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The Euro

The Vision, The Reality, The Future

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Agenda



- ◆ **The Vision**
 - Key objectives and drivers
 - Euro timelines revisited
 - Key migration issues
- ◆ **The Reality - is the Euro a success?**
 - Macro overview
 - European payment system environment
 - Corporate treasury implications and trends
 - Opportunities to improve corporate treasury functions

Agenda *cont'd*



- ◆ **The Future**
 - How will EMU evolve?
- ◆ **Conclusion**

The Vision



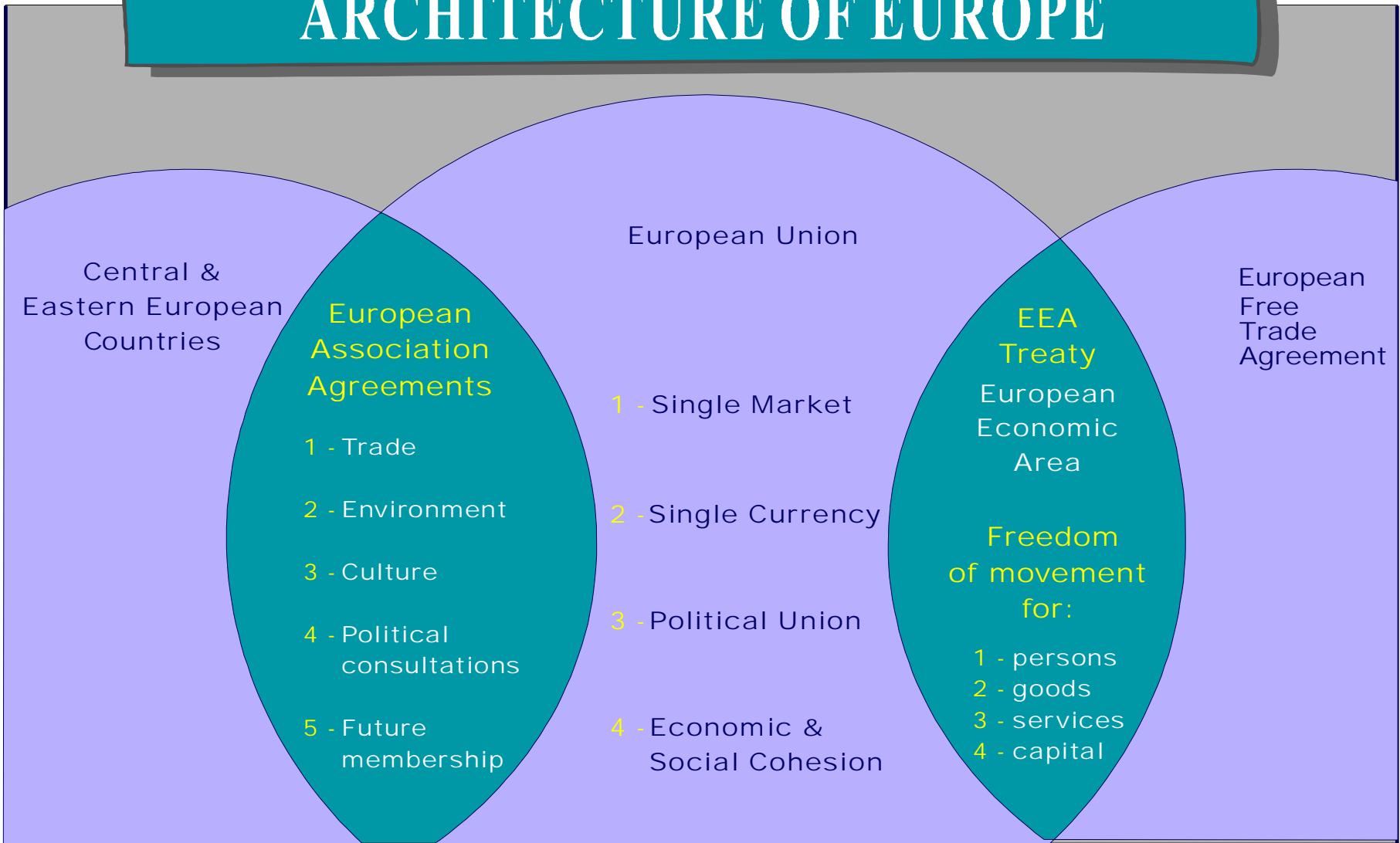
European Monetary Union (EMU): Which Countries ?



Austria
Belgium
Finland
France
Germany
Greece
Ireland
Italy
Luxembourg
Netherlands
Spain
Portugal

EMU is an integral part of a wider political vision of a united Europe

ARCHITECTURE OF EUROPE



Why Europe wanted a single currency: Advantages with EMU and the Euro

- ◆ **Stronger economic growth and employment**
- ◆ **More efficient (huge) single market**
- ◆ **Cuts costs**
- ◆ **International currency = increased stability**
- ◆ **Euro = international currency**
- ◆ **Prospects for more balanced international monetary relations**

Revisiting the EMU Calendar

Move to One Currency in Three Stages

“No compulsion, no prohibition”



2/3 May 1998

1 January 1999

1 January 2002

1 March 2002

Phase A

Transition Phase

Phase C

- Decided which countries join EMU
- Bi-lateral exchange rates pre-announced
- European Central Bank (ECB) established

- Euro-conversion rates fixed
- ECB took over monetary policy
- One euro money market rate



- Euro notes and coins
- Euro and national currency both legal tender
- All contracts and accounts automatically converted

- National currencies cease to be legal tender (timing varied by country)



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Key Migration Issues



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Key Migration Issues

- ◆ **Accounting and Reporting (internal and external)**
- ◆ **Contract conversions (derivatives, bonds, etc.)**
- ◆ **Bank accounts and information**
- ◆ **Treasury systems and procedures**
- ◆ **Pricing and invoicing (ERP systems changes?)**
- ◆ **Dual pricing (mainly at retail POS)**
- ◆ **...and CASH of course...!**

Cash - the big challenge!

5 billion coins and 15 billion notes - was it a big deal?!

- **Logistical challenge**
 - **140,000 ATMs**
 - **4 mln POS terminals**
 - **7 mln vending machines needed recalibration**
- **Psychologically sensitive**
- **Massive information campaign**
- **Money laundering risk**
- **Counterfeiting**



Costs

- ◆ **Total cost of changeover estimated by the ECB between 0.3%-0.8% of euro-area GDP (i.e. E20-50 bln)**
 - Probably on the low side and only accounting for direct costs
- ◆ **Costs borne by public sector and private sector roughly 50/50**
- ◆ **Costs are assumed where they arise - no government subsidies**
 - Thus the banking sector has absorbed a major portion of changeover costs

The Reality



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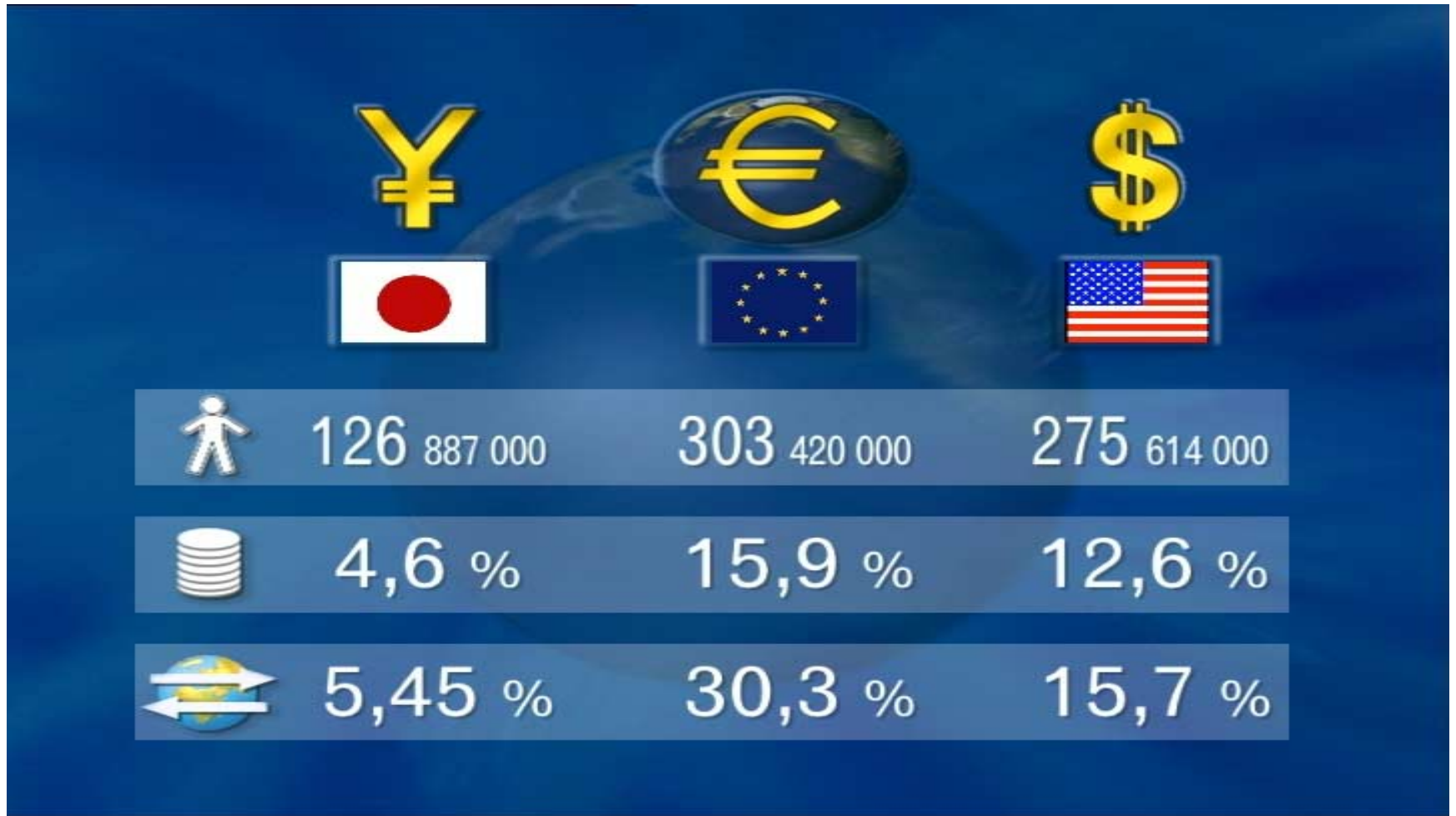
Is the EMU really one market?

	USA	EMU
ONE Currency	✓	✓
ONE Financial Market	✓	✓
ONE Jurisdiction	✓	X
ONE Payments Infrastructure	✓	X

Market Environment

- ◆ **Price transparency with EUR increases competitive pressure**
- ◆ **Harmonization (but slow on taxes)**
- ◆ **Growth of cross-border transactions**
- ◆ **Cost pressure and consolidation in payments industry**
- ◆ **Ongoing centralization of corporate treasury & cash management activities**
- ◆ **Pressure from Regulators to make the euro market efficient**
 - **EU Regulation on Cross-Border Transfers passed Dec 2001**

Macro Overview



Source: The European Commission

Debt Capital Markets

- ◆ **Record volumes and bigger deals in 2001**
- ◆ **Initially few issuers with jumbo deals, mainly auto and telecoms**
- ◆ **New issuers added to diversification**
- ◆ **Euro-denominated global debt totaled \$ 1.7 trln by end 2001**
- ◆ **US issuers accounted only for 168 bln**

Source: Thomson Financial Sec. Data

Equity Capital Markets

- ◆ **Consolidation ongoing**
 - Euronext: marketplace incl. Paris, Amsterdam, Brussels, Lisbon and LIFFE
 - Still 10 separate national exchanges
- ◆ **Harmonization of regulations and legislation**
 - The EC is aiming for a “single prospectus”

Stock Exchanges 2001

	Volume (\$ trlns)	No of Listings
London Stock Exchange	4.7	2,262
Euronext	3.2	1,539
Deutsche Borse	1.5	984
Nasdaq	10.9	4,152
NYSE	10.4	2,797

Source: The Exchanges

The European Payment System Environment



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Forces changing the clearing infrastructure in Europe

- ◆ **The “Regulators” - The EU Commission**
- ◆ **The Heathrow Group**
- ◆ **European Committee for Banking Standards**
 - The IBAN mandated 2001
- ◆ **SWIFT developments**

Europe Payment Infrastructure and Standards

- ◆ **High value domestic and cross border routes**
 - **TARGET (European Central Bank (ECB) , Real Time Gross Settlement (RTGS) and local RTGS systems linked to TARGET (e.g. ELS-Germany, TOP-Netherlands, TBF-France)**
 - **Local non-RTGS (end of day settlement) (e.g. EAF-Germany, SNP-France)**
 - **EBA/EURO1 non-RTGS (end of day settlement)**
 - **Correspondent banks**
 - **Network banks with in-country clearing links**

Europe Payment Infrastructure and Standards

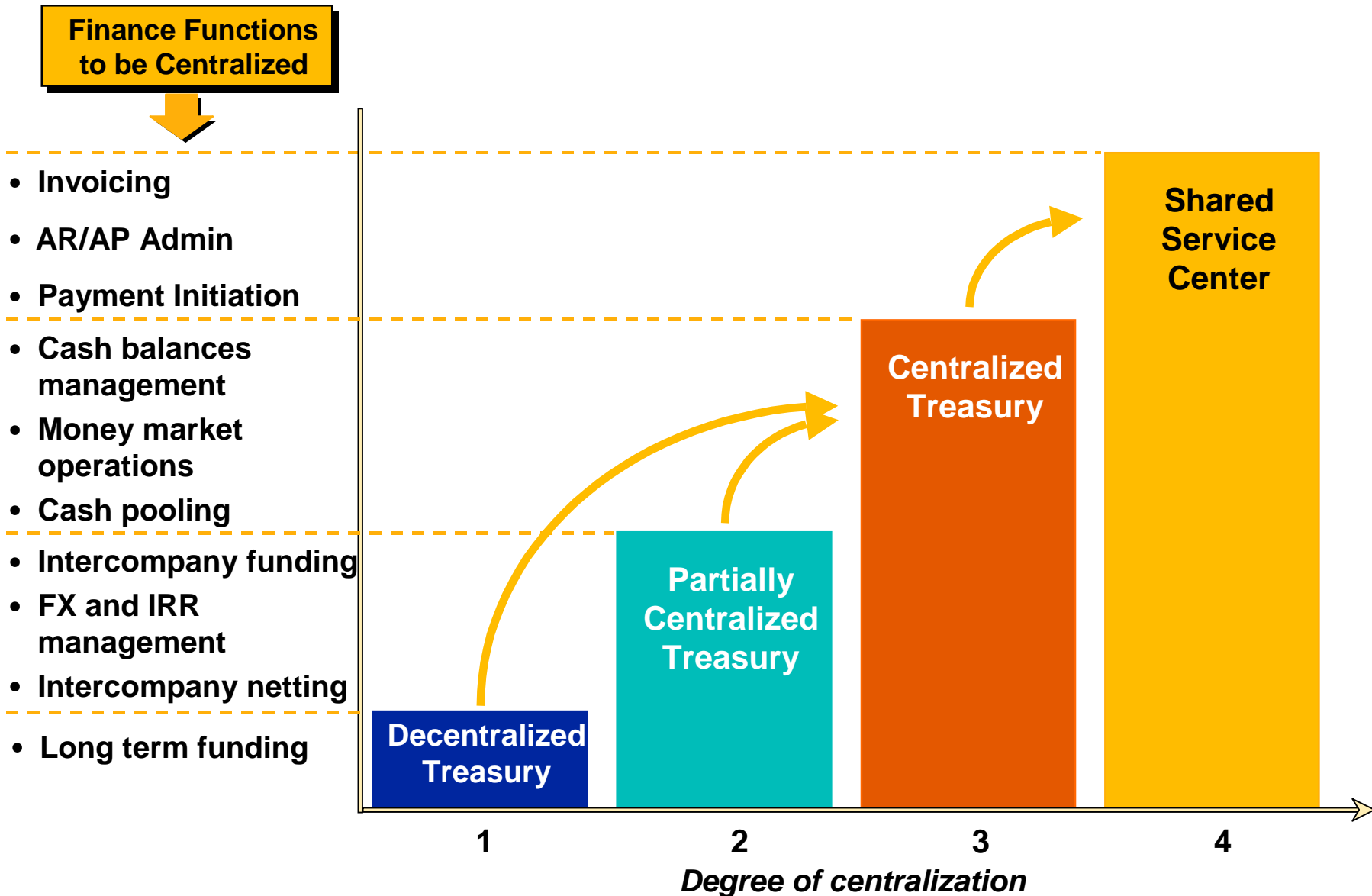
- ◆ **Low value domestic electronic payments (ACH)**
 - Generally efficient but no common system or format in place - tentative plans via STEP 1/2 for pan European ACH but no clear timetable. WATCH initiative is collapsing.
 - No link between the countries
- ◆ **Paper based payments**
 - No Europe wide system planned.
 - Volumes generally low compared with US and declining. Certain countries still use cheques relatively extensively - UK, France, Spain

Europe Payment Infrastructure and Standards - New Developments

- ◆ **NewCHAPS**
- ◆ **RTGSplus (Germany)**
- ◆ **STEP1 (EBA low value cross-border)**
- ◆ **CLS/CLSB**
- ◆ **WATCH (global ACH) - in decline**
- ◆ **SWIFT (New releases e.g. MT103/MT102-3+)**
- ◆ **IBAN (ECBS)**
- ◆ **Trading, clearing and settlement systems**
 - consolidation of trading platforms

The Reality - Treasury Implications and Trends

Levels for Centralizing Treasury and Cash Management Services



Euro - the Catalyst for Centralization

Centralizing	
Transaction Processing	Liquidity Management
<ul style="list-style-type: none">• Improving efficiency by linking general ledger and bank infrastructure• Business process re-engineering• Local entities focus on core business growth• Overall cost reductions	<ul style="list-style-type: none">• Better insight into treasury positions• Improved use of corporate cash• Improved forecasting• Interest optimization• Rationalize banking relationships

Technology - the enabler

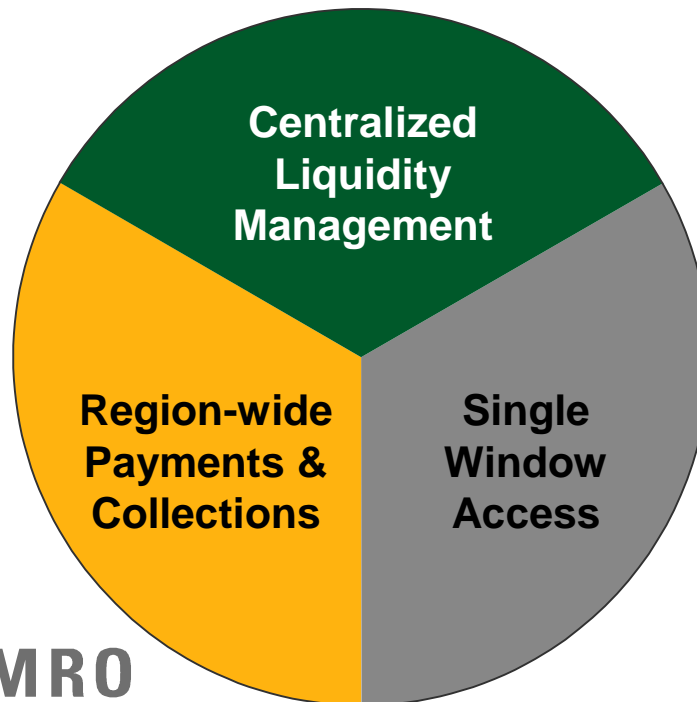


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Benefits of a Full Regional Eurozone Bank Structure

- Centralized MM funding/investments
- Improved balance sheet
- Better forecasting
- Improved working capital management

- Minimized transaction costs
- Clarity on bank fees
- Reduced volume of cross-border flows
- Transaction execution at the right time
- Straight through processing



- Single electronic banking platform
- Consistent service levels
- Smooth account opening and implementation

Opportunities to Improve Treasury Functions

Opportunities to Improve Treasury

Strategic:

- ◆ **Create single region (global?) business model**
- ◆ **Centralize cash management and create working capital saving opportunities**
- ◆ **Obtain real time financial overview of European business (Treasury integration & e-Treasury)**
- ◆ **Use depth and breadth of EUR debt capital market for investment and funding**
- ◆ **Risk management / hedging**
 - refocus from fx to interest rate hedging

Opportunities to Improve Treasury

Tactical:

- ◆ **Consolidate banking partners to:**
 - rationalize bank accounts
 - cut costs and leverage bargaining power
 - streamline service levels
- ◆ **Review critical mass for:**
 - consolidating treasury/EB infrastructure
 - establishing Shared Service Centre
 - ...or, consider outsourcing

Early starters have paved the way and best practices have been established. Most companies are still running its treasury functions very decentralized however.

The Potential

Best practice companies integrate the Euro transition with other re-engineering efforts to:

- ***Realize maximum efficiencies***
- ***Gain competitive advantage***

Summary of Key Trends in Europe

- ◆ Companies not realizing the full benefits of the euro
- ◆ Tax and regulatory issues require more attention than expected
- ◆ Most structures are still liquidity driven
- ◆ Companies focusing on streamlining transactions
 - First step - transfer local transactions to a regional European bank
 - Second step - centralize transaction processing within the company
- ◆ Companies expand cash management structures into central and eastern Europe

Market Trends - Central & Eastern Europe

- ◆ **Countries deregulating to align with EU membership criteria**
- ◆ **Advantages of integrating CEE in West-European solutions still limited due to restrictions**
- ◆ **Corporates moving towards regional treasury management**
 - **Regional solutions can provide competitive edge**
 - **Benefits from standardisation across countries (pricing, services, transaction initiation)**
 - **Cross-border pooling remains difficult due to restrictions**

The Future



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Europe in the 21st century



- **Negotiations with 13 applicant countries has begun**
- **Expansion will support free trade**
- **Door remains open: any European country can apply to become a member of the Union**



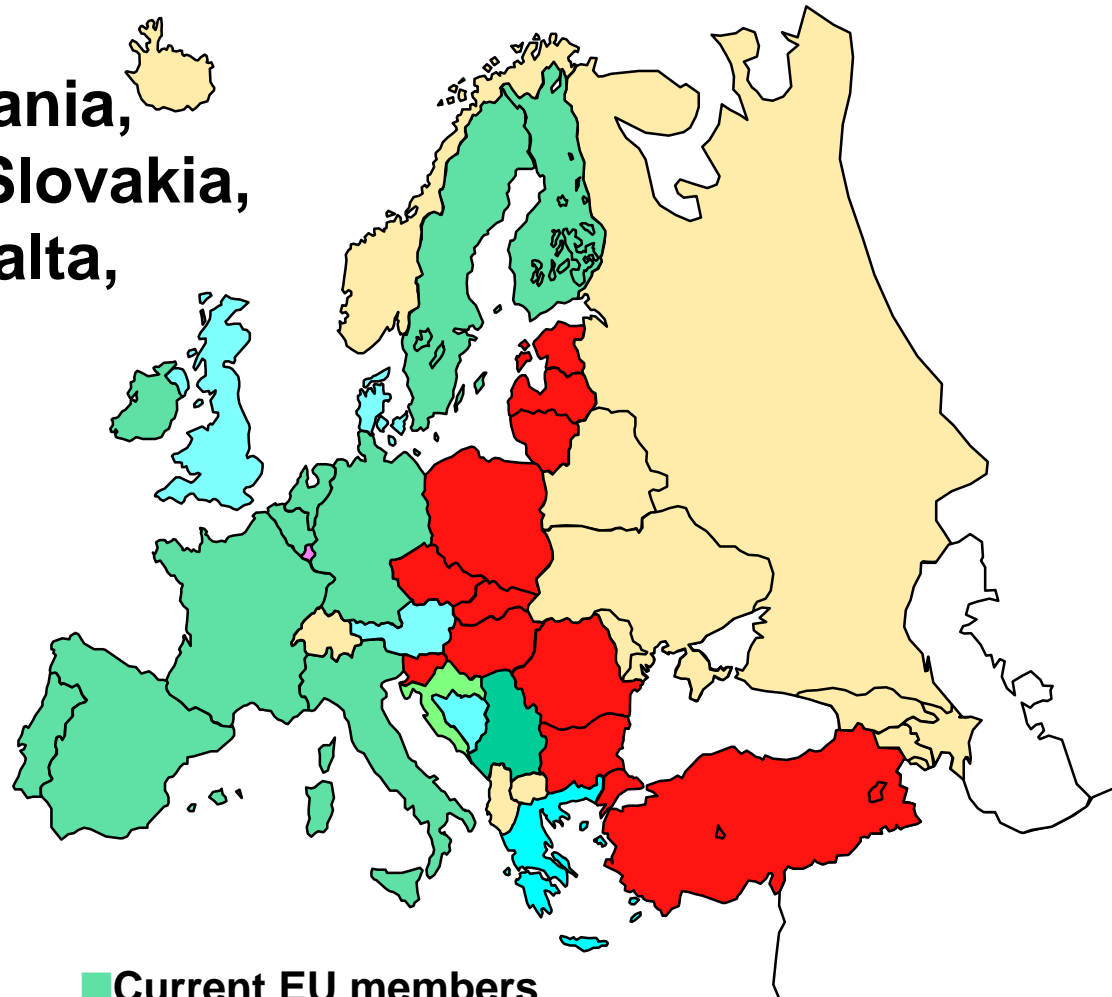
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Applicant Countries

**Estonia, Latvia, Lithuania,
Poland, Czech Rep., Slovakia,
Hungary, Slovenia, Malta,
Cyprus**

Bulgaria, Romania

Turkey



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■ Current EU members
■ Applicant countries

New EMU Members

- **Joining EU does not mean joining the euro!**
- **Adoption of common currency in stages must meet:**
 - **Overall economic criteria of EU (current, pre-accession stage)**
 - **EMU convergence criteria including ERM II participation after accession**
- **First wave of accessions prepared for 2004**
- **Not pre-determined which countries but may be 6 and up to 10**
- **Bulgaria and Romania target later date (2007)**
- **Turkey currently far behind**

Conclusion: The Euro = opportunities for treasury operations

- ◆ **Increased centralization of local cash and liquidity management as tools continue to improve**
 - treasury management systems, bank services, straight-through processing via the web, etc.
- ◆ **Global liquidity management**
- ◆ **Transformation of commercial flows**
- ◆ **Further rationalization of bank relationships**

Treasury's role continues to evolve from transaction processing to strategic center of excellence.

Questions?



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