



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



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

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

Global Visibility



Use visibility to make better decisions

3) Visibility allows you to answer:

- Do I have too few or too many banks and/or bank accounts?
- Am I able to mobilize cash efficiently?
- Am I educated on the tax implications and local regulations in each region
 - e.g. does VAT apply to my cash pools?

International Payments

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



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

International Payments – Shared Services

- As payment activity increases, establishing a shared services center (SSC) 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
 - Need to consider tax implications (e.g. Sec 385)



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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

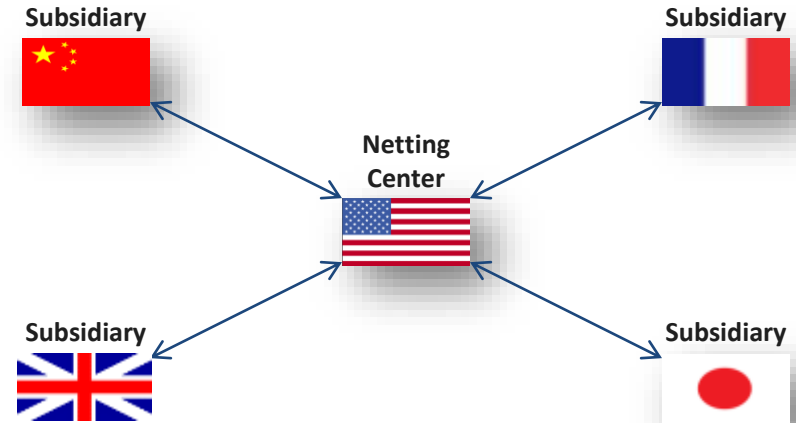


Global Cash Pooling

- 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
 - Regulatory influences increase complexity (e.g. Sec 385)
 - China and India tend to be carve outs due to local regulation
- Demand for cash mobility (and tax) often determines balances kept within each pool vs. swept “home”

Multilateral Netting

- Multilateral 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



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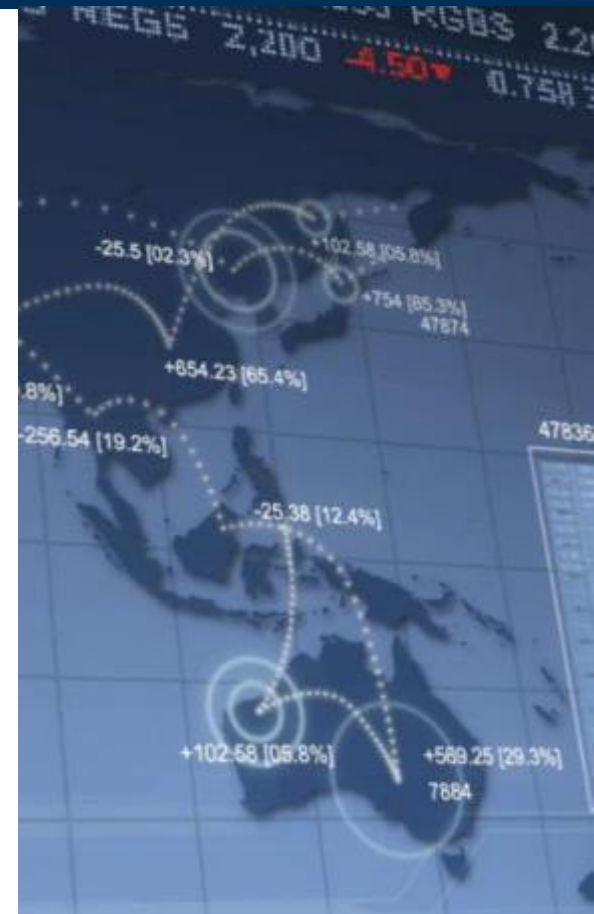
Policies,
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Risk Management

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
 - FBAR
 - FATCA
 - FTT
 - BEPS
 - Section 385
 - BASEL III
 - Country-specific (e.g. China)



Regulatory Changes

<u>Regulation</u>	<u>Description</u>
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'
Section 385	IRS proposed update to tax code that may classifies certain intercompany transactions as equity rather than debt
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 <u>indirect</u> 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)



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??

Risk Management



Liquidity Risk – Optimizing Cash

- Need to balance: maintaining liquidity for each region vs. consolidating centrally
- Strong cash forecasting will help “end the argument”
- Repatriation of cash: need to prepare for cash balances allocated to corporate actions (dividends, repurchase, acquisitions)
- Must understand Sec 385 implications

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



Sovereign Risk – e.g. Treasury in China

- Recent (de) regulation improves *potential* 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

Policies, Procedures and Controls



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

Examples

- **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
- **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





Questions?

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