
Implementing a Regional Treasury Structure

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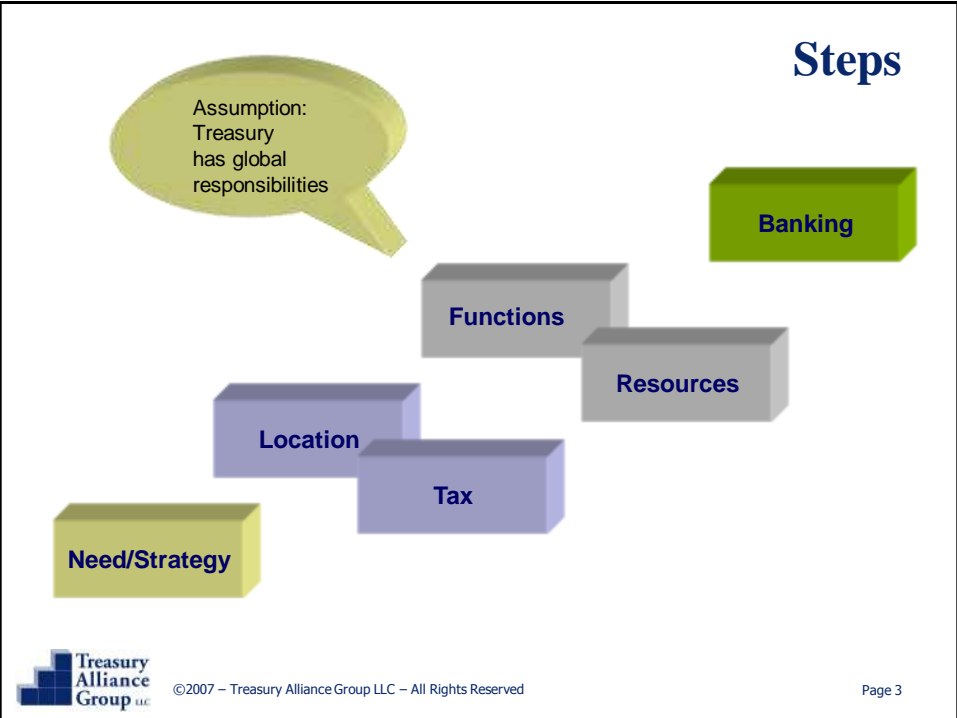
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Objectives

- Address reasons for considering a regional treasury
- Discuss internal and external considerations in setting up a regional treasury
- Review practical, commercial, banking and regulatory issues in specific regions
- Outline specific implementation steps





What is a Regional Treasury?

- Centralizing function in a key country within a region
 - Reports on a direct or dotted line basis to Corporate Treasury
- Part of financial management at a regional headquarters
 - Reports on a dotted line basis to Corporate Treasury
- Treasury Center or SPV
 - Tax driven
- Treasury within a Shared Service Center
 - Accounting driven
- Outsourced
 - Bank or 3rd party in region handles treasury

Issues

- | | |
|---|--|
| <ul style="list-style-type: none">• Internal<ul style="list-style-type: none">– Operational need– Cost/benefit– Tax<ul style="list-style-type: none">• US• Local– Staffing/reporting<ul style="list-style-type: none">• Politics– Systems<ul style="list-style-type: none">• ERP• Treasury | <ul style="list-style-type: none">• External<ul style="list-style-type: none">– Commercial/regulatory– Location/costs<ul style="list-style-type: none">• Resources– Tax<ul style="list-style-type: none">• Local• Treaty network– Banking<ul style="list-style-type: none">• Clearing• Local vs. foreign banks |
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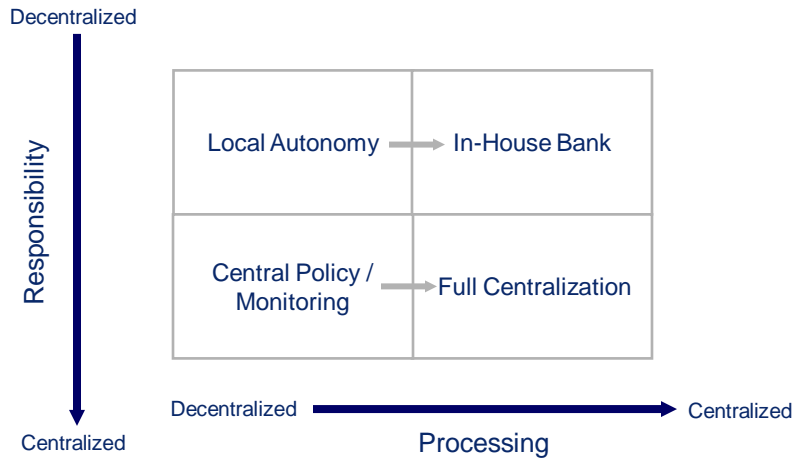
Questions to Ask

- How decentralized are the business units?
- Business unit structure
 - Branch vs. subs
 - Distributors
 - Regional centers
- Are there regional centers in place for business/product management?
- How are operations funded?
- Who "owns" the cash?
 - Who makes decisions about opening/closing of bank accounts?
- Management
 - Reporting lines
 - Performance evaluation
- Tax considerations
 - US tax situation
 - Management of liquidity - jurisdictional issues
 - Withholding tax
 - Deemed dividends
- What type of financial/cash reporting does treasury have now?
 - Global view of cash?
 - Frequency?
- Is there an ERP system in place
 - Are there plans to implement?

Determine Need

- Multiple operating entities in a geographic region
 - Planned expansion – growth in sales and manufacturing
 - Acquisitions of new businesses, distributors or joint ventures
- Annualized forecasted revenues in region of \geq \$200,000
- Existing regional operational/financial management in place
- Geographic distance and complexity making effective global liquidity management difficult
 - Limited resources at corporate treasury

Determine Strategy



Determine Structure

- What do you manage locally, regionally, centrally?
 - Complement organization
 - Retain flexibility
- Liquidity management is key
 - Meets local working capital requirements
 - Provides oversight and control
- Profit-based or cost-based?
 - Business and tax driven

Build the Business Case

- Collect data relevant to your strategy and structure
 - Transactions – amounts and volumes
 - Banking costs
 - Cash levels
 - Business requirements
- Calculate the benefits
- Estimate the costs
- Demonstrate the impact on bottom line



Collect Data

Electronic balance reporting: Type: Statement frequency:

Select Select Select

Please provide the following information for money coming in to the account. Examples: cheques, BACS credit, direct debit, ueberweisung, lastschrift, virement, drafts, LCR, RIBA, credit cards

	Type	Source	Value of Incoming	Number of Items
Incoming	<input type="text"/>	Please select	<input type="text"/>	<input type="text"/>
Incoming	<input type="text"/>	Please select	<input type="text"/>	<input type="text"/>
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Incoming	<input type="text"/>	Please select	<input type="text"/>	<input type="text"/>

Please provide the following information for money being paid from the account. Examples: cheques, BACS credit, direct debit, ueberweisung, lastschrift, virement, drafts, LCR, RIBA, credit cards



Cost Benefit

- Varying liquidity positions
 - No centralized overview of cash
 - Excess interest expense
 - Reduced interest income
- High banking transactional/administrative costs
 - Similar transaction activity managed separately across various units
- Unmatched currency positions
 - Cost of spot trading
- Working capital synergies
 - Collections accelerated
 - Payables managed



2. Tax and Location Considerations

Tax Drivers

- Parent Company
 - US Tax objectives/position
 - FTC situation
- Existing location(s)
 - Corporate tax rate
 - Definition and character of treasury activities
- Centralization of FX gains & losses
 - Treaty network in regional treasury location
- Liquidity management
 - Interco Loans – w/h tax
 - Interest/Dividends – Subpart F
- Cash/Risk management vs. creating a tax event
 - Payable/Receivables – leading & lagging
- Intercompany flows
 - Transfer pricing

Locations

- Commercial Considerations
 - Infrastructure
 - Technology
 - Local resources
 - Transportation/Geography
 - Business/legal standards
 - Legal system
 - Credit terms
 - Treatment of bad debt
 - Indigenous industries and competition
- Regulatory Environment
 - Tax structure
 - Treaty network
 - VAT
 - Withholding tax
 - FX environment
 - Payment currency for imports/exports
 - Holding of FC accounts - domestic/offshore
 - Offsetting/netting of intercompany flows

Locations – Regional Treasuries

- Existing overseas operation(s)
 - Major manufacturing location
 - Management/marketing center
 - Warehouse/distribution point
 - Finance Company or SSC
- **Tax jurisdiction/implications**
 - Withholding tax on intercompany loans
 - Treaty network
 - Substance – capitalization



Europe

- Common currency/free trade
- Regional banking standard
 - Offered efficiently by a handful of banks
 - SEPA (concept) & Target II (platform) = regionalized Euro clearing and common payment platform
- Payment instruments primarily electronic
 - Cross border
 - In country (some exceptions)
- No withholding tax issues on cross border flows
- Infrastructure
 - Workforce
 - Transportation
- History
 - Established, economically viable markets
 - Many multinationals have had a regional headquarters for decades
- Most common locations
 - UK
 - Netherlands



Asia Pacific

- Distance and geography are main drivers
 - Operations/manufacturing set up to meet customer needs in region
 - Cost of labor drives service center opportunities
- Widely varying commercial and regulatory environments
 - Restrictions on cross border
- Multiple currencies
 - Many non-convertible
 - True banking overlay not possible
- Most common locations
 - Hong Kong
 - Singapore

Latin America

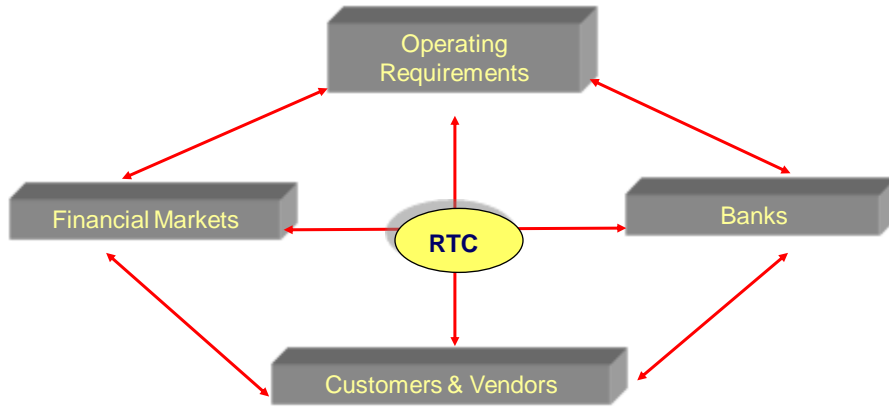
- Multiple currencies
 - FX controls
 - Most inherently weak/non convertible
- Inefficient banking systems (except Brazil/Mexico)
 - Limited regional bank players
- High local interest rates and inflation
- Strategic and political risk
- Limitations on intercompany funding
 - Withholding tax
- Regional oversight from certain locations
 - Miami
 - Brazil

3. Functions and Resources

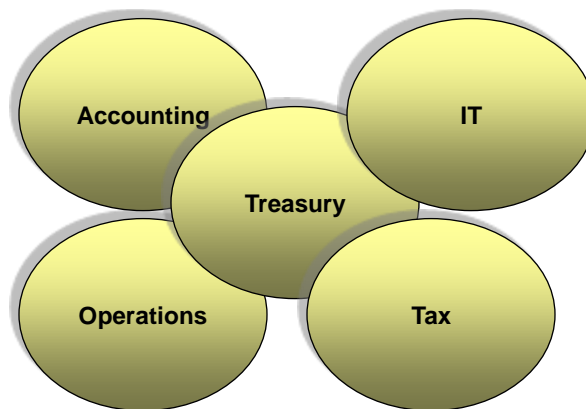
Regional Treasury Functions

- Managing group liquidity
 - Intercompany lending
 - Borrowing
 - Investing
 - Interco settlement
- Managing risk
 - Overview of enterprise risk
 - Implementing policies
 - Strategic hedging
- Cash management
 - Collection oversight
 - Disbursement techniques
- Banking
 - Relationship management
 - Service selection
 - Pricing negotiations
 - Regional opening/closing of accounts
 - Trade finance
- Advisory and liaison
 - Local units
 - Parent treasury

Regional Treasury Integrates



Requires ^{extensive} Functional Cooperation



Resources

- Based on structure
 - Separate holding company/SPV
 - Part of existing subsidiary
 - Reporting?
 - Politics?
 - Outsourced
 - Cost
 - Control
- Based on functions/responsibility
 - Cash management
 - Liquidity/risk decisions
 - Trading
- Staffing
 - Existing
 - Most likely accounting
 - New
 - Availability
 - Local or ex-pat
- Systems
 - ERP important, not essential
 - Simplifies bulk payments for region
 - Separate treasury functionality
 - Volume of transactions
 - Hedging/trading activity

Outsourcing Option

- What is involved?
 - Bank or 3rd party executes and oversees liquidity and risk management in the region
 - Related more to transaction processing
- Benefits
 - Directed by corporate treasury
 - Follows internally developed guidelines and policies
 - Systems in place
 - Experience and backup
 - No “politics”
- Drawbacks
 - Can be costly
 - Doesn’t allow “strategic” treasury management
 - Segregation from business operations

*Potentially a good
interim solution*

4. Banking

Selecting a Regional Bank - Options

- Existing indigeneous providers
 - Based on local needs
 - Streamline as required
 - Link to overlay?
 - Difficult to manage
- Concentrate all activity in a single bank
 - Depends on type of activity
 - Virtually impossible to eliminate local banks for certain transactions – e.g. tax payments
 - Varies by region

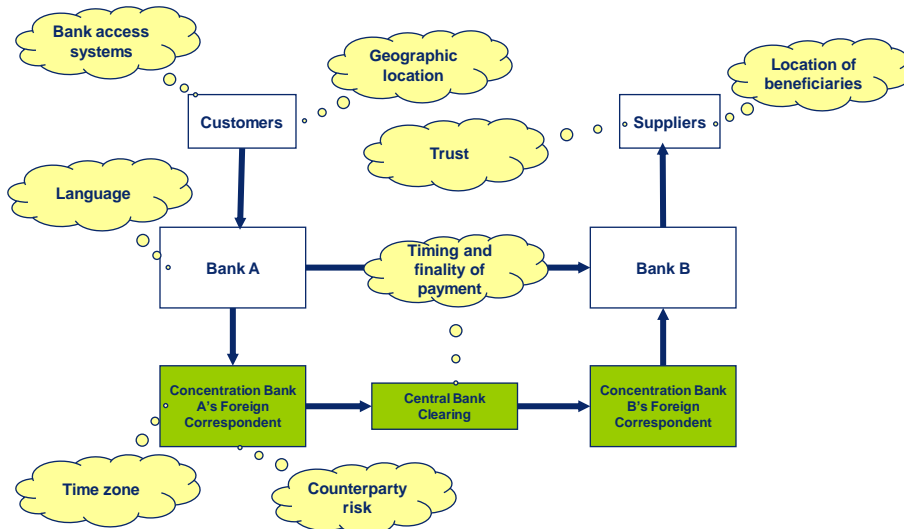
Banks for Regional Treasury

- Evaluate existing relationship bank capabilities first
- Address options with primary local banks
 - Even if just for political reasons
- Concept and availability of regional bank “services” varies
 - Europe – a number of players; efficient; well developed
 - Asia Pacific – depends on needs; problematic
 - Latin America – limited number of players; often not feasible



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Customers/Suppliers/Banking



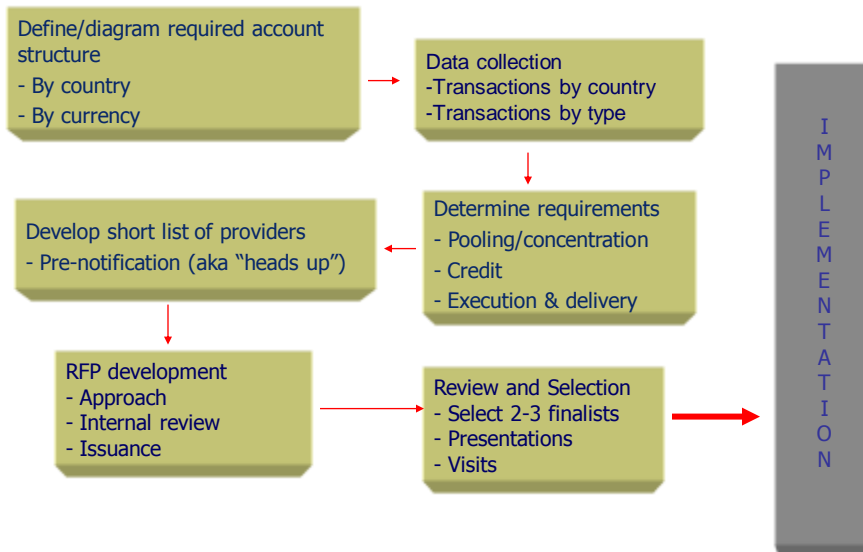
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Network and Integration

- Local & global strategy
- Branches
 - Regulatory considerations outside of home country
- Preferred banking partners
 - Strategic/network alliances vs. standard correspondent arrangements
- Ability to interface with
 - Enterprise Resource Planning (ERP) systems
 - Treasury workstation (TWS)
- Straight through interfaces to other banks

Steps



Summary

- A regional treasury structure requires careful planning
 - Needs assessment – has to make sense for the enterprise and improve the bottom line
 - Must be done in conjunction and aligned with tax objectives
- External considerations
 - Does a regional treasury make sense in the regulatory and bank environment
- Timing & resources
 - Planning & implementation can take 1-3 years
 - Cross disciplinary approach is essential for success
 - Link to other enterprise projects – ERP implementation, bulk payments, SSC

