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BIOMERIEUX has implemented a fully centralised treasury operation based at corporate headquarters near Lyon at Marcy l'Etoile, in the Rhone valley of south-central France.



How bioMerieux Central Treasury Meets International Regulatory Compliance Demands.

About BIOMERIEUX centrale treasury

Our treasury department supports a global network of subsidiaries, involved in the production and distribution of in vitro diagnostic solutions. As a European company, we have naturally needed to take all necessary steps to comply with the emerging demands of EMIR, the European Market Infrastructure Regulation; EMIR imposes complex reporting and operating requirements, essentially relating to hedging with derivative instruments. Additionally, the fact that we operate United States based subsidiary companies means that we carry the additional regulatory obligation of complying with the Dodd-Frank Act, as it applies to hedging with over-the-counter derivatives. In both cases, we quickly determined that compliance would substantially increase demands imposed on treasury's risk management and operational practices. Over and above this, we naturally need to comply with IFRS 13.

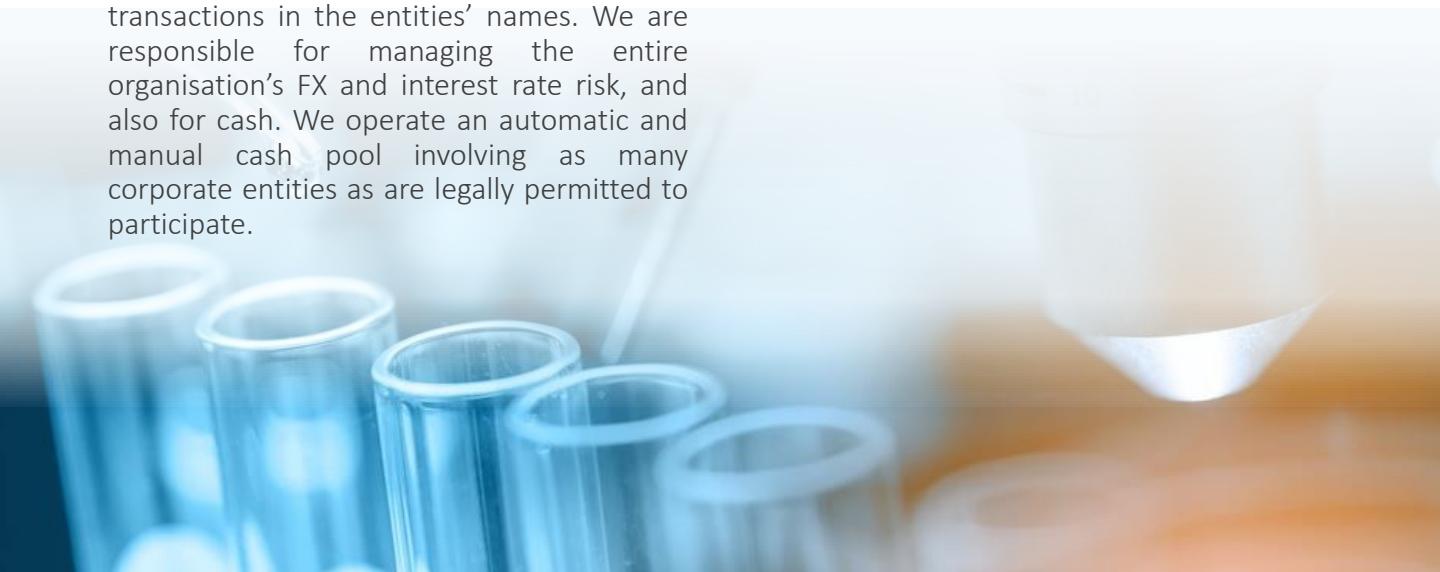
The bioMerieux treasury team is comprised of three executives: our senior director financing and treasury, our cash manager and me – our international treasurer. Our centralised organisation means that we manage the cash and financial risks for all the bioMerieux corporate entities; this includes entering into financial market transactions in the entities' names. We are responsible for managing the entire organisation's FX and interest rate risk, and also for cash. We operate an automatic and manual cash pool involving as many corporate entities as are legally permitted to participate.

These entities communicate their cash forecasts via e-mail for execution by the central treasury team.

For those entities that are required to stay outside the cash pool (such as those in Asia and South America), we provide any necessary financing through inter-company loans, when we are legally permitted to do so. When that is not possible, these entities manage a local credit facility with the approval of the central treasury.

It was clear that meeting the new requirements of Dodd-Frank and EMIR required powerful treasury management system support, so we decided to implement this new process with our TMS partner, 3V Finance, using their TITAN system to provide the necessary technology, for central position management and analysis, and for regulatory reporting.

The size of our treasury team and the complexity of our operations dictate that we need a high degree of end-to-end process automation to support our daily and periodic operational, compliance, analytical and reporting activities. In the case of bioMerieux, this required tight and dependable integration between the TITAN treasury management system, our cash management solution Kyriba, and our electronic dealing platform, FXall.



The Management of the FX Hedging Process

The exposures that we are charged with hedging are defined in the position reports that are generated by the treasury management system. On a regular basis, the subsidiaries have to communicate the possible gaps between the budget and the actual exposures. The positions and the notified flows provide us with the necessary basis to plan and execute a strategy to hedge the risk exposures over the required time periods.

Our total annual transaction volume is about 3,000 FX deals, comprised of spots, forwards, NDFs (non-deliverable forwards), swaps and options. All trades are originally set up in the treasury management system, which applies internal rules so that they can be validated against treasury policy.

About 70% of our foreign exchange transactions are performed through the FXall dealing platform. The required trades are executed in FXall, in a process that assures us of best price execution with our authorised bank counterparties who have sufficient limit availability to accommodate the deal in question. The FXall transaction is then taken up by their settlements centre, which confirms each transaction with the bank counterparty, and subsequently matches this record against the confirmation communicated to them by the bank. Any errors are detected by the FXall settlements centre team, who inform us. We contact the bank in question to research and resolve the situation. This provides a very robust workflow that provides high levels of audit assurance of the accuracy and integrity of our FX dealing process.

The remaining 30% of the dealing volume comprises some kinds of NDFs and all FX options, and these transactions are executed manually via telephone dealing; they are then entered into the treasury management system to update our FX exposure position. The validations of each deal are transmitted from the FXall settlements centre to TITAN. These manual deals are subjected to a different set of internal rules than are used in the automated workflow. In this way, we have implemented a process that ensures that the manual deals are as rigorously and transparently controlled as those that are managed in the automated workflow.

Confirmation management is an important challenge for bioMerieux to be Dodd-Franck and EMIR compliant.

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About 70% of our foreign exchange transactions are performed through the FXall dealing platform.



For Dodd-Frank it is mandatory to have completed the confirmation management process within 24 hours of the execution of an FX hedge – and the emerging EMIR requirements are, arguably, heavier than Dodd-Frank for bioMerieux.

"Our integrated TMS-dealing platform solution has enabled us to achieve compliance through demonstrably complete reconciliation between the counterparty bank and the platform within the required 24-hour period."

At the completion of the confirmation process, we have a file of validated and match-confirmed FX hedging transactions in our treasury management system. This is used to update the position for subsequent risk management analysis and reporting.

This information also drives an export to our cash management system, which creates and executes the wire payments needed to settle the FX deals in a timely fashion.

"3V Finance additionally generates the necessary journal entries for export and posting to the corporate ERP system, SAP."

Interest Rate Risk Management

Our treasury's activities in managing interest rate risk naturally overlap with some of the requirements for compliance with EMIR and also of course IFRS 13. At bioMerieux, we use our treasury management system to fulfil the necessary administrative, risk analysis and reporting requirements. Our medium term debt is represented by a 7-year bond issue (naturally denominated in euros) that is hedged by derivatives.

The Current Compliance Position at bioMerieux and Beyond

Our deadline for achieving EMIR compliance is 14th February 2014; this will move us on to a higher level of compliance. At the second stage, corporates subject to EMIR will need to be able to report mark-to-market revaluations on a transaction by transaction basis. The3V Finance development team is presently completing the necessary work on the TITAN system to finalise this, in accordance with the emerging understanding of the detailed compliance requirements.



Arguably, EMIR presents greater challenges than Dodd-Frank, especially in the detailed interpretation of the mark-to-market requirements for some derivative transactions as they are to be applied to corporates.

This lack of clarity obviously makes life more difficult for those who are striving to achieve EMIR compliance, and for the technologists who are designing and delivering the necessarily complex solutions. In order to improve our understanding, we participate in an EMIR compliance discussion meeting that has been organised by AFTE ('Association Francaise des Tresoriers d'Enterprise' – the French association of corporate treasurers).

We believe that this will not only help us to improve our own level of understanding, it will also support our technology partners' efforts to complete an effective solution.

The AFTE discussion group extends its agenda to issues related to Dodd-Frank and IFRS 13 compliance.
We are confident that its activities will continue to help us – and our corporate peers – to work effectively with the regulator, the ECB (European Central Bank) to finalise the details of EMIR compliance.

Having successfully passed the Dodd-Frank compliance deadline, we can say that this important part of our project is complete.

Conclusion

We are in the very last stages of a multi-phase project that is enabling us to comply with a daunting set of international financial regulations. The complexities of maintaining up-to-date treasury records, of servicing our subsidiaries' treasury and cash management requirements, of processing a range FX and interest rate deals, of performing effective risk analysis, of generating the required operational and management reporting, and of complying with the procedural demands of current regulation have together required the delivery and operation of strong and effective technology support for success.
Our participation in the AFTE meeting has helped significantly in clarifying our understanding, and in enabling us to work with our technology vendors to complete solutions that really meet the complex demands of regulatory compliance.

