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Treasury 2020

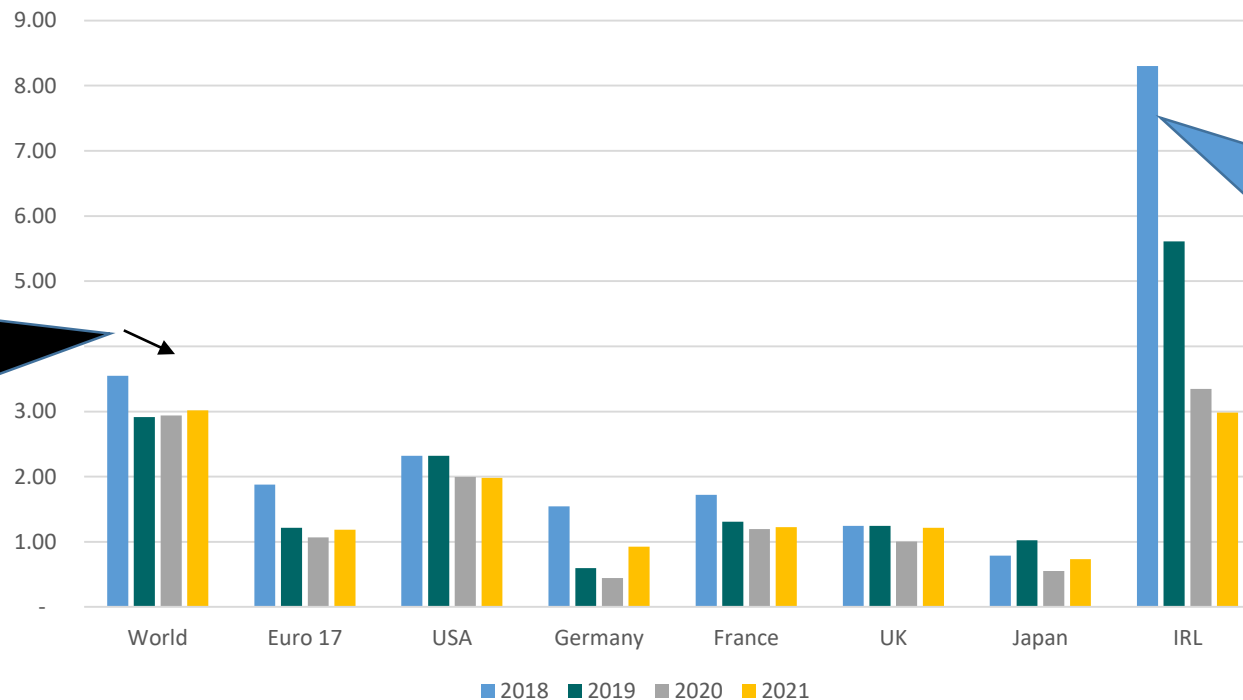
Treasury Challenges 2020

January 2020

Treasury Area	2020 Treasury Challenges
GLOBAL MARKETS	What are the main things to watch out for in the Global Economy in 2020?
GLOBAL MARKETS	What can we expect from Brexit in 2020?
REFORM	Where are we with Benchmark Rate Reform as it speeds-up into 2020?
REFORM	Pension Reform is also looming with IORP II.
OPERATIONS	The application of API and Robotics in treasury operations offers new opportunities for reducing treasury operational risk.
OPERATIONS	Cyber security continues to challenge treasury operations – what key actions are required?
FUNDING	ESG – is all the buzz, but how might it impact on corporate funding?
REGULATION	Could EU Mandatory Disclosure Regime (DAC 6) impact on treasury finance companies?

2020 Global Macro Economic Factors

OECD Real GDP Forecasts



OECD forecasting World Real GDP slightly higher in 2020, BUT lower for USA, EU, UK, Japan

Certain multi-national related transactions are distorting headline figures

- FED cuts rates 3 times
- Yield curve inversion
- Strong stock markets
- Risk of recession advocated
- Brexit rollercoaster
- US China trade tit for tat

- US China trade TBD
- Brexit pathway clearer for FTA
- US Presidential Election
- General GDP slowdown
- Risk of recession continues
- High employment – wage inflation

WATCH:

H1 2020: Interest rates unchanged

H2 2020: Potential for lower corporate earnings; Run-up to US Presidential election & volatility

Brexit 2020 – what next?

2020 – Transition Period

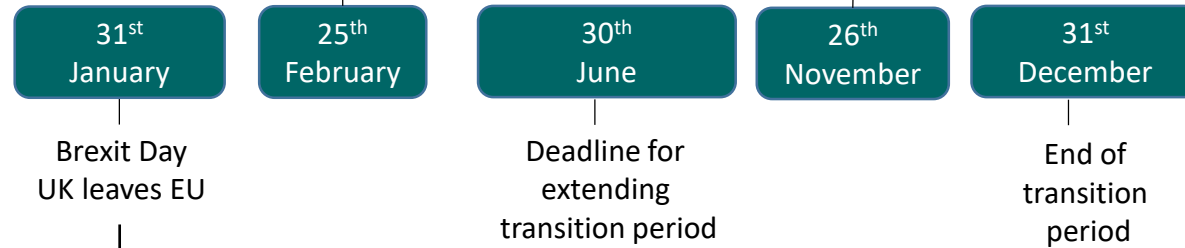
2021

Parliament voted 358 to 234 in favour of the EU (Withdrawal Agreement) Bill

The bill also bans an extension of the transition period

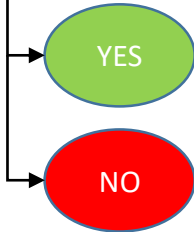
The European Commission seeking the legal authorisation and negotiating mandate to open talks with the UK its from EU27 minister at a meeting on February 25.

EU want a trade deal to be negotiated, translated & presented to the European Parliament by this week if it is to be ratified by the end of 2020.



Trade talks between UK and EU
Brexit talks on citizenship, borders, justice

Has a trade deal been agreed and ratified?



WATCH this deadline – it could change!

31 December 2022 – the final date to which the transition period could be extended

NEW RELATIONSHIP BETWEEN UK and EU

Benchmark Rate Reform

	Status	2020	2021	2022
SONIA Sterling Overnight Index Average rate	The norm in new issuance of floating rate sterling bonds & securitisations Some transactions converted from LIBOR to SONIA New sterling LIBOR public bond issuance appears to have ceased	Q1 2020: SONIA encouraged as Standard Market Convention for Swaps Q3 2020: New lending using LIBOR to cease Working Group Focus: The place for forward-looking SONIA term rates is the central issue using common conventions	Corporate Focus: Need to amend contracts for LIBOR-linked products that mature beyond end-2021	END 2021: GBP LIBOR ceases FROM 2022: LIBOR legacy contracts
€STR The euro short-term rate & replaces EONIA	The ECB started publishing €STR on 2 October 2019 EONIA RECALIBRATED = €STR + 8,5bp (T+1)	Phase 2: Transition from recalibrated EONIA to the €STR EURIBOR: The working group is also looking at identifying fallbacks for EURIBOR based on the €STR.	- Until 3 Jan 2022, both rates will coexist	From 3 January 2022: EONIA discontinued
SOFR Secured Overnight Finance Rate Replaces USD Libor	Contracts referencing SOFR are based on averages of this daily Rate SOFR referenced transactions increasing	Central clearing houses begin using SOFR discounting on all dollar-denominated interest rate swaps	END 2021: USD LIBOR ceases	FROM 2022: LIBOR legacy contracts

CHECK IFRS accounting amendments & WATCH for related announcements from Accounting Standards Board

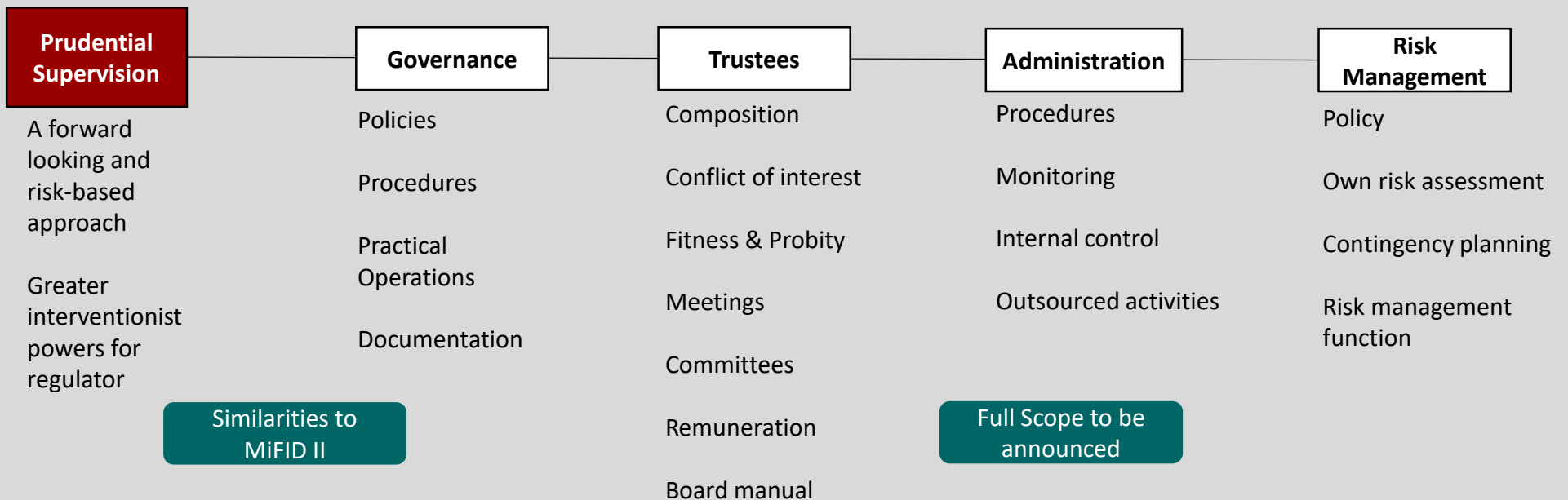
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Pension Reform – IORP II

EU Directive on the activities and supervision of institutions for occupational retirement provision (Directive 2016/2341), known as the IORP II. Aims to enhance and harmonise the governance and management of pension schemes across the European Union.

	Regulator	National Competent Authority (Ireland)	Regulated Entities	Reporting Frequency	Reporting Format	First Submission
Reporting	ECB	Central Bank of Ireland	Detailed Data Reporters	Quarterly	XBRL	9 December 2019
			Reduced Data Reporters	Annually	Excel	19 th May 2020
Supervisory	EIOPA	The Pensions Authority	TBD			

WATCH this space.



Treasury Operations Check List

APIs and RPA

Open application service interfaces (**APIs**) enable different applications to speak to each other without any user knowledge or action. Facilitates the shift to real-time processing.

Robotic Process Automation (**RPA**), a technology that uses software robots to automate repetitive tasks and manual processes.

- Banks and Treasury technology vendors currently deploying APIs for data integration
- RPA technologies currently available for use
- Map treasury procedures and processes
- Assess repetitive treasury processes for RPA application
- Design and plan RPA initiative implementation

Cyber Security Mitigation Actions

- Create a cybersecurity culture
- Staff training
- Network vulnerability testing
- Secure wireless networks
- Back up data
- Action software updates
- Review insurance policies
- Pre-format payment templates only
- Internal controls & processes
- Business continuity & disaster recovery

Review, review, review!

ESG - Environmental, Social and Governance

ESG:

The three central factors in measuring the sustainability and societal impact of an investment in a company or business

Environmental

Climate change policies
 Recycling and disposal practices
 Green infrastructure, products
 Sustainability
 Use of renewable energy sources

Social

Diversity
 Human rights
 Employee safety policies
 Consumer protection
 Ethical supply-chain sourcing

Governance

Executive compensation
 Stock class structure
 Communication transparency
 Board compensation
 Employee relations

EU REGULATORY CHANGE

The EU proposes a regulatory framework which will require institutional investors to disclose:

- The internal processes to ensure that environmental and social risks are factored into investments
- Information on how ESG-related risks will impact the profitability of their investments
- Provide evidence to support the environmental merit of sustainable investments

An EU taxonomy will create a standardised methodology for what constitutes an environmentally sustainable investment

IMPACT

Implications

Increases ESG reporting
 Disclose ESG information
 Green funding opportunities
 ESG covenants
 Reputation enhancement

Treasury

Funding diversification
 Green bond issuance
 Reduce funding pricing – c 5bps
 Covenant tracking
 Performance measurement
 Minimise exposure to climate risks
 so as to not negatively impact financing opportunities

A challenge for Treasury involving other areas of the business

EU Mandatory Reporting Regime (DAC 6)

Background	Timeline	Treasury Issue
<p>EU Mandatory Disclosure Regime (DAC 6) on harmful tax practices & tax benefits</p> <p>Reportable cross border arrangements (RCBA)</p> <p>Obligation on Intermediaries (including other group companies) within the EU who promote or provide RCBA</p> <p>Reportable if one specific 'Hallmark' applies Where a Main Benefit Test shows that the arrangement is to obtain a direct tax advantage</p>	<p>New regulations applicable from 1 July 2020</p> <p>Exchange of information starts on 31 October 2020</p> <p>Retroactive for RCBA which were implemented between 25 June 2018 and 30 June 2020 which are reportable by 31 August 2020</p>	<p>Is lending from a Group Company to a Treasury or Finance Company that provide intra-group financing in scope?</p> <p>Are there any other cross border transaction types that treasury manage fall into scope?</p> <p>Is there a secondary reporting obligation on treasury?</p>

Generic Hallmark linked to main benefit test
<ul style="list-style-type: none"> Conditions of confidentiality Fee arrangements Standardised documentation and/or structure

Specific Hallmark linked to main benefit test
<ul style="list-style-type: none"> Loss buying to offset taxable profits Conversion of type of income Circular transaction

Specific Hallmarks relating to cross border payments
<ul style="list-style-type: none"> Deductible cross border arrangement <ul style="list-style-type: none"> - No tax residence - Zero corporation tax - OECD black list Payment is exempt Preferential tax regime incl double deductions/relief Asset transfer values

Hallmarks undermining reporting obligations
<ul style="list-style-type: none"> Undermining existing reporting obligations Hiding beneficial ownership

Hallmarks relating to transfer pricing
<ul style="list-style-type: none"> Unilateral safe harbours Hard to value asset transfers Highly uncertain future cash flows

About FTI Treasury - Leader in Treasury Outsourcing & Consulting



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Treasury Outsourcing:

FTI Treasury is a proven global leader in treasury outsourcing solutions. Our unrivalled expertise and resources enable companies to outsource all or selected elements of their treasury function with total confidence. Each of our Clients benefit from seamless integration, greater efficiency, on-going support and reduced treasury costs. Our expert team has a proven track record of tailoring world-class treasury solutions to each Client's specific requirement, irrespective of operational scale or sector

Treasury Consulting:

Since 1988 FTI Treasury has been building a global reputation in the delivery of Treasury consulting and advisory services. Our team brings a wealth of real-world financial and practical operational experience in corporate treasury. Whether your requirement is for a major change-management project, or a bespoke technical implementation our consultants provide strategic clarity and practical solutions that reduce risk, remove complexity and eliminate unnecessary cost for your organization.

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