ABE EBA
EURO BANKING ASSOCIATION

Terms of Reference for the Working Group on Corporate Liquidity Management

Phase IV

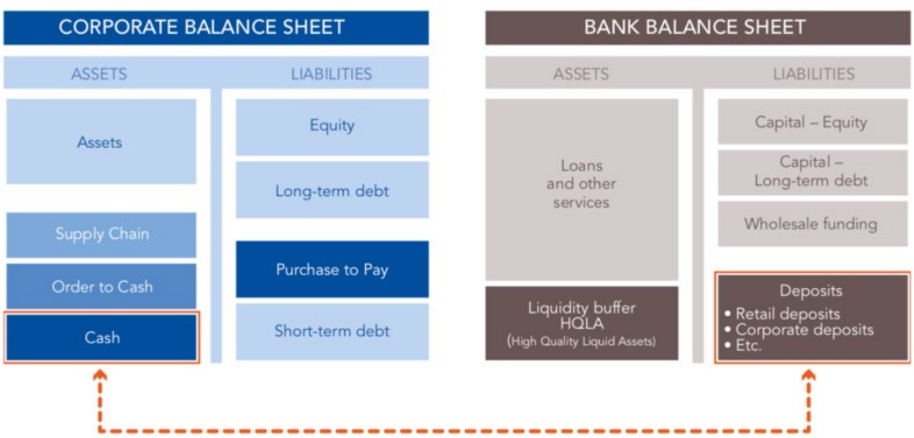
Background and context

The primary responsibility of all corporate treasurers is to ensure their organisations meet any financial obligations as they fall due. To fulfil this responsibility, corporate treasurers are reliant on their banks (and other payment service providers) to process payments (both disbursement and collection) accurately and in a timely manner. To be able to do so, banks generally need to have access to multiple payment systems, and to manage the level of liquidity they provide to these systems to ensure payments, especially time-sensitive payments, are processed without delay.

The provision of transaction banking services places a bank at the heart of a corporate client's liquidity management activity. Banks need corporate liquidity management business for a range of reasons – to generate revenues, to retain relationships, to maintain regulatory compliance (in the form of capital and liquidity ratios) and to remain competitive. In an environment in which banks are at risk of being disintermediated by new entrants, finding ways to remain relevant to corporate clients is critical.

The EBA Liquidity Management Working Group's (LMWG) first thought leadership paper titled *"Managing corporate liquidity and bank liabilities"* discussed the corporate liquidity management ecosystem and explained the core interdependencies between banks and their corporate clients.

Figure 1 – The liquidity management ecosystem



A second phase of research was launched in mid-2018 with the objectives to explore the role of technology as an enabler for banks to enhance their corporate liquidity management and client relationships. The investment in, and provision of, appropriate technology not only enables banks to stay relevant is critical to help banks increase revenue and gain and retain valuable corporate cash deposits. The second thought leadership report titled *"How banks can harness technology for the benefit of the corporate liquidity management ecosystem"* was published in April 2019

In January 2019, the LMWG launched phase 3 of its thought leadership work aimed at exploring the implications of the introduction of Instant payments and intraday liquidity management guidelines on the corporate liquidity management ecosystem. The publication is due for release in September 2019.

The composition of the LMWG varied according to the phase of study. Hence, phase one and three of the thought leadership work was composed exclusively of bank members of the association, while phase 2 was a collaboration of ecosystem partners/associate members and bank members.

Activities to be undertaken in LMWG Phase 4

Going forward, phase 4 of the LMWG will re-engage ecosystem partners/ associate members. This new phase will be kicked-off on the **16 & 17 of September LMWG meeting in Stockholm**.

The objective of this phase is to articulate how data analytics support the decision-making processes of treasurers. The aim will be to better comprehend what data analytics really is and how it relates to machine learning and artificial intelligence. The LMWG will not address commercial or business aspects. The problems are defined from the corporate treasury perspective:

- **The level of treasury sophistication:** The level of treasury sophistication is determined by the use of a formal treasury organisation and the use of dedicated technology. Small companies often do not have a formal treasury function as their treasury activities are often managed by their finance director or accountant in business. Larger companies with a dedicated, specialist treasury function, employing financial professionals to focus on process efficiency, short- to medium-term financing, risk management and liquidity management, often deploy dedicated treasury technology to support the execution of the corporate treasury strategy by using many different datapoints from diverse sources.

- **Organisational complexity**
  The level of organisational complexity determines the extent to which dedicated treasury technology is used. Companies with few legal entities, a limited geographic footprint, and with cash flows in one or more currencies, do not tend to use complex technology. However, as their geographic footprint, the number of legal entities and the number of currencies used increases, companies will look to use more appropriate technology to manage this complexity.

- **Risk awareness**
  A company's approach to risk determines its use of treasury technology to a significant extent. A company without a formal risk framework and with a limited focus on cash and future obligations will use technology that meets its operational requirements. However, a company with a formal risk policy (including, for example, a foreign exchange strategy, a policy to manage counterparty risk and an approach that manages liquidity positions closely to safeguard future financial obligations) will select technology to support this policy, operational processes and the wider treasury strategy.

  Treasury must ensure group cash is managed within an acceptable level of risk. Risk materialises in several ways in the context of liquidity management. Treasurers need to manage counterparty risk as it arises. Each organisation faces counterparty risk in its supply chain and towards their banks. To understand these risks, they need a constant flow of datapoints from the business.

  Treasurers need to understand foreign exchange, interest and, potentially, commodity exposures in order to manage these positions at an acceptable level. They want visibility of the exposures from the business from the moment they arise. This requires clear risk policies, implemented through technology-supported workflows and processes.

- **Access to sufficient liquidity**
  Treasurers need to retain access to sufficient liquidity to fund operations. This means developing forecasts whereby the datapoints are sufficiently accurate to anticipate funding requirements, both in the short- and long-term. For net borrowers, cash forecasts help treasurers remain compliant with any loan covenant, reducing the risk of breach and, therefore, the potential for facilities to be withdrawn. At the same time, accurate cash forecasts help many listed companies to create the clear statements on free cash flow they want to provide to their investor communities.

In terms of delivery, the LMWG is expected to draft a short informative paper on this topic with the full support from the ecosystem partners engaged in the working group. To this end, during the kick-off meeting, several sessions will be held to provide the LMWG members with insights on the use of data and data analytics.

What is expected from the ecosystem partners/ associate members?

Representatives from associate members will be expected to give a presentation of ten minutes. Five minutes on their own value proposition and five minutes how they see data analytics in the context of the liquidity management ecosystem.

During and after the LMWG kick-off meeting in Stockholm, expectations will be that ecosystem partners/ associate members drive the drafting of the paper.

Membership and organisation

The working group will be composed of:

- the initial corporate liquidity bankers which have taken part in previous phases.
- Associate members who took part in phase 2 will be invited to take part in this new phase and the broader ecosystem partners community will be also reached out

The LMWG will be chaired by a Board Member of the EBA. The LMWG will be facilitated by EBA staff with the support of other (external) resources as required and approved by the Board.

The Chair may invite external attendees to share experiences with the LMWG members.

Frequency and duration

The LMWG will continue its existence for an initial one-year period and may continue in an appropriate form afterwards, as further deliverables are approved by the EBA Board.

The LMWG will have face-to-face meetings at the premises of the EBA or of institutions of participating WG members. Meetings may also take part via webinar facilities.