others, easy and cost-efficient access to the most diverse range of funding sources remains key.

EU policy makers need to focus policy interventions taken on EU capital markets on initiatives which will lead to more liquidity, i.e. attracting both European and non-European investors, including whether it is creating ease of access and visibility for investors.

We fully support the political initiative to deepen our European capital markets as treasurers will benefit from diversity of funding options. More scale and deeper EU capital markets will make a huge difference to corporates and help meet our funding needs. This will require some remaining fundamental national bias in capital markets functioning to be tackled with vigorous political will.

As a European business accessing capital markets, the breadth of potential investors in our stock and bonds is a hugely deciding factor in how and where we access and list on capital markets.

Political ambition to deepen the scale of European capital markets is important but it now needs to deliver concrete results – those results will only materialise for European companies if vigorous political will is applied to also removing fundamental national bias and barriers.

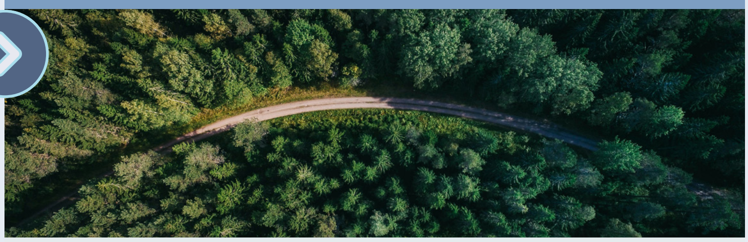
SUSTAINABLE FINANCE AGENDA & CORPORATES FINANCING NEEDS

Corporate treasury activities are increasingly impacted by the need to finance the green transition.

Many of European businesses, however, still remain sensitive to the higher global costs and burdens related to sustainable financing compared to standard financing.

For corporates embarking on issuing specific sustainable financing instruments (including green bonds), it is important that those financing instruments can be used to finance all business activities that are part of the transition to green, as well as strategic sectors for the future of the EU.

Corporates support the new EU framework for ESG ratings and welcome the intervention in this area. Principles such as informing issuers and allowing corporates to actively engage with ESG ratings agencies are useful and we hope the implementation will consider avoiding undue burdens on corporates in the assessment processes.



We support the EU's steps to create harmonised labels, for aspects such as carbon offsetting, as these are first steps to improve the functioning of the overall carbon credit market.

As corporates, we are subject to direct disclosures under CSRD and the EU Taxonomy, while at the same time investors will indirectly request information based on their own disclosure regulations under SFDR. We urge that coherence, clarity and pragmatism are guiding principles for EU policy makers in this field.

Corporate treasurers are also increasingly involved in carbon markets and support policy initiatives which would make the voluntary carbon markets a more mature market in terms of its functioning, as this will be fundamental for involvement in that market for most of our members.

Various ESG reporting frameworks need to be aligned to avoid duplicative or incoherent reporting.

ACTION ON TAXATION TO ENCOURAGE CAPITAL MARKETS TAKE UP BY CORPORATES

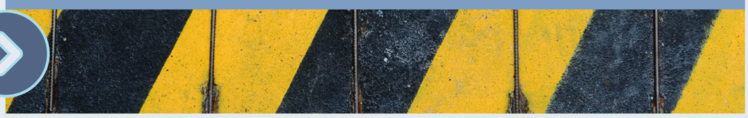
The attractiveness of using capital markets for funding remains fundamentally linked to tax treatment. Taxation remains a crucial factor driving so many business decisions.

A genuine debate on enhancing the attractiveness of European capital markets cannot happen if questions relating to taxation are not tackled.

Political leaders should make progress on work started in this space, including in resolving basic aspects such making progress on harmonising withholding tax (FASTER proposal). We should also maintain a level of political ambition in addressing the taxation bias for debt financing if we are serious about encouraging equity financing for our economy (DEBRA).

Policy makers should be extremely careful when discussing what may appear as politically appealing ideas such as financial transaction taxes – as those additional frictions only make the cost of investing in EU listed companies higher – which seems to fundamentally go against our collective overarching political goals.

Pursue ongoing taxation workstreams. We urge policy makers to make progress on the FASTER proposal as well as maintain ambition on the DEBRA proposal which would rebalance the tax treatment of equity & debt financing.



Caution on impact of Financial Transaction Taxes – We advise extreme caution towards any new financial transaction taxes as those are particularly counterproductive to our goal of better mobilising capital markets to finance European companies.

2. MANAGING BUSINESS RISKS - HEDGING AND LIQUIDITY MANAGEMENT ARE EQUALLY IMPORTANT

The political focus in EU capital market reforms debates often fails to prioritise an essential element of European corporates needs: well-functioning and easily-accessible derivatives markets.

Preventing financial damage to the business by hedging our business-related risks is among the most important responsibilities of corporate treasurers.

Derivatives are essential instruments for companies of all sizes to manage uncertainties linked to their core business activities. European companies enter derivative contracts as part of their financial risk management strategy to efficiently manage their risks linked to fluctuations in currencies, interest rates or commodities prices.

The availability and efficiency of these instruments is even more important in the current context of high economic uncertainty that puts extensive constraints on European businesses and consumers alike.

REAL-WORLD EXAMPLE OF WHY HEDGING MATTERS

An EU company such as Airbus sells planes on global markets in US Dollars – as the aviation market continue to function largely in US Dollars – but has its main costs base in the EU and in Euro because its productions facilities are based in the EU. To avoid financial losses due to currency fluctuation, the company treasurer's objective is to ensure the company profit is not impacted unduly by non-business-related currency fluctuations. To hedge against the risk of fluctuations in the euro-dollar exchange rate, it will buy a FX derivative from its banks.

AMBITION FOR DERIVATIVES MARKETS SHOULD BE AT THE HEART OF THE CMU PROJECT

For the past decade, the European Markets Infrastructure Regulation (EMIR) has allowed non-financial corporates (NFCs) to continue to hedge their specific business risk through the targeted 'hedging exemption' from the clearing obligation. This appropriate and targeted treatment for NFCs needs to remain in place to continue to allow for the diverse reality of businesses hedging needs – i.e. the current definition of hedging functions well today and should not be tweaked.

Additionally, the reporting requirements linked to the use of derivatives products by NFCs need to remain pragmatic and reasonable. The balance between supervisory use of the reporting and costs on corporates need to be carefully balanced.

Policy action taken on derivatives markets also needs to meet the overarching goal of maintaining (or enhancing) the diversity of financial counterparties with whom corporates can enter into derivatives transactions. Corporate end-users value having choice amongst strong financial counterparties to transact over-the-counter (OTC) derivatives transactions with. The upcoming policy choices to be made in the EMIR level 2 implementation (including in relation to the implementation of the active account requirements) should consider how those new constraints would impact European financial institutions' ability to provide efficient pricing for derivatives to European corporates.

If policy interventions in those markets end up making it extremely costly or difficult to access EU derivatives markets for corporates, companies will need to find alternative ways to manage the existing business risks. Those alternatives would certainly be suboptimal for our economy (for example, it could lead companies to passing on the problem down in the value chain towards smaller companies or increasing prices for end customers). More broadly, this would mean losing competitiveness on the global stage, as non-European companies in the same sector would still be able to execute their normal hedging strategies (and keep their costs down).

Ensure derivatives markets are treated as a CMU priority – as vibrant and diversified derivatives markets are crucial for hedging business risks and financing costs for corporates.

Reduce and simplify regulatory burdens for companies using derivatives – to reduce businesses' costs for financing and boost European companies' competitiveness.

Clearer policy recognition of the different types of NFCs active in derivatives markets – recently, we note that policy discussions on derivatives markets have been driven by policy concerns about a very small subset of non-financial firms (i.e. energy companies) and policy responses have not always been targeted to those but would have impacted disproportionately many other NFCs. Policy action targeted at a small subsection of NFCs should not determine regulatory and compliance burdens for the whole economy.

Ensure the EMIR hedging definition for NFCs reflects existing business realities – to allow corporates to hedge in a world of inflation and higher prices, the clearing thresholds for NFCs should not be reduced and the current concept of hedging should not be restricted.

ENSURE CONTINUED ACCESS TO THIRD-COUNTRY BENCHMARKS

To hedge against fluctuations of currencies in jurisdictions where we have business activities, continued access for EU players to non-European foreign exchange benchmarks is crucial. The EU should avoid any unjustified regulatory barriers that would end up hurting European businesses the most.

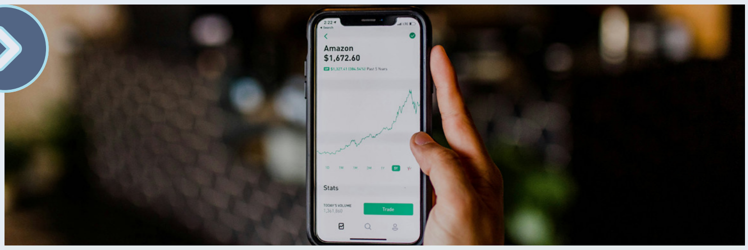
The ongoing Benchmark Regulation review needs to maintain access to those non-EU FX benchmarks. Limiting EU-supervised entities from entering into these derivative contracts would place EU corporates at a competitive disadvantage as we would be forced to turn to non-EU banks to access these contacts at a higher cost or stop hedging those currencies.

Ensure Benchmark Regulation review – continues to allow for easy access for EU end-users to all third-country FX benchmarks.

LIQUIDITY MANAGEMENT – MONEY MARKET REFORMS

Money Market Funds (MMFs) fulfil two important functions for non-financial corporates, they allow corporates to manage liquidity (as investor) as well as providing funding options for companies (as issuer of short-term commercial paper).

For these purposes, corporates choose MMFs to manage their liquidity with stable and secure products which operate in a well-regulated and safe framework. The current EU MMF Regulation works well today and we urge that any consideration to review this regulation keeps a balanced approach to ensure financial stability while also maintaining a meaningful choice for corporate end-users.



Maintain stable LVNAV category as an option if the impact of the planned review of the EU MMF framework results in less diversity of available funds or even the removal of stable/low-volatility funds (LVNAV), thiswould lead to further consolidation and concentration of the market. This would not be a desirable outcome for corporates as end-users of those markets.

3. SUPPORT BUSINESSES IN KEEPING COSTS DOWN FOR END-USERS AND CONSUMERS

BUILDING A SECURE, EFFICIENT AND LOW-COST PAYMENTS SYSTEM IN EUROPE

Corporates need a payments ecosystem that it is secure (especially as digital fraud has skyrocketed and become a top concern for our companies) as well as providing efficient, low-cost and innovative payments solutions.

EU policy initiatives spanning from the Interchange Fee Regulation to Instant Payments, as well as the Payment Services Directive have proven to be positive steps to achieve the above goals. Initiatives such as the digital euro also have the potential to help further.

Corporate treasurers have a central responsibility to manage payments efficiently and in a secure way. This will often mean setting up so-called **"payments factories"** – i.e. a centralised way to manage payments within the corporate group. This allows treasurers to apply the best practices to management their payments (including in terms of enhanced security). The EU regulatory framework needs to have a clear treatment for those corporate payments factories.

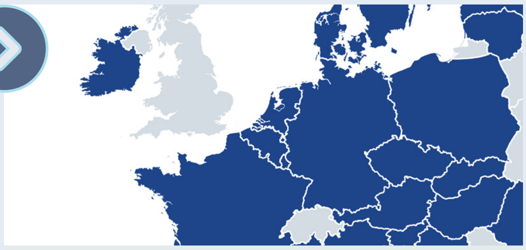
Act urgently to reduce costs and burdens imposed on European businesses by international card schemes practices.

Despite multiple policy intervention in payments, including the Interchange Fee Regulation, we continue to see practices and costs imposed on European businesses which are not proportionate to the services rendered by the two systemic international card schemes. We ask to push urgently for more effective EU-level supervisory tools to address the practices of those providers, as the current competition tools seem to be poorly adapted (i.e. only ex-post intervention) in what is a strategic market for the EU.

International card schemes providers' practices should no longer be without strict EU regulatory supervision. This would imply stronger transparency requirements on the ICS, including towards the end-users and exploring EU level supervisory intervention tools over the schemes rulebooks as well as supervisory powers to intervene on fee increases.

TREATMENT OF CORPORATE PAYMENT FACTORIES IN THE PSR PROPOSAL

There is recognition that the practice of using corporate payment factories is different from operating a Payment Service Provider (PSP). However, further clarifications to the proposed PSR Art. 2.2m & recital 15 are necessary to ensure that key activities payment factories execute on behalf of subsidiaries, including the reception of funds from external customers, are covered.



Make IBAN discrimination a problem from the past – More than ten years on from the provisions to ban the practice, it continues to cause problems for treasurers across the EEA. While ending IBAN discrimination should be the priority, we also believe legislators should continue to allow tools such as virtual IBANs that can provide temporary fixes for the treasurers.

Alternative means of payments can only take full competitive effect if well implemented The widest possible take-up of instant credit transfers will be key in delivering a more competitive payment landscape.

Embrace innovation and accountability to reduce fraud in payments – We very much welcome the focus of the review of the Payment Services Directive Framework to further incentivise payment services providers and other actors to further reduce the rate of fraud, which are becoming increasingly elaborate.

MAKE KYC PROCESSES AS STREAMLINED AS POSSIBLE FOR EU BUSINESSES

EACT fully supports strong and effective AML requirements. As corporates on the receiving end of banks' KYC requirements, we would value further enhancements to the balance between the burdens created by those rules and the effectiveness of the framework.

In our day-to-day experience, we see further room for harmonisation of how KYC obligations are applied across member states, in order to streamline and simplify corporate-bank relationships throughout the EU. While this will not only be in the hands of policy makers, public authorities can still play a role in incentivising best practices.

Create an 'AML passport' for Corporates – Corporates could obtain this AML passport through completing a KYC procedure with one bank and use this passport to establish client relationships more easily with other banks.

PICK THE RIGHT TOOLS & BUILD ON EXISTING PRACTICES

As European businesses, we are keen to see promoted efficient global tools to ensure effective compliance with regulation and sanctions. We need support from public authorities to avoid the multiplication of tools required. Too often reporting requirements are implemented in silos and end up forcing corporates to develop entirely new systems when existing ones could have been a better starting point. One of the identification tools many corporates already use for supervisors or financial entities is the Financial Stability Board-led Legal Entity Identifier (LEI). Expanding the use of such a tool in other areas (such as payments, ESG reporting, AML or sanctions) would create efficiencies for corporates and should consistently be encouraged by public authorities.

Further reporting requirements should build on existing identifiers, such as the LEI, to avoid additional complexity and parallel reporting identification tools.

HOW CAN EACT HELP?

Financial sector regulation needs to be developed having in mind the needs of all end-users of the financial sector – consumers end-users and business end-users.

Corporates, including EACT's members, offer to be involved in the financial sector policymaking process early on to ensure future regulation does not unduly hamper corporates' access to financial markets and to financing in general, but instead safeguard attractive and well-regulated financing options for Europe's economy.

For this purpose, we support the new Commission president's proposal for a competitiveness check as an integral element of EU policymaking to assess the impact of legislation on business and Europe's attractiveness more broadly.

EACT THE VOICE OF CORPORATE END-USERS OF FINANCE

The European Association of Corporate Treasurers (EACT) brings together 14,000 treasury professionals through 23 National Treasury Associations. They are active in 21 European countries and work in 6,700 companies of various sizes.

We represent the financial professionals of the real economy vis-à-vis European authorities and institutions; by actively promoting dialogue at every level; by encouraging our members to develop their competences; by sharing best practices amongst corporate treasurers.

FOR FURTHER INFORMATION, PLEASE GO TO WEBSITE WWW.EACT.EU OR CONTACT US AT EACTSECRETARIAT@EACT.EU