PIERRE PONCET OF THE EACT CHARTS THE RISE OF THE EURO AND THE EFFECTS IT HAS HAD ON TREASURERS WHOSE COUNTRIES HAVE ADOPTED THE SINGLE CURRENCY. WITH THE EUROPEAN UNION EXPANDING, HE ALSO LOOKS AT THE IMPACT THAT THE EURO IS HAVING ON COUNTRIES' PAYMENT SYSTEMS.

EVOLUTION OF THE EURO

Last plenary session of the Convention on the Future of Europe, held in Brussels last year.

When the euro replaced 12 currencies in January 1999 it was clear, from a financial point of view, that one of the first direct consequences of this event would be the simplification of currency hedging. Treasurers, whose countries adopted the euro, no longer had to worry about so many foreign currencies when hedging their transactions.

Meanwhile, across the Atlantic, American corporate treasurers had been used to monitoring flows between the US and European countries. But when several countries adopted the euro, they only needed to monitor fluctuations between the dollar and the euro.

From a global point of view, the introduction of the euro means that currency fluctuations concentrate mainly on the US dollar, the pound, the euro, the yen and the Swiss franc.

Although the euro has only been adopted in 12 European Union (EU) countries, other currencies are closely linked to it (Denmark, Estonia, Lithuania, Slovenia) and it is fair to assume that most EU countries will adopt the euro or be closely linked to it by 2010. But despite the euro putting an end to the foreign currency hedging question for many treasurers whose companies now deal only in euros, the question has not been answered completely.

For example, since 1999, the evolution of the dollar:euro has been strong in both directions. For treasurers of companies dealing in currencies other than the euro, its introduction lead to a concentration of the question on a key currency, often with less administrative burden, but perhaps with more volatility.

The euro was introduced at a time when a powerful new stakeholder, the European Central Bank (ECB), appeared on the European landscape. The ECB's only stated objective was to make sure European inflation was kept under control (below 2%) and that its members were independent from political powers, whether national or European. It followed many economic indicators, but its main weapons were the deposit and lending rates which steer the short-term euro interest rate (EONIA). The EONIA's first steps received mixed views – not unusual for a new institution – even though its board members are very experienced. Treasurers and finance heads also have to observe how it works and understand its rationale. It is likely that in the next few years, the ECB's communication process will be more open. But whatever happens, treasurers will have to devote more time to better understanding its decisions for improved anticipation of EONIA fluctuations.

One of the most important consequences for countries that have adopted the euro is the protection it has brought. Without the euro, the 11 September 2001 terrorist attacks and recent oil price increases, combined with large public deficits in countries such as France, Germany and Italy, would have lead to currency crises, rapid increases in interest rates, or perhaps both. It is a huge benefit for the European economy, which means less problems for treasurers.

And one of the most visible impacts of the euro's introduction has been the implementation of new treasury systems and processes in companies with branches in euro-countries and EU nations. If we have one currency, why not one treasurer with cash pooling systems?


Members of the Governing Council of the European Central Bank

EUROPE AND THE TREASURER. From the treasurer's point of view, the euro does not mean that we have a single monetary zone. There are major differences in payment systems, fiscal policy and regulation across the continent (see *In pursuit of the ultimate prize*, p23).

Payment systems and laws related to payments are different from one country to another. Trans-European Real-Time Gross Settlement Express Transfer (TARGET) exists for high-volume transfers but payment systems have been built for each country's regulatory environment and cannot be easily connected. Also, laws governing payment means (cheques, direct debits, bills of trade) vary from one country to another. This is why we see payment factories provide valuable opportunities to change expensive international payments into simple local payments, and this is likely to be the case for several years. It is interesting to see that the Single European Payment Area (SEPA) project, devised by the European Banking Federation (EBF) and backed by the ECB and the European Commission (EC), was accelerated by European regulation. This states that all transfers in euro between two European countries below €12,500 must be achieved within three days at a cost equal to a national transfer, provided they incorporate International Bank Account Numbers (IBAN) and the Bank Identifier Code (BIC). This project will take several years and is directed mainly at payment means which can be electronically executed (transfers, direct debit, internet, payment cards). It could render paper transactions such as cheques obsolete. Of course, it needs to be completed by a laws harmonisation process, thus the importance of the EC document on the New Legal Framework (NLF), published in 2003, on which the Euro-Associations of Corporate Treasurers (EACT) commented. Various proposals aside, one aspect of the debate is whether the EU needs regulation (which applies immediately), directives (which take years to implement in each country, with the risk of slight practical differences) and recommendations (which might never be followed).

There are several payment projects which are not always related to the EU – the Society for Worldwide Interbank Financial Telecommunication (Swift), the Treasury Workstation Integration Standards Team (Twist), and Rosetta – but European treasurers must carefully monitor the regulatory aspects because potential regulations or directives are more than likely to be devised sooner rather than later.

FISCAL POLICY. Fiscal harmonisation does not exist across Europe as unanimity is not the rule and the EC might argue that some fiscal measures could be harmful to fair competition and thus require the related country to change its fiscal stance. This has recently been the case for countries setting up financial measures to 'attract' companies' finance centralisation projects. Nevertheless, the lack of fiscal harmonisation is a major hurdle on the road towards a unified financial market in the EU. It is one of the problems the Short-Term European Paper (STEP) project faces. STEP's aim is to set up a form of European commercial paper which can be easily traded throughout the EU, thus increasing the market size for short-term financing and lending, while simplifying administration (one prospectus at a central point). But the fiscal treatment of interest could differ from one country to another. When it comes to cash pooling, some European

The euro & the EU

The 10 countries which joined the EU on May 1 this year must adopt the euro in due time once they abide with the Maastricht criteria. In fact, most of them have formally indicated a date ranging from the beginning of 2007 to 2010.

Before adopting the euro, any currency must at least be part of the European Monetary System II (EMSII), where it fluctuates within a pre-determined range from a central rate versus the euro; the proposed range is 15% but can be lower (ie 2.5% for Denmark).

There are five Maastricht criteria:

- Inflation must be no higher than 1.5 points over the best three countries;
- ten-year interest rates should be no higher than the rate of the three least inflationary countries +2;
- public deficit below 3% of GDP;
- public debt below 60% of GDP; and
- countries must be part of EMS II for at least two years without any serious problems.

The question remains about the validity of these criteria in the near future, especially when countries are at different stages in terms of economic development. There could be a timing difference.

Whatever the timing and the possibly modified criteria, it would seem that most, if not all members of the EU, will adopt the euro or have their currency closely linked to it by 2010, with the first group of countries adopting it by 2007.

'THE DEBATE ON EUROPEAN CONSITITUTIONS AND TIMING OF CURRENCIES JOINING THE EURO WILL MAKE IMPORTANT EVOLUTIONS ALMOST IMPOSSIBLE TO FORESEE' countries allow notional pooling, while others do not. Fiscal treatment of interest on inter-company loans still differs from country to country, as well as reporting requests by national central banks.

REGULATION. Regulatory aspects of treasury and finance operations are different between European countries and the EC's aim is to reach a unified front. Several directives have been set up to make this possible. Prospectus, Market Abuse and Investment Service Directive (ISD) which were voted on by the European Parliament (EP), will be implemented in each country, with the Committee of European Securities Regulators (CESR) advising on the implementation measures. The EACT (see right) had some experience in the ISD adoption process as it strived to make clear that industrial and commercial companies are not professional clients entitled to a 'minimum information duty' from investment service providers unless they declare so.

When the EACT met with EP members and representatives from national delegations in Brussels, they found it difficult to change important aspects of the proposed regulation/directive after its first draft, unless each of its members could effectively convince EP members in their own country – and particularly the members of the Economic Commission of the Parliament.

As the ISD is adopted, treasurers must ensure that information is consistent and contains fair and sound company risk policies which will require comments to be sent to the CESR. The EACT strived for a sound code of conduct between investment service providers and corporates, as well as the upholding of a duty of information, even for professional clients.

STAKEHOLDERS. Corporate treasurers need to carefully follow what is happening and who the main stakeholders are in Europe (see

Euro-Associations of Corporate Treasurers (EACT)


Pierre Poncet, Chairman of the EACT

The EACT was formally founded as a union of associations in May 2002 after several years of regular meetings between corporate treasurers associations in the euro zone at the time of its introduction. The EACT's objectives are to:

- Develop and strengthen relations with European authorities and institutions;
- share experiences, express common points of views, undertake joint actions in financial and treasury matters as well as develop relationships with financial partners; and
- carry out and publish common surveys and working papers.

The 10 current members are:
AFTE (France), AITI (Italy), ASSET (Spain), ATEB (Belgium), ATEL (Luxembourg), DACT (Netherlands), GEFIU (Germany), IACT (Ireland), OPWZ (Austria), and VDT (Germany).

European institutions & stakeholders


European Cenral Bank, Frankfurt. Photo: Christoph Lison & Claudio Hills

The EU has institutions which define and approve policies and measures (recommendations, directives, and regulations) to be implemented in its member countries. The most important ones from a treasurer's point of view are:

- The European Council, with European government heads and the European Commission Chairman. The European Council generally meets four times a year and defines the broad policy trends.
- The EU Council at ministerial level, nine areas of which, for the treasurer, the important ones are economic and financial questions (Ecofin) and competitiveness (internal market, industry and research). The EU Council has a co-decision role with the European Parliament in many areas and also for the European budget. It co-ordinates the economic policies of its members. Decisions are taken with a simple majority, qualified majority or unanimity. A specific point has to be made about the Euro Group, which up to now has been an informal body made up of the 12 finance ministers whose countries have adopted the euro. The group meets just before Ecofin and has the same objectives. There are plans to increase the group's role and its evolution should be carefully monitored.
- The European Parliament, newly-elected in June 2004, has a co-decision role with the EU Council for laws to be adopted. This co-decision role is the most powerful in the Parliament. For European treasurers' associations, and especially the EACT, it is important to liaise with members of the European Parliament in order to express its views on laws which impact on treasury activity. In particular, this co-decision role applies to internal market regulations, research and development (R&D), education, health, and consumer protection. However, it does not cover agriculture and fiscal matters where the

Decisions are made on majority votes (on a one member, one vote basis) but the EACT strives to reach a consensus. The EACT has commitees for payments harmonisation, the International Accounting Standards, codes of conduct and ISD and they converse mainly via email and at two annual EACT meetings.

The EACT is currently involved in payments harmonisation – New Legal Framework (NLF) consultation; contacts with SWIFT, TWIST; IAS 39 through relations with the European Financial Reporting Advisory Group (EFRAG) and International Accounting Standards Board (IASB) and in co-operation with the Association of Corporate Treasurers (ACT), the STEP project, ISD implementation measures via relations with CESR and ratings agency code of standard practices together with the ACT, the Association of Finance Professionals (AFP) and the International Group of Treasurers Associations (IGTA). When a concern arises, the EACT strives to initiate contact with related European bodies.

In May this year, two years after its conception, the EACT proposed to change its name to the 'European' Association of Corporate Treasurers. It seemed obvious that most of the problems considered are at a European level and not on a euro zone level.

If the related new statutes are adopted in the fall of 2004, then other European treasurers associations could join the EACT if they so wish. This could be the case not only for the ACT, Slovak, Czech and Swedish associations, but also other European associations of corporate treasurers and finance.

below) so they can anticipate the impact they can have on their activities. If they want to be proactive, they need the backing of professional associations. At a European level, it may be better to have a single European body, rather than numerous national treasurers associations descending upon Brussels, Frankfurt or Luxembourg with opposing/similar proposals. Banks are well-organised at the European level and defend their position in a co-ordinated and forceful way. It is up to corporate treasurers and finance managers to be as well-organised and as efficient in presenting their views and opinions in areas related to their profession. This calls for close co-ordination between European treasurer associations.

With the entry of 10 new countries and with more to come, the debate on the European constitution and the timing of currencies joining the euro will make important developments almost impossible to foresee. If Europe grows, it will mean mid-term success for many harmonisation processes and the increased importance of European decisions, compared to national ones. In fact, many flaws in European countries are the result of the implementation of European laws and directives (for example, in France roughly 70% of laws are derived from European directives and regulations). Stakeholders such as banks, consumers, and insurance companies are building up their European base. Corporates are often represented at the sectorial level but less at a transversal level (finance and treasury for instance). It is in this area that the EACT can bring value to.

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Parliament may just give its opinion. The European Parliament approves the nomination of the European Commission Chairman, and expresses a confidence vote to the European Commission whom it can also censure.

- The European Commission is the executive body of the EU and manages its budgetary means. Its members are independent from European governments – the European Parliament alone can censure the Commission – and its decisions are collegial even though each one of its members have specific responsibilities. Of particular interest to the treasurer is the direction of economic and financial affairs and the direction of the internal market. One of its duties is to make sure that European decisions are applied by members and it can open infringement procedures and impose fines. It alone has the initiative right for European laws and takes part in the whole process leading to their final adoption.
- The European Central Bank (ECB), which manages the euro monetary policy and, more specifically, the euro deposit and lending rates (see *Is Central Bank a pillar of strength?*, p26). The central banks of countries which use the euro have lost the power to make decisions on monetary policy. The ECB also has a role in payment systems and is involved in any questions relating to European financial systems and processes, for example, Short Term European Paper (STEP). The European Central Banks System (ECBS) brings together the ECB and all the central banks of the EU. It plays a specific role for EU countries wanting to adopt the euro by, for instance, preparing the decisions on the exchange rate a European currency will be given when it adopts the euro. Before joining the euro, a country which satisfies Maastricht criterias must stay, for at least two years, within the European exchange rate mechanism, where its currency must be traded within a pre-determined range versus the euro (+ and – 15% from a central rate). Very recently, the currencies of Estonia, Lithuania and Slovenia joined the exchange rate mechanism with the following central rates for one euro: 156.466 (Estonia), 239.640 (Lithuania) and 34.528 (Slovenia). This means these three currencies will be able to adopt the euro no earlier than mid-2006. When this date approaches, and providing the decision is confirmed, treasurers dealing with these currencies must closely watch exchange rates movements to 'anticipate' the rate at which the currencies will exchange into euros.
- Two more key European associations of relevance for treasurers are the European Banking Federation (EBF) and the Committee of European Securities Regulators (CESR). Because banks are the 'usual' partners of corporate treasurers, it is important to know that they are active at a European level, especially in a field of basic interest for the treasurer – payments. The CESR is very much involved in implementing measures of most financial European directives (for example, ISD) which have a direct impact on treasurers' activities.