Globalizing your treasury operation

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What's different about 'global' treasury?

New business culture

- New people
- More languages, time zones

Cash and Liquidity

- Cash mobility
- Borrowing and investing

Financial Controls

- Fraud prevention
- Policies and procedures

Treasury Structures

- Netting / Cash pooling
- Bank optimization

Risk Management

- FX volatility
- Counterparty risk

Going global – where to start?

Treasury Structures

Global Visibility & Payments

Cash & Liquidity Structures

Risk Management

Policies, Procedures, and Control

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Treasury Structure

- Structure of the treasury team may change – organically or by design
  - Representation in local markets
  - Time zone and language support
  - Shared services

- Especially if team is decentralized, important to consider:
  - Centralized visibility and control over treasury ops
  - Standardized policies/procedures
  - Central technology platforms (TMS, file sharing)

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Global Visibility

How to obtain global visibility

1) Connect to all of my banks via:
   - Banking partner
   - SWIFT (directly)
   - SWIFT (via service bureau)
   - Direct connections to banks
   - Country protocols (e.g. EBICS, Zengin)

Tip: usually a combination is best to reduce total cost of ownership

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Global Visibility

How to obtain global visibility

2) Develop global cash forecast:
   - Identify the right people (e.g. regional controllers)
   - Apply appropriate models (e.g. extrapolate historical flows)
   - Analyze variances and implement feedback loop to improve

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Global Visibility

<u>Use visibility to make better decisions</u>

3) Visibility allows you to answer:
   - Do I have too few or too many banks?
   - Do I have too few or too many bank accounts?
   - Am I able to mobilize cash efficiently?
   - Am I educated on the tax implications and local regulations in each region (e.g. is notional pooling permitted?)

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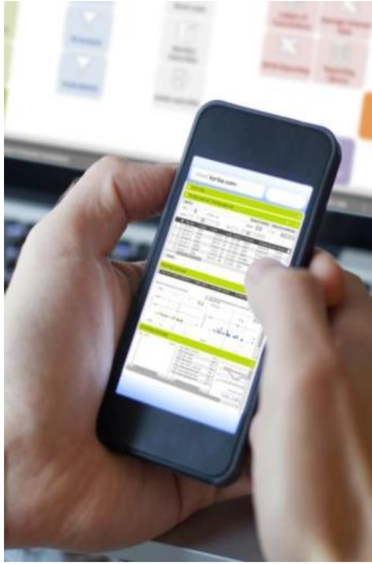
International Payments

- Three options for paying internationally:
  1) International wire (w/ spot trade or bank managed exchange)
  2) Local bank payment (from a local cash pool)
  3) Non-bank payment (outsourced, blockchain, peer-to-peer, etc.)



As global activity increases, increased need to move away from international wires

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International Payments – Shared Services

- As payment activity increases, establishing shared services center becomes more attractive
  - Payments-on-behalf-of (POBO) is a common model in SSCs
  - SSC operates a payment factory, centralizing all outgoing corporate payments
  - Requires intercompany transactions to be made on the back of each payment
  - Demands flexible bank connectivity

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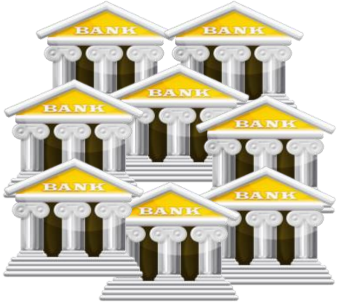
Bank Account Management

Effective BAM practices ↑ in importance when global

1) FBAR
   - Required to track US signers/approvers from 2010 – present
2) Fraud prevention
   - Without visibility and control over accounts… bad things can happen



3) Bank (and bank fee) optimization
   - Need visibility to know cost vs. use of accounts and relationships to make best keep/close decisions

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Global Cash Pooling

- Globally, need physical (rather than notional) cash pooling
  - Notional pooling permitted only in certain regions (e.g. Europe)
  - Unlikely to use same bank across all pooling regions
- Often separate pools by region – rolling up to one global pool
  - Common to have North America, Europe, Asia
  - China and India tend to be carve outs due to local regulation
- Demand for cash mobility (and tax) will determine balances kept within each pool vs. swept “home”

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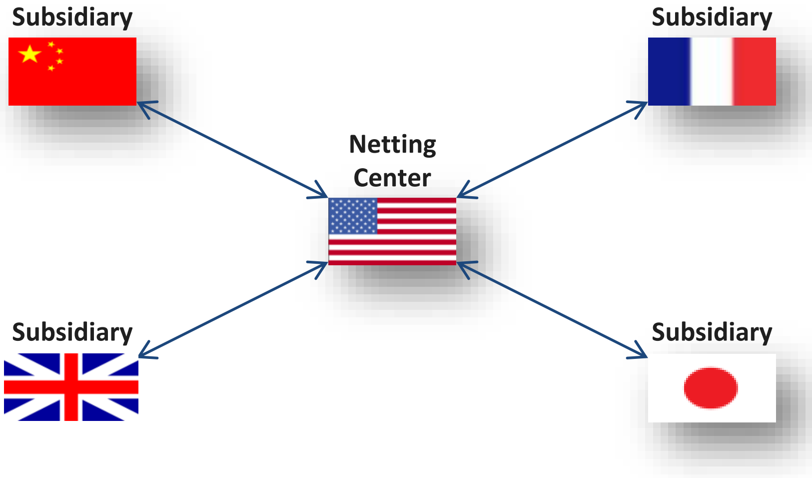
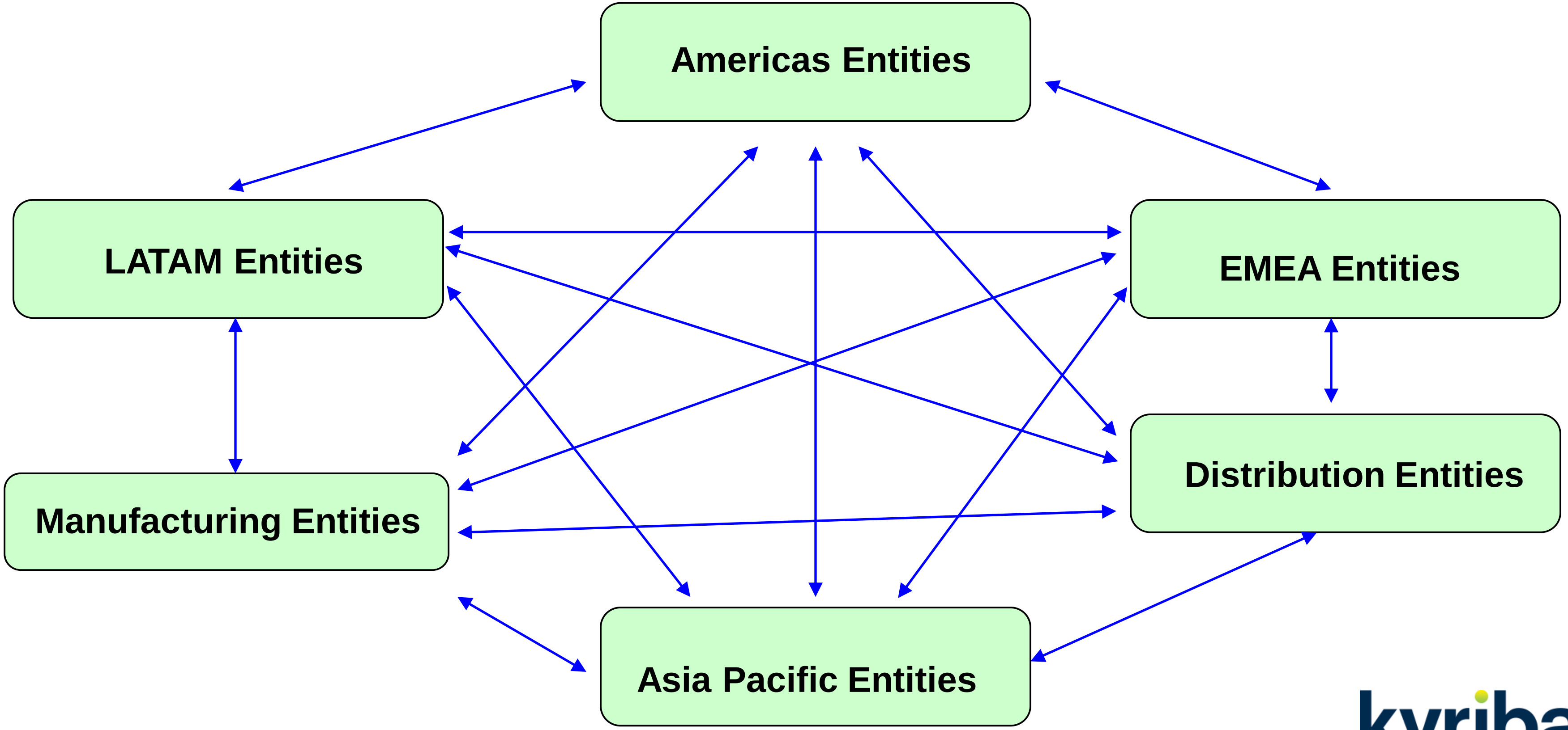
Multi-lateral Netting

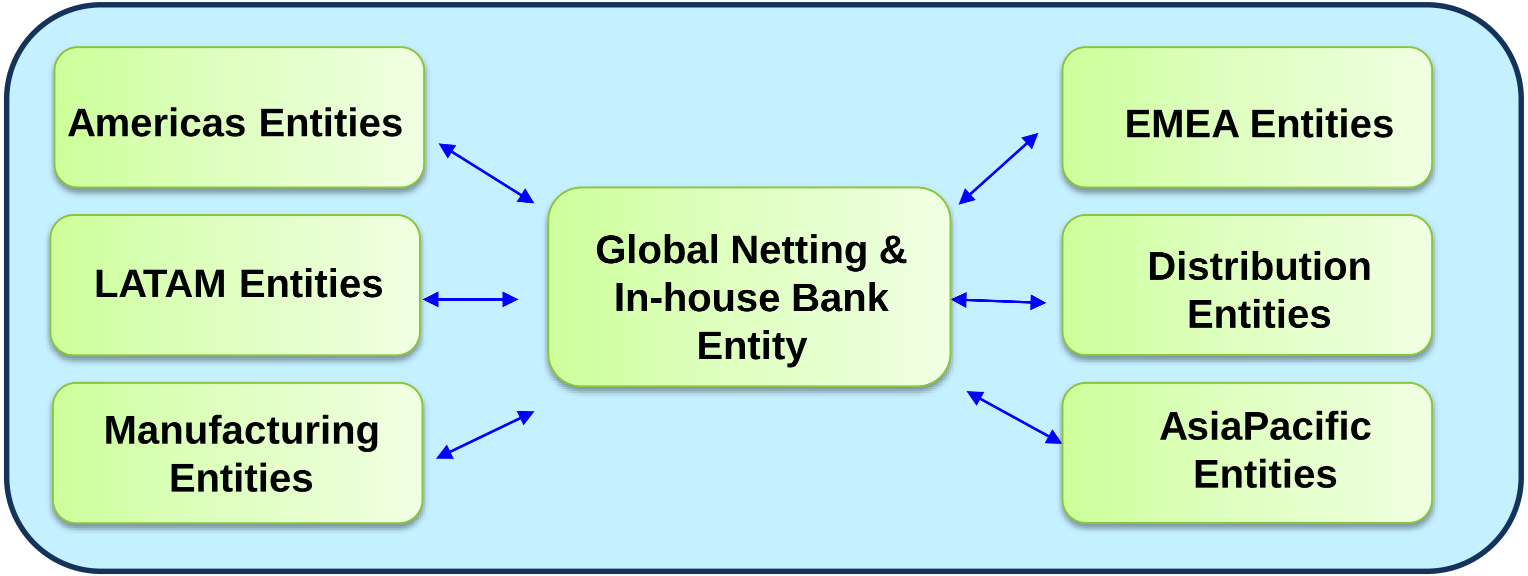
- Multi-lateral netting = to determine net currency positions for each subsidiary
- Can be internal and/or external
- FX typically at netting center
- Benefits:
  - Minimize payments
  - Reduce FX transactions
  - Eliminate transaction costs



Multi-lateral Netting (without automation)



Multi-lateral Netting (with automation)



- Reduce time, cost and errors in timely settlement of interco invoices
- Consolidate and hedge FX Exposures
- Optimize global cash balances at regional treasury centers

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Risk Management

Globalization = many new risks

- **People Risk –** finding/retaining talent
- **Regulatory Risk –** new compliance required
- **Financial Risk** – Currency and Liquidity Risk
- **Liquidity Risk –** optimizing cash balances and mobilizing liquidity
- **Counterparty Risk** – new banks, new suppliers, new customers
- **Sovereign Risk** – new countries offer new risk profiles

Regulatory Changes

- The moment we leave the USA…more regulations!
  - EMIR
  - SEPA
  - FBAR
  - FATCA
  - FTT
  - BEPS
  - BASEL III
  - Country-specific (e.g. China)

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Regulatory Changes

Regulation	Description
IFRS 7/9/13	The IFRS versions of FAS133 and 157. Risk Management compliance for Valuations, Hedge Accounting, and Credit Risk.
EMIR (Europe)	Trade reporting and transparency where financial trades must be documented and reported to a 'trade repository'
MMF Reform	Introduces Floating Net Asset Value for certain types of funds along with potential redemption fees and redemption gates
FBAR (US)	IRS resolution for Foreign Bank Account Reporting. Must report US signatories/approvers and max balances for all non-US accounts (compliance 2016 but reporting period = 2010-present)
BASEL III	Regulates bank's capital structure, including composition of balance sheets. Very high indirect effect on corporates, especially for interest earned on deposits and borrowing costs
FTT (Europe)	Financial Transaction Tax. Requirement to pay increased taxes on all financial transactions (applies to only largest tier of corporates)

Risk Management

Currency Risk – "decisions to be made"

- Balance sheet and/or Cash Flow Hedging?
- Hedging policy – time horizon, % of exposures, types of instruments?
- Hedging centrally or locally? (combine with Cash Pooling and/or Netting)
- Hedge accounting or not hedge accounting??

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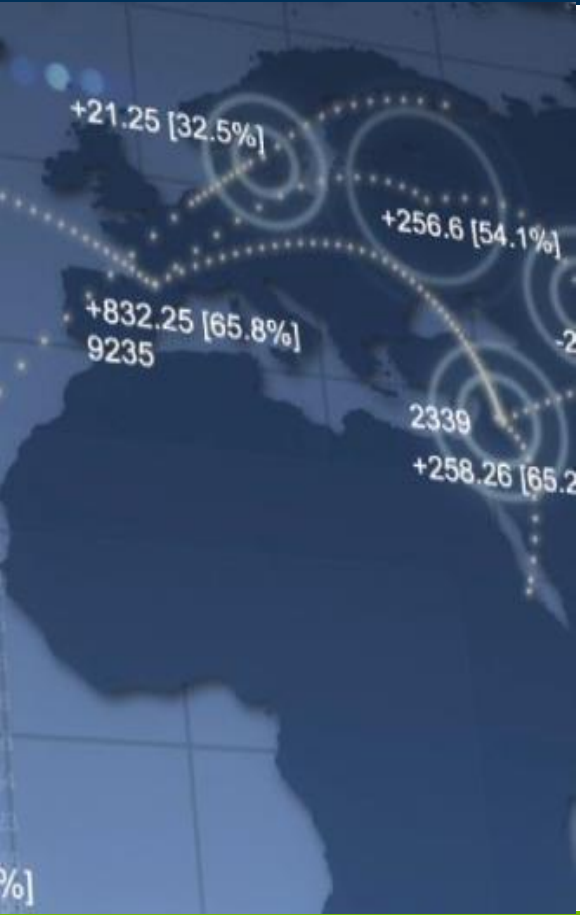

Liquidity Risk – Optimizing Cash

- Need to balance: maintaining liquidity for each region vs. consolidating for centralized use
- Strong cash forecasting will help “end the argument”
- Repatriation of cash: need to prepare for cash balances allocated to corporate actions (dividends, repurchase, acquisitions)

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Risk Management

Counterparty Risk – Financing Suppliers

- Globalization = more unknowns & risk in value chain (suppliers and customers)
- Potential to leverage balance sheet to finance suppliers
  - Direct = Using your own cash for invoice discounting
  - Indirect = Leveraging bank relationships for Supply Chain Finance
- Vice versa possible: can finance customers too

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Risk Management

Sovereign Risk – e.g. Treasury in China

- Recent (de) regulation improves cash mobility to/from China
  - Easier to invest in China subsidiaries
  - Easier repatriation of RMB surpluses
  - Can include China subs as part of multi-lateral netting program
  - China subs can participate in shared services POBO/COBO structure
- Introduction of CIPS improves ability to invoice in RMB

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Policies, Procedures and Controls

- **Must update (or create!) treasury policies, operational controls and KPI reporting for the Global Organization**
  - Lack of standardization = opportunity for mistakes or fraud
  - Lack of visibility = unable to make effective decisions
  - Difficult to grow with business – risk falling behind if not efficient or scalable

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Policies, Procedures and Controls

- **Must update (or create!) treasury policies, operational controls and KPI reporting for the Global Organization**

  <u>Examples</u>

  – **Bank Accounts** – not aligning signatories to HR systems; differing sunset procedure frequency

  – **Payments** – using email and bank portals in Asia vs. a TMS in USA

  – **Hedging** – not specifying multiple bid tracking in local regions

Summary: Considerations for a global treasury

- **Treasury structure**
  - Centralized, regionalized, decentralized
  - Accommodation for timezones and languages
  - Appropriate staffing
- **Regional differences**
  - Business model, supply chain and liquidity needs
  - Banking regulations & Tax implications
- **Risk Management**
  - FX Program to manage currency risk
  - Business continuity plans
  - Liquidity risk – different solutions than domestically
- **Visibility**
  - Balancing need for visibility with cost for bank connectivity
  - Forecast effectively to optimize cash balances per region

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Questions?

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