Global Business Strategies Forum

Presented by Global Commercial Banking

October 22, 2013
Introduction
Hosted by:
**Alastair Borthwick**, Head of Global Commercial Banking

**Galen Robbins**, Head of Global Transaction Services, Global Commercial Banking

11:30 a.m.  Registration

11:45 a.m.  Luncheon & Welcome Remarks

12:30 p.m.  Economic Update  
**Michael Hanson**, Senior U.S. Economist, BofA Merrill Lynch Global Research

1:15 p.m.  Early Stage of Internationalization  
**David Eckstein**, Manager, Investor Relations & Treasury, Box  
**Jeff Minick**, Senior Vice President, Global Commercial Banking, Bank of America Merrill Lynch  
**Bryan Wilson**, Vice President, Grass Valley USA, LLC  
Established International Operations  
**James Arnold**, Chief Financial Officer, Kofax  
**Robert Crawford**, Senior Vice President, Global Commercial Banking, Bank of America Merrill Lynch

2:00 p.m.  Breakout Sessions (each session will be repeated twice)  
**Optimal Organizational Structures & Access to Capital**  
**Alister Bazaz**, Credit Services Executive, Asset Based Lending, Bank of America Merrill Lynch  
**Aaron Pomeroy**, Attorney, Tax Practice Group, Cooley LLP  
**Janet Young**, Managing Director, International Head, Multinational Corporations, Bank of America Merrill Lynch

**Managing Global Risk**  
**Rob Stigall**, Director & Sales Manager, Global Trade and Supply Chain Solutions, Bank of America Merrill Lynch  
**Craig Tonies**, Managing Director, Head of Capital Raising Products & Currencies, Bank of America Merrill Lynch

**Optimizing Your Liquidity Structure Globally**  
**Rita Cook**, International Treasury Solutions Executive, N.A., Bank of America Merrill Lynch  
**Tony Glasby**, Vice President & Treasurer, eBay Inc. & Paypal Inc.  
**Rohan Ryan**, Head of Liquidity Solutions, N.A., Bank of America Merrill Lynch

3:30 p.m.  Keynote Address  
**Condoleezza Rice**, 66th U.S. Secretary of State

4:30 p.m.  Meet & Greet with Condoleezza Rice  
*Cocktails and Hors d’oeuvres will be served*
Condoleezza Rice is professor of Political Economy in the Graduate School of Business, Thomas and Barbara Stephenson senior fellow on Public Policy at the Hoover Institution and professor of Political Science at Stanford University. From January 2005 to 2009, she served as the 66th secretary of state of the United States. Before serving as America's chief diplomat, she served as assistant to the president for national security affairs (national security advisor) from January 2001 to 2005.

Rice joined the Stanford University faculty as a professor of political science in 1981 and served as Stanford University's provost from 1993 to 1999. She was a senior fellow at the Hoover Institution from 1991 to 1993 and returned to the Hoover Institution after serving as provost until 2001. As a professor, Rice won two of the highest teaching honors: the 1984 Walter J. Gores Award for Excellence in Teaching and the 1993 School of Humanities and Sciences Dean's Award for Distinguished Teaching.

She is the author of *Extraordinary, Ordinary People: A Memoir of Family* (October 2010), which shares how her upbringing in segregated Birmingham, Alabama—along with her strong, caring family and parents—helped to shape the course of her life. She has also has authored and co-authored several other books, including *Germany Unified and Europe Transformed: A Study in Statecraft* (1995), with Philip Zelikow; *The Gorbachev Era* (1986), with Alexander Dallin and *Uncertain Allegiance: The Soviet Union and the Czechoslovak Army* (1984).

Rice served as a member of the boards of directors for the Chevron, Charles Schwab and Transamerica corporations. She was a founding board member of the Center for a New Generation, an educational support fund for schools in East Palo Alto and East Menlo Park, California, and was vice president of the Boys and Girls Club of the Peninsula. She currently serves on the board of the Boys and Girls Club of America.

Rice has been involved in a number of humanitarian pursuits, most notably with PEPFAR (The President’s Emergency Plan for Aids Relief) and in creating and serving on the board of the Millennium Challenge Corporation. Both endeavors increased aid to developing countries and the world’s poorest, most disadvantaged populations. PEPFAR was the largest commitment of funds from any single nation to combat a single disease at any time in history and the Millennium Challenge Corporation promotes sustainable economic growth and poverty reduction.

She currently serves as a member of the board of trustees of the John F. Kennedy Center for the Performing Arts. In addition, she is a fellow of the American Academy of Arts and Sciences. Rice earned her bachelor’s degree in political science, cum laude and Phi Beta Kappa, from the University of Denver in 1974; her master’s from the University of Notre Dame in 1975; and her Ph.D. from the Graduate School of International Studies at the University of Denver in 1981.
James Arnold was appointed as Chief Financial Officer and a member of Kofax’s Board of Directors on June 15, 2010. He has almost 30 years of executive financial management experience. Most recently, he was with Nuance Communications, Inc., a leading provider of speech and imaging solutions, where he was Senior Vice President and Chief Financial Officer from September 2004 to August 2008, and then a consultant to September 2009. From 2003 to 2004, James was Vice President and Corporate Controller at Cadence Design Systems, Inc. From 1997 to 2003, he held several senior financial management roles at Informix Software, Inc., including Vice President and Chief Financial Officer, and from 1995 to 1997, he served as Corporate Controller at Centura Software Corporation. James began his career at PricewaterhouseCoopers. He holds a Bachelor of Business Administration in Finance from Delta State University and a Master of Business Administration from Loyola University.

Alister Bazaz is a Senior Vice President & Managing Director for Bank of America Business Capital (“BABC”), a division within the Global Commercial Bank at Bank of America Merrill Lynch. He is responsible for structuring international asset based credit facilities from $20 mm to over $1 billion in size. Additionally, he is responsible for BABC’s Treasury Risk Management group who are the subject matter experts in cash management structures and services for secured borrowers in Bank of America, both domestically and internationally.

Rita Cook is the North American International Treasury Solutions Executive. In this role, Rita leads a team of global treasury experts who structure multi-regional deals for Global Commercial Banking clients based in North America. She is responsible for developing and driving strategies that ensure those structures enable clients to meet their global cash management needs while enhancing visibility and access to cash.

Robert Crawford is the Treasury Solutions Manager managing a team of Global Treasury professionals covering Southern California, Arizona, Nevada and Utah. His career at Bank of America began in 2007 as a global Treasury Solutions Officer. Prior to joining Bank of America, Rob worked at both JPMorgan and Citibank. Rob began his career as an entrepreneur, working in the college and university marketplace.

Rob received a Bachelor or Arts degree from Franklin & Marshall College in Lancaster, PA.

Robert.a.crawford@baml.com

David Eckstein joined Box in May, 2012 and became Finance Manager, Treasury and Investor Relations in October 2012. In his role, he is responsible for managing a wide array of treasury activities including quarterly financial reporting to Box’s VCs, cash management and international expansion, and the beginnings of foreign currency hedging. David also advises the Box co-founders on long-term capital structure.

Prior to joining Box, David worked in the Investment Banking Group at Barclays covering Technology, Media and Telecommunications. Key transactions included the 21Vianet IPO, Interxion IPO, Groupon IPO, Zynga IPO and Mellanox Technologies equity raise.

David graduated with Merit Honors with a Masters in Finance from the London School of Economics. He graduated Magna Cum Laude from Washington University in St Louis, where he majored in Finance and minored in Accounting. David grew up in New York and enjoys playing golf and exploring the West Coast.

Tony Glasby joined eBay in late 2010 as Vice President and Group Treasurer. He is responsible for capital markets, financial strategy, foreign exchange, investments, cash management, insurance and capital planning. Prior to his role at eBay, he worked at HP Enterprise Services as the Head of Business Operations for the Americas BU and Vice President
and CFO for Asia Pacific and Japan BU based in Singapore.
From 1987 to 2008 Tony held several controller and treasury positions at EDS Corporation both in EMEA and the US, including Vice President and Treasurer, which was acquired by HP in 2008. Tony is a fellow of the Association of Corporate Treasurers and is a Chartered Management Accountant. Tony earned a BA Hons in Business from University of Westminster, London.

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Michael Hanson is a senior U.S. economist at Bank of America Merrill Lynch Global Research. Hanson has nearly 20 years of experience as an economist in financial markets, the Federal Reserve System and academia. In his current role, he is responsible for analysis of Federal Reserve and budgetary policy and modeling the U.S. economy, with particular emphasis on inflation. He meets regularly with clients across the firm’s business lines, publishes weekly commentary on economics and policy and has appeared in printed, radio and televised media.

Prior to joining the firm, Hanson worked as an economist in the Monetary Affairs division of the Federal Reserve Board of Governors and as a senior economist at Lehman Brothers. He also has held positions at the Federal Reserve Bank of New York, Wesleyan University and Yale School of Management. He has published academic research in macroeconomics, monetary policy and econometrics.

Mr. Hanson graduated cum laude with honors from the University of Pennsylvania with bachelor’s degrees from both the College of Arts and Sciences and The Wharton School. He earned his master’s degree in mathematics at New York University and his Ph.D. in economics from the University of Michigan.

Jeff Minick leads a team of seasoned treasury management professionals responsible for consulting with clients to implement efficient and cost effective treasury solutions.

Prior to this role Mr. Minick led a national specialty sales team focused on leveraging emerging technology to deliver working capital benefits through operational efficiency. He has held positions in operations, systems development, and consulting on eCommerce and eBanking services.

Mr. Minick has been a frequent speaker at industry conferences throughout the US, including the National AFP, Oracle Open World, TEXPO, New York Treasury Management Association, and the San Francisco Treasury Symposium. He holds a B.B.A. in Business Analysis - Management Information Systems from Texas A&M University.

Originally from Pittsburgh, PA, he grew up in North Texas and moved to San Francisco in 2004 where he lives with his wife Elizabeth and two boys. His hobbies include golf and coaching youth sports.

jeffrey.minick@baml.com

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Aaron Pomeroy is an attorney in the tax practice group at Cooley LLP.

Mr. Pomeroy’s practice primarily involves planning and structuring cross-border investments, mergers, acquisitions, financings, and leveraged buy-outs. He has assisted clients in structuring a wide variety of acquisitions, dispositions, and recapitalizations involving both strategic and financial buyers. Mr. Pomeroy’s clients range from start-ups and joint ventures to more mature private and public companies. He has also advised both sponsors and investors in domestic and international private equity funds.

Mr. Pomeroy received his JD from New York University School of Law in 2002. He also earned an MA in Organizational Psychology from Temple University in 1998. Mr. Pomeroy earned a BS in Psychology from Brock University. Mr. Pomeroy serves as the Regional Chair for the Young Lawyers Network of the International Fiscal Association.

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Rohan Ryan is the North America Head of Treasury Liquidity Solutions for Global Corporate & Commercial Banking at Bank of America Merrill Lynch. In this capacity, he is responsible for leading Liquidity Specialists who aim to provide solutions to multinational corporations looking to optimize cash balances in the Americas and abroad. In addition, Ryan has liquidity product management responsibility in Canada.

rohan.ryan@baml.com
Rob Stigall is Director and Sales Manager of Global Trade and Supply Chain Solutions at Bank of America Merrill Lynch. His team specializes in helping middle market and small businesses compete in the global economy with trade payable, trade receivable, risk mitigation and trade finance solutions designed to optimize working capital, reduce costs and mitigate risks, while maximizing efficiency, visibility and control over financial supply chain information.
rob.stigall@baml.com

Craig Tonies is Managing Director and head of Interest Rates and Currencies Origination for Commercial Banking clients. Based in Boston, MA, he manages the Middle Market Commercial Banking Rates and Currencies Sales Group which advises and executes risk management strategies related to foreign exchange and interest rate exposure.

tonies@baml.com

Bryan Wilson joined Grass Valley in March of 2011, previously working as VP, Corporate Treasurer of Wind River Systems, Inc., a wholly owned subsidiary of Intel. Bryan has also held various Treasury and Finance leadership positions at Etrade, Iomega Corporation, American Express, and the Federal Reserve Bank of San Francisco (Salt Lake City Branch). Bryan is a current member of the Association for Financial Professionals and holds a Certified Treasury Professional (CTP) designation.

Janet Young is based in Singapore and is the International Business Head for multinational corporations (MNCs) that are subsidiaries of Bank of America’s commercial bank clients from the US, a strategic growth area for the Bank. She has responsibility over Asia Pacific, Europe and Latin America. Prior to this, she was the Asia Regional Head for MNCs for Bank of America.

She has over 20 years of banking and corporate experience in the region. Prior to joining Bank of America, she had led Marketing, e-Business, and Commercial Banking for HSBC Singapore. Prior to that, she was the China Treasury Director (based in Shanghai) and Asia Pacific Finance & Treasury Director for a large European MNC.

Janet sits on the Board of several government statutory bodies and Chambers of Commerce in Singapore which are active in promoting enterprise development, entrepreneurship, innovation and productivity, IT and information communication development, trade and investments in Singapore, and across international markets.

janet.young@baml.com
Speaker Presentations
Early Stage of Internationalization

David Eckstein, Finance Manager, Investor Relations & Treasury, Box
Jeff Minick, Senior Vice President, BofAML
Bryan Wilson, Vice President, Grass Valley USA, LLC

October 22, 2013
Who is Grass Valley?

- Media innovator with more than 50 years in broadcast television
- Recognized expert with over 350 patents and 19 Emmy® Awards.
- A worldwide team of people who are proud to be part of an Icon in the Industry

*When the world is watching …*

*We’re there*
Who is Grass Valley?

- Doing business in all regions of the globe (Americas, EMEA, APAC)
- Over ~1000 employees worldwide
- HQ in Hillsboro, OR
- Regional finance service centers in Nevada City, CA, London, and Singapore
- Divested from large French company in January 2011.
January 2011- “Chaos: All Over the Map”

- No Corporate Oversight
- 30 Different Global Banking Partners
- Lack of "Best Practices" Policies and Procedures
- Over 70 Bank Accounts
- Little or no Global Cash Visibility
- Restricted cash Scattered Globally
- No Liquidity Management Structure
- Decentralized Cash Management
- $M's in Intergroup Loans; Myriad of paperwork Issues
- $M's in Restricted cash Scattered Globally
The Future - “Streamlined, Scalable, and Agile”
Our mission is to make businesses more productive, competitive, and powerful by connecting people and their information.
Global Enterprises Trust Box

Healthcare  Fin. Srvcs  High Tech  Media  Industrial  Retail  Services

Vertical expertise coupled with the highest security standards and compliance
Track Record of Excellent Growth

Net Revenue

Net Billings

Note: FY 2012 is one month (Jan '12) due to a change in our fiscal year end to January 31st from December 31st and is excluded from the above bar charts and CAGR calculations.
Build Strong Treasury Foundation to Support Expansion

- Maintain financial flexibility
- Minimize number of banks
- Keep it simple and efficient
- One signature card across accounts / entities
- Build FX hedging program early
- Drink our own champagne
Leverage Box to Collaborate With Banks
Driving Efficiencies By Embracing New Technologies

- Eliminate snail mail and wet signature requirements via Docusign
- Adopt iPhone / Android app token via Okta
- Deliver bank statements / other docs to customers leveraging new technologies (Box)
- Leverage products like Box to manage projects and improve transparency and time to execute
Established International Operations

James Arnold, Chief Financial Officer, Kofax
Robert Crawford, Senior Vice President, BofAML
Optimal Organizational Structures &
Access to Capital

Alister Bazaz, Credit Services Executive, BofAML
Aaron Pomeroy, Attorney, Tax Practice Group, Cooley LLP
Janet Young, International Head Multinational Corporations, BofAML
Question

Tax considerations should be the driving force behind legal entity structure and organizational constructs?
A. Yes
B. No
If your legal org chart looks like this...

you need to simplify.
Finding balance

- Multiple inputs - find the right balance
- Do not penalize yourself on liquidity
Global objectives

- Optimize borrowing capacity
- Optimize working capital position
- Improve internally generated liquidity
Cascading approach

Determine optimal choices for:

- Country of location of borrowers and accounts receivable
- Legal ownership and geographic location of inventories
- Global treasury management design
- Most efficient bank account structure
Cascading benefits of simplicity

- Refreshed organizational design
- Greater access to capital
- Enhanced liquidity
- Working capital improvement
- Streamlined costs
- Supply chain management
- Treasury management design
- Global Credit Agreement
- Operational efficiency
Transformational opportunities
Proposed structure

All financing runs through the Netherlands Hold Co and all collateral assets are held at the Netherlands Hold Co. Italy Co and France Co are converted into tolling operations and receive a fee from the Netherlands Hold Co for operating expenses.
Optimal choices

Americas
Legal ownership of A/R and inventories*

1. United States
2. Canada

*Borrower and biller of A/R order of preference
Optimal choices

Pan European
Legal ownership of A/R and inventories*

1. United Kingdom
2. Netherlands
3. Ireland

*Borrower and biller of A/R order of preference
Optimal choices

Asia
Legal ownership of A/R and inventories*

1. Singapore
2. Australia
3. Hong Kong

*Borrower and biller of A/R order of preference
### Physical location of inventories

<table>
<thead>
<tr>
<th>Preferred</th>
<th>United Kingdom</th>
<th>Netherlands</th>
<th>Belgium</th>
<th>Ireland</th>
<th>Germany</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Singapore</td>
<td>Australia</td>
<td>New Zealand</td>
<td>Hong Kong</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Possible</th>
<th>Norway</th>
<th>Sweden</th>
<th>France</th>
<th>Italy</th>
<th>Denmark</th>
<th>Finland</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Portugal</td>
<td>Spain</td>
<td>South Korea</td>
<td>Malaysia</td>
<td>Japan</td>
<td>Others</td>
</tr>
</tbody>
</table>

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27
“Strawman” recommendation

- Regional borrower(s) borrow and intercompany lends funds to countries as necessary
- Legal owner(s) of accounts receivable and inventories
- All billing done out of the country of the regional borrower
- Cash collections are concentrated via real time ZBA by currency
- Regional disbursements drawn by currency real-time from centralized funding account(s)
- Foreign exchange risks managed regionally and centrally
- Liquidity managed globally and centrally
Current environment

- Access to international capital markets difficult for subsidiaries
- Local liquidity still tight on a bilateral basis
- Foreign banks focusing balance sheet on key domestic clients
- Global bank funding becoming more prevalent
International debt structures to consider

Continuum of financing alternatives

<table>
<thead>
<tr>
<th>ABL</th>
<th>Unsecured cash flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Invoice discounting</td>
<td>• Secured cash flow</td>
</tr>
<tr>
<td>• Factoring</td>
<td>• Term Loan B</td>
</tr>
<tr>
<td>• Country-by-country ABL</td>
<td>• Second lien notes</td>
</tr>
<tr>
<td>• Pan-regional ABL</td>
<td>• Unsecured bonds</td>
</tr>
<tr>
<td>• In-house “Finco”</td>
<td>• High-yield bonds</td>
</tr>
<tr>
<td>• Principal with commissionaire</td>
<td>• Leasing</td>
</tr>
<tr>
<td>• Unconsolidated SPV</td>
<td>• Parent guarantees</td>
</tr>
<tr>
<td>• Orphan SPV</td>
<td>• Intercompany Loans</td>
</tr>
<tr>
<td></td>
<td>• Unsecured multicurrency</td>
</tr>
<tr>
<td></td>
<td>• Revolver – local</td>
</tr>
<tr>
<td></td>
<td>• Term loans – local</td>
</tr>
<tr>
<td></td>
<td>• Revolver – global</td>
</tr>
<tr>
<td></td>
<td>• Term loans – global</td>
</tr>
</tbody>
</table>

| • Daylight overdraft lines                |
| • ACH/ BACS lines                        |
| • Foreign Exchange lines                 |
| • Liquidity lines                        |
Advantages of global credit facilities

- Leverages a company’s global banking relationships
- Uses the “Global” credit standing, financial performance and strength of the parent company
- For syndications, optimizes North American relationships for global benefit
- One master credit document with harmonized terms and conditions
- Simplified execution
- Dovetails nicely with global liquidity platform
Managing Global Risk

Rob Stigall, Director & Sales Manager
Global Trade & Supply Chain Solutions, BofAML

Craig Tonies, Managing Director, Head of Capital Raising Products & Currencies, BofAML
Developing an integrated payment and risk management policy

Best Practices in Managing Sovereign & Counterparty Payment Risk

- Establish International Risk Policy framework; Address appropriate Method of Payment:
  - Open Account
  - Doc. Collections
  - Commercial Letter of Credit – Unconfirmed
  - Commercial Letter of Credit – Confirmed
  - Cash in Advance

- Adherence to export regulatory compliance requirements (U.S. Export License, OFAC, etc.)

- Establish streamlined, automated process for managing alternative methods of payment

- Offer extended payment terms; provide buyers access to lower U.S. interest rates

Considerations & Execution

Risk to Seller

- Riskiest

Risk to Buyer

- Riskiest

- Export regulatory compliance policy, procedures and expertise within Export Dept. / Logistics

- Leverage automated document preparation solutions and present documents for payment electronically

- Discount extended term Letters of Credit
Case Study - Mitigating Sovereign & Counterparty Payment Risk with Export Letters of Credit

Payment Risk with Export Letters of Credit

One of the nation’s largest recyclers of scrap metal was rapidly expanding its sales internationally by exporting to Asia and the Middle East.

OBJECTIVES

- Mitigate risk of non payment
- Offer competitive sales terms
- Reduce days sales outstanding (DSO)
- Improve efficiency & lower administrative costs

BENEFITS

- Mitigate risk of non payment
- Convert paper processes to electronic
- Save time and reduce costs
- Reduce DSO through accelerated payment

CLIENT TECHNOLOGY

Client uses our partners’ internet-based technology to prepare the LC documents in-house and digitally present them to the BofAML.

BofAML ISSUING BANK

Once the LC documents are digitally delivered to BofAML, documents are examined and discrepancies are quickly/efficiently resolved.

TECHNOLOGY PARTNERS

Client uses our partners’ online platform to receive notification that an Export LC in their favor has been confirmed by BofAML.

Receive notification through Trade Pro Online that an Export LC in their favor has been confirmed by BofAML.

The LC documents are delivered to BofAML.

Documents are examined and discrepancies are quickly/efficiently resolved.

Payment is made to our client 180 days before the payment is due from the buyer.
Enhancing global supply chain stability

Proven strategies and best practices

- Contingency planning for economic crisis and natural disasters
- Adherence to import regulatory compliance requirements (U.S. Customs, OFAC, Conflict Minerals Policy, etc.)
- Payment assurance provided to suppliers facilitates working capital financing
- Supplier stability enhanced by providing access to lower cost additional sources of liquidity

Execution

- Diversify sources of supply and establish network of alternative trade lanes and distribution centers
- Import regulatory compliance policy, procedures and expertise within Procurement, Logistics & Treasury
- Commercial Letters of Credit
- Supply Chain Finance
Case Study – Strengthening the Supply Chain & Optimizing Working Capital with Supply Chain Finance

Situation / Challenge

• Large retail customers imposed new payment – from 30 to 60 days
• Asian suppliers insisting on moving from 30 day payment terms to immediate payment

Solution

• Comparison of client’s financial profile vs. its US & Asian suppliers revealed potential for Supply Chain Finance (“SCF”) with 60 day terms for suppliers

Result - Benefits

• Client offset new customer 60 day terms with new supplier 60 day terms;
• Suppliers given access to additional source of liquidity at lower interest rates

Privately held garment manufacturer based on the West Coast
- Sources from low cost country suppliers in Asia
- Distributes through top US retailers.

BofAML TradePro®

1. Purchase order
2. Invoice Due in 60 Days
3. Discount request
4. Debit on Day 60
5. Immediate Payment
6. Approved Invoice

Suppliers by S&P
Est. Rate by S&P*
SCF Rate

<table>
<thead>
<tr>
<th>Suppliers by S&amp;P</th>
<th>Est. Rate by S&amp;P*</th>
<th>SCF Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>AA+</td>
<td>0%</td>
<td>4%</td>
</tr>
<tr>
<td>AA</td>
<td>2%</td>
<td>5%</td>
</tr>
<tr>
<td>A+</td>
<td>3%</td>
<td>6%</td>
</tr>
<tr>
<td>A</td>
<td>4%</td>
<td>7%</td>
</tr>
<tr>
<td>BBB+</td>
<td>5%</td>
<td>8%</td>
</tr>
<tr>
<td>BBB</td>
<td>6%</td>
<td>9%</td>
</tr>
<tr>
<td>BBB-</td>
<td>7%</td>
<td>10%</td>
</tr>
<tr>
<td>BB+</td>
<td>8%</td>
<td>11%</td>
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<tr>
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<tr>
<td>A+</td>
<td>11%</td>
<td>14%</td>
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<td>A</td>
<td>12%</td>
<td>15%</td>
</tr>
<tr>
<td>CCC</td>
<td>13%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Quantity of Suppliers

*SCF Rate estimated by S&P
Industry trends

Developing an integrated payment and risk management policy

**FX PAYMENTS**
- Centralize Decision Making
- Utilize an integrated multi-payment channel solution
- Maximize liquidity

**RISK MANAGEMENT**
- Mitigate exchange rate volatility
- Provide cash flow predictability
- Protect earnings
- Efficiently deploy globally capital/funding

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**FX PAYMENTS**
- Purchasing goods or services
- Paying owners or partners
- Paying taxes
- Meeting payroll
- Paying rent

**FX HEDGING**
- International sales
- Trade settlement
- Intercompany loans
- Initial public offerings
- Mergers and acquisitions
Case Study – Consolidating FX Flows to Minimize Transaction Costs

- Privately held company based in the United States
- Subsidiaries based in Latin America, Europe and Asia

Situation / Challenge
- US Parent with international subsidiaries managing their own banking relationships

Solution
- Consolidate FX transactions utilizing online tool to process conversions more efficiently with better internal controls

Result - Benefits
- Reduced costs, fewer banking relationships
- Enhanced reporting and internal controls
- Better forecasting

Current Situation
U.S. Based Company

Currencies Sent to Subsidiaries and Converted in Local Banks

European Subsidiary
Asian Subsidiary
Latin American Subsidiary

Solution
U.S. Based Company

All Currency Conversions Performed Online Via Cash Pro

Online Payments Platform
2012 Risk management survey

When polling 200 firms across 12 countries in North America, Asia and Europe:

- **94%** of firms with currency risk hedge their exposure based on the top three objectives:
  - Minimize FX Profit/Losses
  - Minimize cash flow volatility
  - Optimize cash

- **91%** of firms consider accounting to be “critical” or “important” in their risk management decisions

- **47%** of firms execute all of their international payments online

Exposure type and degree of uncertainty determine whether a firm hedges its currency exposure along with the hedge ratio, type and tenor.

Source: 2012 BofAML Risk Management Survey
Case Study – Consolidating FX Flows to Minimize Transaction Costs

- Privately held company based in the United States
- Subsidiaries based in Latin America, Europe and Asia

**Situation / Challenge**
- US Parent with international subsidiaries making small payments around the globe; seeking better forecasting for larger expenses in China, UK, and India

**Solution**
- Consolidate FX transactions utilizing online tool to process conversions more efficiently with better internal controls
- Leverage hedging products; forwards and options

**Result - Benefits**
- Reduced costs, fewer banking relationships
- Enhanced reporting and internal controls
- Greater Efficiency
- Better forecasting

**Current Situation**
- Currencies sent to subsidiaries and converted in local banks

**Solution**
- Small volume currency conversions performed online via Cash Pro utilizing file upload
- Executes forwards and options for deliverable currencies; CNH and GBP
- Executes forward hedges in deliverable INR

**Resulting Benefits**
- European Subsidiary
- Asian Subsidiary
- Latin American Subsidiary

**Additional Information**
- Online Payments Platform
- U.S. Based FX Desk
- India Based FX Desk
Optimizing Your Liquidity Structure
Globally

Rita Cook, International Treasury Solutions Executive, N.A., BofAML
Tony Glasby, Vice President & Treasurer, eBay Inc. & Paypal Inc.
Rohan Ryan, Head of Liquidity Solutions, N.A., BofAML
## Going global – economic trends

76% U.S. companies conduct business internationally\(^1\)

<table>
<thead>
<tr>
<th></th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy internationally</td>
<td>62%</td>
</tr>
<tr>
<td>Sell internationally</td>
<td>55%</td>
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<tr>
<td>Maintain operations</td>
<td>30%</td>
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<td>Maintain operations</td>
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Working capital optimization
Increasing visibility, accessing internal liquidity

Global liquidity trends

<table>
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<tr>
<th>Key challenges</th>
<th>Leading practices</th>
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<td>Credit Crunch</td>
<td>Centralization</td>
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<td>Decrease in market liquidity</td>
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<td>and increase in cost of</td>
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<td>exposure to market risks (FX,</td>
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<td>Capital Allocation</td>
<td>In-House Bank (IHB)</td>
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<td>Allocating capital to best</td>
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<td>opportunities</td>
<td>spoke model driving account</td>
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<td>Source: Bank of America Merrill Lynch, 2012 CFO Outlook Asia</td>
<td>rationalization</td>
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44% of CFOs will use internal capital as a source of funding
Designing a global liquidity structure

- Build structures: in country, regional, global
- Consolidate by currency
- Maximize surplus liquidity in local markets where ever possible

In-country structures

Physical Cash Concentration, Notional Pooling
- Single currency notional pooling
- Multi-currency notional pooling
- Where allowed by local regulations

Regional structures

Physical Cash Concentration
- Single currency (domestic and cross border)
- Manage long and short balances in multiple accounts and currencies

Global structures

Cross-Region Cash Concentration
- Sweep with the sun — credit or debit balances move same day
- Consolidate cash across regions — customized solution (target balances, flexible occurrence, etc.)
- Centralized control over global funding requirements
- Access to cost efficient internal sources of liquidity for optimal deployment decisions and investments
Ease of liquidity management by market

1. Mobility of cash
2. Convertibility of cash
3. Comingling of cash

Liquidity focused to in-country solutions

Availability to centralize some FCY liquidity

Freedom to move LCY and FCY liquidity

Deregulation by PBOC & SAFE

 Highly Restricted

Regulatory Environment

Minimally Restricted

LATIN AMERICA

EAST EUROPE

WEST EUROPE

SOUTH AMERICA

NORTH AMERICA

SOUTH EUROPE

EAST ASIA

WEST ASIA

CENTRAL ASIA

HIGHLY RESTRICTED

REGULATORY ENVIRONMENT

MINIMALLY RESTRICTED
Tax considerations
Which country to be selected as concentration center?

1 Recognition of interest
• Nature of Income (i.e., bank interest / inter-company interest)
• Source of Income

2 Taxability of interest income
• Corporate / Profit tax on interest income earned by Resident and Nonresident companies with permanent establishment

3 Withholding tax (WHT)
• Withholding tax position in respect of interest payment between Resident (company/bank) and Nonresident
• Withholding tax rate can be reduced with Double Tax Treaty

4 Deductibility of interest payment
• Interest expense deductible extend to company for income producing purposes

5 Thin capitalization
• Restrict the amount of tax deductible interest expense especially if there is a perception of excess intercompany debt

6 Transfer pricing
• Rate of interest = arm's length basis
• Exercise additional due diligence when tax friendly jurisdictions/entities are participants of cash structure

7 Other taxes
• Such as Stamp duties (e.g., Philippines), Special Business Tax (Thailand), Business Tax (China)

8 Controlled foreign corporation (CFC) rule
• A form of anti-avoidance rule to safeguard tax revenue
• Targets foreign companies which are controlled from home country but are subject to a lower tax rate by shifting operations offshore
• Where a foreign subsidiary is treated as CFC, profits will be taxed in parent’s home country
• AU, CN, ID, JP, NZ & KR
Appendix
Global footprint

North America
- Canada
- United States

Latin America & Caribbean
- Anguilla
- Antigua & Barbuda
- Argentina
- Bahamas
- Barbados
- Belize
- Bolivia
- Brazil
- Cayman Island
- Chile
- Colombia
- Costa Rica
- Dominica
- St. Lucia
- St. Kitts & Nevis
- St. Marteen
- St. Vincent & the Grenadines
- Trinidad & Tobago
- Turks & Caicos
- Uruguay
- Venezuela
- Virgin Islands (British)
- Virgin Islands (US)

Europe, Middle East and Africa
- Austria
- Belgium
- Botswana
- Bulgaria
- Congo
- Czech Republic
- Denmark
- Finland
- France
- Germany
- Ghana
- Greece
- Hungary
- Ireland
- Italy
- Kenya
- Lesotho
- Luxemburg
- Malawi
- Mauritius
- Mozambique
- Namibia
- Netherlands
- Nigeria
- Norway
- Poland
- Portugal
- Romania
- Russia
- Slovakia
- South Africa
- Spain
- Swaziland
- Sweden
- Switzerland
- Tanzania
- Turkey
- Uganda
- Ukraine
- UAE
- United Kingdom
- Zambia
- Zimbabwe

Asia-Pacific
- Australia
- Bangladesh
- Cambodia
- China
- Hong Kong
- India
- Indonesia
- Japan
- Laos
- Macau
- Malaysia
- Mongolia
- New Zealand
- Pakistan
- Philippines
- Singapore
- Sri Lanka
- Taiwan
- Thailand
- Vietnam
Liquidity management techniques

Liquidity Management Techniques

Physical Cash Concentration
- Multibank
- Domestic
- Intra Region, Global

Physical movement of cash

Notional Cash Pooling
- Single Currency
- Multi Currency

No movement of cash

Interest Optimization
- In-country / cross-border (without offset)
Consolidate your cash

Virtually no boundaries with physical cash concentration

Automatically sweep cash balances from your various Bank of America Merrill Lynch and third-party bank operating accounts to a single concentration account with us.
Liquidity management tools

Simple view

- Interest is calculated across the net position of the pool on a daily basis.
- Interest is applied monthly based on daily balance.
- No physical movement of funds.
- Header account receives pool benefit.
- Concentrates Credit and Debit balances into a single header account.
- Can create inter-company positions if multi entity.
- Options of "real time", Credit or Debit only, Daily or weekly parameterized.
- Consolidated view of liquidity for a single currency (net position), even in real time. Offset debit and credit balances across accounts, reducing interest charges. Ideal for centralized companies who then invest.

Benefits:
- Offset single currency debit and credit balances across accounts, reducing interest charges and movement. Focus on decentralized companies.
- Consolidaed view of liquidity for a single currency (net position), even in real time. Offset debit and credit balances across accounts, reducing interest charges. Ideal for centralized companies who then invest.

Notional Pool

- Single Currency Pool

Concentration Structure

Domestic Concentration

Notional Pool

Interest is calculated across the net position of the pool on a daily basis.
Interest is applied monthly based on daily balance.
No physical movement of funds.
Header account receives pool benefit.
Concentrates Credit and Debit balances into a single header account.
Can create inter-company positions if multi entity.
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- Consolidaed view of liquidity for a single currency (net position), even in real time. Offset debit and credit balances across accounts, reducing interest charges. Ideal for centralized companies who then invest.
Liquidity management Tools
Simple view

- End of day closing balances of accounts across countries are notionally converted into an base currency
- Interest benefit is paid on consolidated balances (positive credit position)
- No physical movement of funds or FX conversion

**Benefits**: Ability to include otherwise “trapped cash” held in many regulated countries. Clients look at this as an *International Multi Currency Investment Account*.

- Interest will be calculated on each participating account balance on a daily basis at the prevailing debit/credit rate with spread and will be charged or paid on monthly basis to the respective accounts.
- Daily balances are then notionally converted into your base currency.
- At the end of the month end, the bank will calculate the compensated debit balance and debit interest spread charged on the debit balance and refund a portion of the debit spread to respective accounts.
Liquidity management tools
Advanced view

Cross-Border Concentration
- Concentrates Credit and Debit balances into a single header account
- Can create inter-company positions if multi entity
- Can be global, follow the sun or West to East

**Benefit:** Automated concentration of funds held in different countries into a single treasury centre. Provides clients with more regional control of balances.

- Concentrates funds from 3rd party banks into BofAML using the SWIFT network. (end of day MT940 as well as MT942 intra-day messages)

- Can be global, follow the sun or West to East

**Benefit:** Automated concentration of funds held in different countries into a single treasury centre. Provides clients with more regional control of balances.

Multibank Concentration
- Can concentrate using Target Balance, Aggregate sweep, Credit only, and at determined frequencies.
- Also covers IPB... so the true network of BofAML

**Benefit:** Ability to minimize counterparty risk by concentrating with a global partner whilst using best in class local banks.

- Allows for different currency accounts held within a single BofAML branch to be pooled thereby reducing interest expenses
- No physical consolidation of funds or FX contract
- Daily closing balances are notionally converted into the pool currency and interest is calculated on the net pool balance
- The underlying accounts still earn interest based on their actual currency, and the pool header is paid a pool benefit thereby minimizing OD charges

**Benefit:** Obtain the benefits of pooling multiple currencies without risks associated with FX forecasting or costs of an actual FX conversion

Multi-Currency Notional Pooling
- The underlying accounts still earn interest based on their actual currency, and the pool header is paid a pool benefit thereby minimizing OD charges

**Benefit:** Obtain the benefits of pooling multiple currencies without risks associated with FX forecasting or costs of an actual FX conversion
Achieve global liquidity integration (example)
Global liquidity platform (GLP)

Best Enterprise Infrastructure Initiative
Global Liquidity Platform

- Built in-house
- Centralized technology hub
- Provide consistent and integrated solutions
- Global account connectivity
- Enhanced reporting capabilities

Innovation points
Cross-currency enhancement
Enhanced reporting
Intelligent sweep logic
Investments
Multibank
Going Global
For many companies across the United States, growing internationally remains a top goal. Financial executives see potential in both established and emerging markets, and transportation and technology have advanced to the point where firms of almost any size can consider doing business beyond U.S. borders.

Yet global expansion often brings new challenges, whether it’s navigating a new set of regulations or ensuring a team has adequate cash in a certain country. As a result, financial officers and their banking partners have become more innovative as companies increasingly look for business opportunities in global markets.

While it’s not surprising that U.S. companies are more active internationally, a recent survey reveals how these firms are expanding their reach. The Bank of America Merrill Lynch 2013 CFO Outlook survey asked more than 600 financial officers if their companies sell to, buy from or have operations in foreign countries. Buying from non-U.S. markets was most common response, reported by 62 percent of CFOs, up from 47 percent in the previous annual survey.
Financial officers shared similar growth from a year earlier in other categories, reporting increased selling to non-U.S. markets (55 percent in 2013 vs. 34 percent in 2012) and operations in non-U.S. markets (30 percent vs. 15 percent). When all types of involvement in global markets are taken together, 73 percent of CFOs said their companies had some kind of international activity—a significant increase from 54 percent one year earlier.

Add to that the International Monetary Fund’s forecast that 87 percent of world economic growth through 2017 will take place outside the U.S., and it’s clear that companies are giving more consideration to foreign markets. With that shift comes more focus on and investment in key financial issues—not only maintaining access to capital but also improving visibility and control of funds, optimizing working capital and better managing risk.

Fortunately for financial executives, other companies are wrestling with the same challenges. Those who have managed them can provide a blueprint for successful international expansion.

Better access to funds through an online portal
As the world’s 10th-largest architecture firm, NBBJ is no stranger to working on big projects around the globe. The Seattle-based company opened its first non-U.S. office more than a decade ago in the United Kingdom. The more recent opening of the company’s Shanghai office was a natural progression of that growth.

“We see significant opportunities globally, especially in Asia,” said Brenda Clark, NBBJ’s controller.

But expansion into China introduced new issues. China requires companies to accept local payments in Chinese renminbi. Due to the restricted nature of that currency, this can pose challenges for non-Chinese companies seeking to move funds to accounts or operations outside the country.

This flexibility is particularly important to professional services firms such as NBBJ, which can incur project-related expenses in the U.S. but receive payment in tightly controlled foreign currencies. Financial officers at NBBJ ultimately worked with Bank of America Merrill Lynch to employ new fund repatriation strategies, helping the company with its liquidity.

In addition, new technology has made NBBJ’s treasury management more efficient and transparent, even as the scale and scope of its payments, receipts and liquidity management needs have grown. An online portal adopted in recent years gives the company’s financial team easy access to several functions—something that has been vital as NBBJ engages in projects in multiple countries.

“Payments overseas often come at project milestones not fully within our control, making cash flow projections more challenging,” Clark said. Having a central portal “provides visibility into our funds and easy access to the full gamut of capabilities that we need.”

Consistency through corporate cards
Another company that is active outside the U.S. and continues to advance its financial solutions is Hollister Inc., a leading supplier of healthcare products.

When Illinois-based Hollister first began using corporate credit cards several years ago, it was simply to consolidate employee expenses. But while the company saw benefits by moving from paper to electronic payments, those didn’t extend to its divisions and subsidiaries in other countries. With multiple non-U.S. locations and even more employees working abroad, Hollister truly is a global company, and it needed a global card program that reduced foreign exchange costs.
The answer was a single payment solution that enabled convenient, efficient and effective cash management across country borders—from Hollister’s U.S. headquarters to its European base in suburban London, and manufacturing facilities in Denmark, India and Ireland. As employees in those locations began to ask for cards, the company’s accounts payable department saw the potential for greater consistency across regions while also managing travel expenses in different currencies.

“The corporate card was a foundation product,” said Sheila Johnson, vice president and treasurer at Hollister. “It had gone from just a payment mechanism to a major working capital tool that was now a big part of our accounts payable structure.”

Hollister now has cards that allow for Canadian dollars euros and British pound sterling—the last move saving the company thousands of dollars in annual fees from a local U.K. financial institution. With the ability to settle transactions in the local currency in several countries, Hollister is mitigating its exposure to increased foreign exchange costs at a time of continued volatility.

The global card program has had other benefits. Consolidated spending greatly simplifies the payment process. A 20-day grace period before payment is due has increased the size and flexibility of the company’s working capital. And with an intuitive global reporting and account management tool provided by Bank of America Merrill Lynch, Hollister’s financial team can view statements, create customized reports and export data directly into its SAP software, plus set up new accounts, order additional cards and establish spending limits or merchant category exclusions for cardholders.

The result is an astounding increase in efficiency. Despite tripling the volume of payments it handles, Hollister’s accounts payable department includes only one full-time card administrator handling the work previously done by five part-time workers. In addition, the projected $3 million domestically that Hollister expected to save each year by moving spending to its corporate card has become more than $45 million globally.

“What started out as a way to reduce fixed costs in the payment cycle has now become a revenue generator,” Johnson said. “It’s one of the few payments that finance can use to actually reduce expense. We call it optimizing cash flow in support of working capital.”

Reducing expense and risk through lockbox

Although expanding into international markets usually requires a careful strategy and long-term planning, it also depends on overcoming day-to-day operational challenges. At CareerBuilder, the global leader in human capital solutions for employers, international growth has relied on leveraging expansive lockbox capabilities that increase visibility and accelerate posting of international cash—freeing resources that can be deployed toward new business.

The company’s CareerBuilder.com website hosts more than 50 million resumes, one million job openings and 24 million unique visitors each month. The Chicago-based company gets revenues from a wide range of sources—from large corporations to small businesses and placement agencies—and CareerBuilder needed a holistic, flexible approach to processing different types of payments, including ACH, merchant cards and checks. Checks especially are common in emerging markets, which elevates the need for CareerBuilder to accommodate traditional payment types.

“What we needed was a way to replicate the strengths of our U.S. lockbox program on a global scale,” said Kevin Knapp, CareerBuilder CFO. “At the same time, it was extremely important that we keep our banking relationships manageable.”

One advantage was that CareerBuilder’s international lockboxes could seamlessly integrate with its domestic lockbox infrastructure, which meant all worldwide receipts could be channeled into its bank’s online portal for easy visibility. Within about six weeks, CareerBuilder’s customers were able to send payments to the new lockboxes.
Now, each day Bank of America Merrill Lynch creates digital images of checks and electronically transmits them to CareerBuilder. A two-person team manages the company’s entire worldwide cash operations, and when CareerBuilder enters a new country it simply rolls the new lockbox into their existing process—eliminating the expense and risk of adding in-country staff.

Through this, CareerBuilder has overcome the dual challenges of handling a high volume of paper payments and winning business in new markets. Centralizing each country’s receivables via the online portal has eliminated some hassles of day-to-day, in-country operations—freeing CareerBuilder to focus on updating and executing its business strategy.

“For us, lockbox is really more than just another banking product,” Knapp said. “Since so many of our international clients pay by check, it’s really become an essential and big part of our global strategy by helping us stay flexible and focus on meeting our customers’ needs.”

More international growth likely

As the above examples show, many challenges can arise when a company’s growth plans take it outside the U.S. That situation will only become more common as other companies continue to add personnel in foreign countries and look for opportunities to grow global market share.

Recall that in 2010 President Obama set a goal of doubling exports over five years and created the National Export Initiative to promote U.S. goods, remove trade barriers and expand access to credit. Also consider that it’s not only large corporations that do business internationally. About 26 percent of U.S.-based multinational companies are classified by the federal government as “small businesses,” according to the recent “American Companies and Global Supply Networks” report sponsored by Business Roundtable and other organizations. There is no reason to think that number won’t rise.

At the same time, the financial crisis changed the way companies look at the world. More than ever, financial officers are focused on bringing more information into their companies while minimizing the risks from doing business in other countries, including emerging markets. Those goals were echoed in a late 2012 Ernst & Young survey of 750 senior business executives, who said the top drivers of globalization were technological advances and greater and quicker cross-border communications.

The world is smaller than before, and the opportunities for global expansion are growing for U.S. businesses. The key for CFOs, treasurers, controllers and other officers is finding the right trusted advisors and financial solutions to successfully navigate the challenges that come with international growth. This is possible, as other companies have shown, and the visibility, efficiency and transparency that companies gain can also benefit their financial reporting and other key processes.
Expanding Globally: Key Considerations to Navigating a Smooth Journey

Executive summary

When U.S.-based corporations expand organically into new markets, treasurers have an important role to play in helping the company establish its footprint successfully. The sooner the treasurer is involved in the process, the more effective the company will be in setting up a bank and cash management structure that is robust, future-proof and tailored to the requirements of individual countries.
When expanding globally, the corporate treasurer could be one of the most important experts to engage proactively and early in the decision-making process. Possessing a broad understanding of the complexities and challenges faced when entering new markets, the treasurer’s knowledge and breadth of experience in setting up a local cash management structure can help a company navigate that journey. Once engaged, the treasurer can help decision makers by:

• Suggesting timelines needed to avoid delays caused by "know your customer" and anti-money laundering (AML) documentation
• Explaining the structure and implications of new operations, particularly related to opening new local bank accounts and building the right framework, which varies from country to country
• Avoiding the risk associated with developing disparate and inefficient infrastructures, which could not only result in unfavourable bank fees and transaction charges, but just as importantly lead to unnecessary currency conversions, missed investment opportunities and unreasonable borrowing costs
• Rationalizing banking relationships in different countries, advising on counterparty risk assessment and implementing fraud-prevention measures
• Overseeing and integrating treasury staff that would otherwise work independently of each other

In addition, the treasurer can help with other key considerations, including whether the company’s existing operational model can be transferred into the new market, how the company will gain access to cash flows, and in which currency or currencies customers would be willing to make payments, to name a few.

Treasurers can not only help address those questions, but also smooth the way by proactively proposing solutions, such as those that solve for accessing or repatriating cash out of highly regulated countries like India or China, for example. By driving good communication within the company, the treasurer can keep internal and external stakeholders informed about key decisions, the solutions needed and the timeframes involved in achieving them.

Cash management considerations for expanding organically

When a company expands organically, rather than through a merger or acquisition the task of establishing an account structure requires setting up systems, processes and policies in the most efficient way possible.

A number of decisions will need to be made as it relates to different aspects of the company’s treasury activities. While not exhaustive, the following list includes some of the most important considerations that treasurers should focus on when their companies plan to expand overseas:

Getting Started—
Key Considerations for Companies Expanding into New Markets

• Will local regulations and best practices allow the existing operational model to be transferred into the new market?
• How will the company gain access to cash flows in the new market?
• What access will customers have to electronic instruments or credit cards?
• Which currency/currencies are customers willing to pay in?
• How will customers be affected by having to send a payment to the U.S., rather than to a local bank?
1. Tax

Tax considerations typically drive a company’s cash management structure. Therefore, the company’s tax advisors play an important role in determining the formation of new legal entities, the locations of those entities and the types of business activities that they are intended to support. The treasurer and the finance team build the banking framework on the basis of those decisions.

One important decision is whether an offshore entity will be set up as a resident or nonresident company. This will have a major impact on how taxes will be assessed, how easily funds can be transferred out of the country and the type of banking arrangement that can be set up. Any company planning to establish or acquire offshore operations should work with a qualified international legal or accounting firm for tax advice.

Tax is often the starting point when it comes to establishing a cash management structure for overseas operations—but it is not the only consideration. The treasurer is best placed to factor in other points, such as which of the countries under discussion would be the most efficient choice from a cash management point of view. The treasurer’s input, should therefore be included as early as possible in the process, in order to design and build the most effective cash management structure.

2. Control: headquarters vs. local

While leaving control over local bank accounts and local expenses with the in-country office may seem to be a good solution in the long run this can lead to problems if the headquarters lacks control over its overseas operations.

Local controllers may have a sense of ownership over money sitting in their accounts; however, their practices may not be in sync with the overall corporate goals. The corporation is likely to be focusing on paying debts and repatriating cash, whereas the local controller may wish to keep balances close to home and readily accessible. Additionally, when control is not centralized, headquarters is most likely receiving data in various formats, making analysis and comparisons difficult.

The objective should be to keep most of the control at the headquarters level—and if some processes are to be delegated to local offices, this needs to be done in a deliberate and strategic way. It is also important to note that in some countries, it is difficult to repatriate cash, and therefore a strategy needs to be put in place early on, in order to optimize excess cash throughout the enterprise.

3. IT integration

A company that is growing organically is in a good position to build an IT infrastructure consistent with the company’s existing operations.

When making decisions related to IT requirements, the best strategy is to take a five-year view, rather than considering what will be needed over the next six or 12 months. Systems with a local focus should be avoided where possible, as should home-grown systems.
Company headquarters should drive IT infrastructure decisions relating to the new operations. Allowing local offices to set up treasury workstations or ERP systems that are separate from those at the headquarters level will result in a proliferation of different formats, clouding efforts to access data in a standardized way.

It is important to expand the reach of the ERP system already in use at company headquarters, while providing the tools required by local operations. Modifications will be needed in order to support the new operation, such as including new functional currencies, new invoicing currencies and potentially new languages.

Finally, ERP implementation projects should take into account local nuances. For example, in the European Union, SEPA is accelerating the shift to the standard XML file format. This will make the typical fragmented file format scenario obsolete very soon. Therefore, U.S.-headquartered companies should consider implementing XML now, knowing that if they procrastinate, they might face project management constraints in a couple of years.

4. Banking model

When choosing a banking model, companies may opt for regional banks, a single global bank or a hybrid solution. It is important to get the structure right at the outset: fixing it later on is likely to be a major undertaking. Therefore the company's future plans should be factored in when deciding the appropriate model.

Some types of transactions require operational credit to be extended by the local bank in order for settlement to take place. For example, payroll transactions in Japan and Banker’s Automated Clearing Services (BACS) payments in the U.K., which are low-value, non-urgent transactions. As a result, the local transaction bank will need to have those exposures underwritten, and thus may require a credit approval process.

Local advisors tend to lean towards local or regional banks because of their knowledge of local practices; however they may lack a full global perspective. A banking structure which is overly reliant on local service providers may make it difficult for the company to implement consistent internal policies and procedures in different parts of the world. Another common misstep is for a company to award its international cash management business to a bank purely on the basis of a credit relationship. A more important consideration is to align with a strong global bank that has the capabilities to streamline cash flows as the company expands, and treasury experts who have a thorough knowledge of the local markets.

In addition, more often than not, the local staff wears a number of different hats, the scope of their roles may not be clearly defined, and overseeing a local banking relationship may not be their primary responsibility. By controlling banking activities through a global structure, the corporate treasurer can free up local resources to concentrate on their core responsibilities.
That said, in some countries, particularly in Asia, working with local banks is advisable and is in some cases a regulatory requirement. There may also be occasions where the company needs to work with a local bank in order to access payment instruments unique to indigenous banks.

5. Shared service centers

As part of their international expansion, companies may consider setting up regional shared service centers (SSC) in order to centralize processes such as accounts payable, accounts receivable, accounting, customer services and human resources. The SSC model can bring significant benefits in terms of visibility and consistent data formats, in addition to streamlining cross-border transactions and optimizing liquidity management.

One key decision is where to locate the SSC. As part of the decision-making process, companies should engage the local trade and investment body or ministry. These organizations should be able to describe the advantages of setting up an SSC in their countries, and may conduct studies on the company’s behalf.

When setting up an SSC, companies can streamline the process by migrating back-office processes before migrating customer-facing activities. Additionally, they should put in place service level agreements between the SSC and the relevant business units.

6. Visibility over local activity

Maintaining visibility over the company’s cash balances is a major priority for corporate treasurers. If a company has a fragmented international cash management structure, attaining full visibility can be difficult. In some cases local subsidiaries are the only parties within the company with access to information relating to local accounts.

Open communication between the local controllers and headquarters is essential if the company is to obtain complete or near complete visibility at the headquarters level. Local subsidiaries can certainly be given a level of independence, but from the outset treasurers should put in place tools, such as a dedicated treasury workstation or banking systems, which give them the visibility they need. Also, multi-bank technology can now give headquarters visibility over accounts held with different banks through a single portal.

Obtaining visibility is relatively straightforward when a company is setting up new operations. The challenge is to maintain the same level of visibility as new processes are created in the course of doing business. Whatever the company’s structure, the goal should be to get the same level of information about overseas cash as it has regarding cash balances in the U.S.

Many companies only think of moving to an SSC model at a later stage in the expansion process, which could present challenges. In order to later avoid an arduous restructuring process, establish your SSC at the outset, where appropriate.

Funding of local operations can be automated through in-country, cross-border or multicurrency cash concentration structures.
7. Funding and liquidity management

Another important consideration is funding the new operation and, in the longer term, how cash will be repatriated. Different countries present different challenges when it comes to funding new operations, but the first objective should be to gain a thorough understanding of any limitations in the countries involved.

When deciding how to support the costs associated with setting up and running the new operation, treasurers should ask the following questions:

- Will a local account be required?
- Will there be global visibility into the company’s liquidity position?
- How will the company maintain control over global funds?
- What options are available to optimize the company’s global liquidity portfolio?
- What is the timing of any planned transactions?
- What regulatory issues should the treasurer be aware of?
- Will the initial capital be funded by debt or equity?
- What are the options for investing excess cash?
- What is the rate environment and what rates does the company’s chosen bank offer in this market?
- What restrictions and regulations exist for fund movements?
- What structures are available for netting, sweeping and/or pooling cash—notional or otherwise?

Points to consider include the company’s tax and legal structure, local regulatory restrictions and strategic decisions, such as the desired level of control over local operations. In many cases, the ideal structure is one in which liquidity is pooled in a single structure, such that operations are self-funding.

When companies have multiple legal entities in multiple countries, liquidity can be concentrated through the use of inter-company loans, pooling agreements and netting structures. This allows the company to benefit from economies of scale rather than managing individual entities’ liquidity.

However, regulatory restrictions may affect or prohibit notional pooling or zero-balancing, while residence status may affect whether entities can be included in a cash concentration structure. Given these dynamics, alternative liquidity techniques should be considered, including overdraft expense reduction and credit enhancement solutions. Transfer pricing and thin capitalization rules need to be fully understood, as do any restrictions relating to inter-company loans.
External funding sources

Where external funding sources are concerned, companies should also consider the following points:

• If the local operation will be funded locally, how accessible are the local credit markets?
• How receptive are local banks to providing funding?
• Will banks underwrite based on the local legal entity or the consolidated company?
• Will the parent company need to provide a parental guarantee?

What implications will expansion have on the company’s existing U.S. credit agreements? (Do lenders need to be notified of the expansion? Are parental guarantees permitted under the company’s existing credit agreements?)

8. Currency

Understanding FX considerations and factoring them into treasury decisions is essential for companies expanding overseas, but all too often this area is not given the attention it needs.

When setting up new operations overseas, companies need to address the issue of how they will manage their FX exposures. Key considerations include:

• What type of exchange rate does the market have (fixed, floating or pegged)?
• What capital controls are in place?
• What exchange controls are in place?
• Are there any specific administrative requirements? For example, is supporting documentation required for FX transactions?

In order to manage their FX exposures effectively, companies not only must decide what constitutes a material exposure, but how it will be managed. It is typically best practice to put in place a formal policy outlining responsibility for identifying and managing the company’s FX exposures, and what tools the company can use in order to mitigate the risks.

Companies also need to decide which currency it will use to bill customers. U.S.-based companies expanding into other markets often allow their familiarity with the dollar to drive this decision. Paying in dollars may appear to be the easiest option for the corporation because it eliminates the FX risk on the transaction. However, by billing in local currency, the company may be able to access business advantages, such as the ability to negotiate more competitive pricing.

9. Payments environment

Companies moving into new markets will need detailed knowledge of the local payments environment. For example, it is important for a company that is accustomed to paying its U.S. vendors by check to realize that checks are less popular in Europe, and that a different accounts payable model will be required in that market. Likewise, Switzerland and Brazil have payment instruments that are not used anywhere else in the world.
While not always the case, local payment instruments may be the most cost-effective choice when making payments out of country. For example, U.S. businesses operating abroad may pay up to $20 per transaction for making wire payments, without realizing that they can access cheaper options, such as unique local instruments, which can reduce costs and improve reconciliation efficiencies.

When it comes to the local payments environment, the following questions should be asked to determine whether the local office should maintain a certain level of independence, or whether all payments should be centralized at the headquarters level:

• How are vendors typically paid in this market?
• What currency should the company pay in?
• What payment terms are typical in this market?
• Where and how can the company make payments (for example, local vs. regional vs. global or paper vs. electronic)?

One of the first hurdles a U.S. corporation may face when establishing a local overseas office is deciding how to manage local cash payments. Many local offices insist on maintaining “petty cash accounts” for purchases such as stationery and other administrative items. However, these types of accounts introduce additional risk for the organization, and make it hard for the headquarters to maintain full visibility and control over its cash. If the local overseas office insists on maintaining some local autonomy, the U.S. headquarters may choose to set up a corporate purchasing card which provides more oversight than a petty cash account. It is also important to note that in some countries, such as China, petty cash accounts are required for regulatory reasons.

10. Collections—Best practices

Cash is the lifeblood of any company, and the ability to quickly collect accounts receivable will directly impact a company’s cash flow. Processing collections is often a complex task, but receivables can sometimes be consolidated more readily than accounts payable — which is perhaps one reason companies believe that adopting an integrated receivables hub can add value to their organization. Solutions such as these aggregate incoming payments and the associated remittance details from multiple payment sources, such as lockboxes, checks, wire transfers, ACH and cards. Coupled with the accessibility of trend analysis, companies can benefit from the automated consolidation of internal and external data sources, allowing exceptions to be resolved easily.

In order to process receivables as effectively as possible, treasurers should ask the following questions:

• How will the company collect payments from its customers?
• What is common practice in the local market?
• In what currency should the company invoice?
• What payment terms are typical in this market?
• How will the company reconcile customer remittances?

If a company’s U.S. collections are based mostly on checks, it doesn’t mean that checks will be the best collection instrument in every other country. When entering new markets, never use a “one size fits all” approach.

Some companies choose to delay focusing on their banking infrastructure because they are giving full priority to tax considerations. In such cases, there is risk that other important factors may not be considered while the cash management structure is designed. This can be avoided by including the treasurer in these discussions from the outset.
Credit card payments

For low-value receivables, companies often collect payments by credit card, which can result in additional complications. For one thing, credit card interchange fees and merchant service fees vary between countries and can lead to significant variations in the way cards are used in different markets.

In addition, although domestic credit card processing is typically well established, accepting credit card payments in other countries is not always straightforward. In some industries, it is common practice to invoice in the company’s domestic currency rather than the customer’s home currency, leading to uncertainty on the part of the customer about the exact amount being debited to the card. In other industries, it is more common to invoice in the customer’s home currency. This, too, can lead to obstacles: it tends to result in additional work for the supplier in terms of price setting, accounting and statement reconciliation.

In light of these challenges, tools such as dynamic currency conversion, a service in which holders of credit cards have the cost of a transaction converted into their local currency when making a payment in a foreign currency, are increasingly being used to obtain greater certainty about the value of the payment at the time of the transaction. In addition, some banks offer multicurrency card processing, which allows companies to quote prices in the customer’s home currency, while informing customers in advance how much will be charged against their account.

Conclusion

People are often surprised by the length of time required to set up an international structure compared to domestic operations. In light of the challenges, there is a tendency for U.S.-based companies to delegate many of their operational decisions to their local accountants and lawyers.

While this approach offers some benefits, it is important to remember that the people who make these decisions will have a significant impact on the company’s long-term operational strategy. Therefore, the extent to which the treasurer can advise and inform on key decisions should not be underestimated. External consultants can certainly help, but they will not be approaching the project with the same level of interest in the company’s future goals as the treasurer. By taking a more proactive role in the planning process, the treasurer is in a much better position to contribute to the project’s overall success.

ERP projects can consume more time and resources than any other treasury-related project. Assume the project will snowball and take longer than expected.
Risk Management
When Global Becomes Local: Payment considerations when trading across borders.

Executive summary

Businesses that transact with global customers and suppliers in their own home currencies may find it convenient—but the practice comes at a cost. This article examines the case for how companies involved in international trade can adopt a more global approach by transacting with overseas suppliers and customers in the counterparties’ local currencies.
For companies who trade internationally, they must inevitably face the question of whether to transact in their home currency with overseas counterparties — or whether to take the plunge and transact in their counterparties’ local currencies.

At first glance, conducting trade in one’s home currency tends to look more attractive. Many companies believe that they can eliminate foreign exchange (FX) risk entirely by conducting their international trade only in their home currency. However, the risk of volatility between the two currencies is always present. By transacting in their home currency, companies pass the FX risk on to their suppliers or customers — who may either fail to manage the risk appropriately or may charge a premium for assuming it.

Exporters may find that pricing goods in the local currency of their trading partner makes it easier for those partners to understand the actual cost of goods, while ensuring a level playing field with competitors who also are pricing in local currency. Additionally, exporters pricing goods in their home currency may have the unwelcome result of sales volumes being determined to an extent by the prevailing exchange rate. A German company selling goods in the U.S. may find that if the US dollar appreciates by 10% against the euro, sales will increase — but if the dollar depreciates, sales will fall as the price of the goods becomes less competitive. By pricing in the local currency, companies can ensure that sales volumes are determined by the merits of the product itself, rather than by currency movements.

Importers purchasing goods from international suppliers in their home currencies, meanwhile, may find they are paying far more than cost plus profit mark-up for those goods. Suppliers in China, for example, tend to accommodate fluctuations in CNY/ EUR in the pricing of their products. Purchasing goods in local currency can allow companies to negotiate more competitive local pricing and avoid overpaying for their imports.

Overcoming The Obstacles

One of the biggest hurdles companies may face when moving to local currency transactions is the fear factor. Transacting in local currency does, of course, expose the company to FX risk, which the company will then need to manage. For example, in the case of China, European companies now have the opportunity to take advantage of the new CNH (offshore renminbi) market, which allows exposure to the Chinese currency to be hedged more effectively and efficiently than in the past. The prospect of dealing with FX risk for the first time may seem daunting but with the support of a banking provider, companies can access the knowledge and tools needed to manage these risks effectively.

Contractual terms already in place with local suppliers can represent another hurdle, if those terms specify that invoicing should take place in a specific currency. In such cases the terms of the contract may need to be adjusted to allow the supplier to bill in their local currency, while the importer’s procurement agent may wish to revisit the payment
terms to make sure that the company is getting the best price. The local counterparty will often welcome a move to local currency terms: by transacting in their base currency they will gain convenience while avoiding the need to manage the FX risk associated with the contract.

Other obstacles which are more problematic, but which can nevertheless be overcome, include company risk management policies which do not accommodate the proposed hedging strategy. Technological barriers can also arise — for example, if the general ledger system only permits denomination in a home currency. However, these issues are not insurmountable, and can be addressed either through the provider of your financial accounting system, or through discussions with your transaction banker.

Sometimes the simplest way to solve issues like this may be to continue to receive the invoice in local currency terms, but to actually convert the payment from home currency to supplier’s currency. While missing out on some benefits, the international supplier will still benefit from the locked in exchange rate, and the ability to easily reconcile the payment, assuming you provide them with an alert of the incoming payment and exchange rate.

While many obstacles can be overcome, there are some cases where local currency transactions are not the best option. Due to the nature of restrictions on certain exotic currencies, transacting in those currencies is not always feasible. In Argentina or the Central & West African countries, for example, pricing goods in a home currency may continue to be the best strategy.

**Taking The Plunge**

While many established international players already have adopted this strategy, others are now beginning to give local currency transactions serious consideration. In particular, middle market companies and larger corporations currently in the process of expanding internationally may find they can benefit from adopting a more global approach to their imports and exports.

For those ready to make the move, the following points are worth bearing in mind:

- Local currency payments are as easy to make as payments in a home currency if you have your beneficiary’s bank account details for routing.
- Take the time to understand the risk management implications of the move.
- Make sure an appropriate FX policy is in place, which details what can and cannot be done in terms of hedging.
- Begin the transition with one or two large suppliers/customers rather than trying to move every contract to local currency terms at the same time.
- Expect the transition to take time — a minimum of three to six months.
Examples: Pitfalls of paying local suppliers

**Importer**
A European firm purchasing goods from a Chinese toy producer commits to a price which is based on the budget rate of 8.1550 CNY/EUR calculated by the supplier. The spot market price at the time the price is set is actually 8.5270 but the toy producer increases the rate in anticipation of further appreciation. If the European company pays in EUR, they end up paying €5.5 million for the goods. If, on the other hand, they request pricing in CNY and lock in a rate of 8.6670 using a six month NDF (non-deliverable forward), they pay $5.175 million — a saving of $0.325 million.

**Exporter**
An Australian winery selling to European customers prices its wine shipments in AUD$, in order to avoid converting euros into AUD$. On January 11, the winery sets the price for the year at $40.00 a bottle, based on the price set by European competitors selling a bottle of wine for €28.00. However, by the end of the third quarter the EUR/AUD$ rate plummets and European customers must now pay €33.00 to purchase a bottle of wine from the Australian winery. Consequently, customers are more likely to purchase wine priced in euros from the winery’s competitors.

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Your risk management fitness check:
Building a stronger treasury function
Review, revise and get ready

Real-time cash concentration. Bank-neutral technology. Global visibility. Five years ago, not one of these was a staple of the corporate treasurer’s armoury – or even vocabulary. Today, they form part of what Jennifer Boussuge, Head of Global Sales, Global Transaction Services (GTS), Bank of America Merrill Lynch, refers to as ‘the new normal’.

We have entered an era where transparency is the order of the day – whether in bank relationships or internal corporate processes. Companies are seeking accountability, reliability and above all, they are looking to reduce any future uncertainty. This is being driven by the continued macroeconomic turmoil and significant market volatility, as well as increased regulatory reform.

So, with everyone from Board level down now sharing a strong conviction that effective risk management is a key priority, and an essential part of running a strong business, it is the treasurer who is being called to action. This has seen the remit of the treasury function reach far beyond the traditional financial risk monitoring and management of yesteryear. In tandem, risk monitoring methodologies have become much more concrete across entire organisations, with enterprise risk models – that cover all areas of the business – embodying best practice.

Time for an assessment

Turning this best practice risk management model from theory into reality requires a disciplined approach to the company’s risk exposures. In other words, reviewing and identifying all the potential types of risk, how these are relevant to the corporate’s operations and then prioritising them accordingly. This could encompass anything from strategic risk to operational risk, and may arise internally or externally.

By using SEPA, treasurers can look to hold their euro account(s) in a more stable Eurozone country, while still being able to transact payments and debits in any euro location.

In order to achieve complete visibility, risk tolerances must also be considered – whether they relate to foreign exchange (FX) risk, interest rate risk, commodity risk or counterparty risk, for example. Part of this disciplined cataloguing and prioritising process should also include an assessment of the available mitigants to help minimise risk exposures where appropriate. There are templates available to assist corporates with this kind of risk review. For example, many companies use a risk matrix, such as this, to assist in their risk-related decision making:

**Figure 1.**

### Risk matrix

<table>
<thead>
<tr>
<th>Likelihood level of risk</th>
<th>Impact level of risk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Insignificant</td>
</tr>
<tr>
<td>Very high</td>
<td>3</td>
</tr>
<tr>
<td>High</td>
<td>2</td>
</tr>
<tr>
<td>Medium</td>
<td>2</td>
</tr>
<tr>
<td>Low</td>
<td>1</td>
</tr>
<tr>
<td>Very low</td>
<td>1</td>
</tr>
</tbody>
</table>
As the burden of Board expectation has grown however, treasurers are beginning to engage much more with their banks around the proper management of their company’s risk. It could be a question of leveraging the bank’s expertise; there may be a need for a specific solution; or for enhanced information.

Historically, a lack of information, or information in a standardised format, has been a genuine risk blind spot for many corporations. Banks are well placed to assist the treasurer in achieving visibility over their risk exposures and reviewing appropriate solutions for mitigating risk as they have the breadth of experience of working with numerous corporate clients — each with unique financial structures.

While this review could entail operational decisions like looking at hedges for FX exposures, strategic conversations around liquidity structures to assist with counterparty and sovereign risk are also being encouraged by banks.

Embracing the single euro payments area (SEPA) is a fantastic example of thinking differently about managing risk: think about the exposures that companies have to some of the challenged euro countries, such as where they are transacting through the local clearing systems or holding deposits with local banks. By using SEPA, treasurers can look to hold their euro account(s) in a more stable Eurozone country, while still being able to transact payments and debits in any euro location. Put simply, corporates can actually leverage a bank’s SEPA capabilities to help mitigate potential impact from the euro crisis.

A new approach
Where there used to be a “Chinese wall” of sorts between corporates and their banks, this collaborative focus on managing risk has opened up the client-bank relationship significantly. Broader and deeper discussions are therefore able to take place, meaning that it is easier to glean a better understanding of needs and requirements on both sides.

Take Basel III for example. It has been widely reported that the regulation may mean that banks become more selective with which clients they work with. But this is not a ground-breaking revelation: corporates are smart and they understand that the landscape is changing. A strong relationship brings out the best in this situation by enabling transparent conversations. If a bank can provide transparency to the client about what the knock-on effect might be on the services and products they provide, both can work out the best way forward to not just survive, but thrive in this challenging environment.

Aside from a collaborative approach to regulation, innovation is also taking place on the back of bank-corporate collaboration. For example, banks have been challenged by corporates to provide global capabilities, while offering local expertise. And to create solutions which give corporates instant global visibility over their cash, or allow them to concentrate their cash in real-time.

Elsewhere, the banks are being pushed — through this more honest, open relationship — to really understand a corporate’s processes and where those can be improved. As a result, banks such as Bank of America Merrill Lynch have hired a number of new practitioners, including former treasurers and Six Sigma specialists, to talk clients through their current processes and advise them on ways to free up liquidity via process improvement. In addition to helping them increase their control over cash, this kind of detailed review can help corporations achieve working capital optimisation by making available working capital as an additional source of funding alongside traditional credit lines.

Leveraging technology
In turn, corporate organisations are also being challenged to step up and to have the right people and the right tools in place. Treasurers are therefore looking for in-depth information to be provided to them in a standardised, simple and integrated format. But it’s not just about getting the information itself, it’s about analysing the impact of that information – and how to act on it.

Forward-looking corporates are therefore using the current environment as a good opportunity to update or reform some of their current formats and systems. Projects might include migration to ISO XML standards, implementing SWIFT for Corporates or eBAM. Regardless of the choice of channel, it is the consistency of data that is critical.

Consistency of service across the globe is another key factor. On the back of this, bank-neutral solutions are gaining traction. Corporates want to be able to work with the bank providers that they know and trust and not be hampered by proprietary systems, or technologies that do not interface smoothly. Banks that truly want the best for their clients will understand and embrace that – particularly given the counterparty risk concerns that are narrowing the pool of reliable, stable banks to work with.

Making informed decisions
But the biggest lesson from recent years is not simply the importance attached to understanding and prioritising risk across the organisation and across the bank-corporate relationship, it’s about making the right decision for the company’s future. Ultimately, it is the treasury’s role to support the business and to help the business units achieve their growth goals, while enabling them to do so in a much more risk-averse manner.

We will now delve deeper into the ways in which visibility over cash, appropriate liquidity risk strategies, collaborative bank partners, and the right technology can assist the treasurer in this quest.
Liquidity: keeping your finger on the pulse

Clearly, managing counterparty risk, visibility and market risk are top of mind for today’s treasurer. After all, it is these three risks that will have the most impact on the liquidity of a company. And as Rohan Ryan, Head of Treasury and Liquidity Solutions for Global Treasury Solutions Americas at Bank of America Merrill Lynch says, liquidity is the ‘lifeblood’ of any business.

As such, it is no surprise that corporates want to understand who they are doing business with as well as what the health of their counterparties are. Treasurers must also be acutely aware of the risk their company is taking in terms of their ability to fulfil orders or even execute basic transactions. This means not only an increased focus on suppliers, but also increased scrutiny over bank relationships. As outlined above, corporates are working with a much tighter circle of bank counterparties today, so it is essential that a corporate can leverage that relationship on both a global and local scale. Having a nimble relationship, with full liquidity capabilities locally is key, especially in times of crisis.

Risk assessment

Against this backdrop, the treasurer must discern which bank(s) will be able to assist them in overcoming current and future operational challenges to achieve optimal liquidity management.

But deciding which bank to work with is no longer a question of undertaking a product and capability-related ‘show and tell’. Corporates have a lot of homework to do, even undertaking health checks on the financial institutions they work with. A selection of the metrics that corporates currently used to measure this are:

- Credit default swap spreads (CDS), which measures the ‘insurance’ premium that the market is willing to pay against the possible default of the underlying counterparty. While CDSs were widely used by analysts pre-crisis, since 2008, the number of corporates using them has grown significantly.

- Time to required funding (TRF) calculates the time that a company can continue to operate if all operations stopped. A bank with a rising TRF number can be viewed as being on a ‘stable’ management trajectory.

- Ratings agencies also assign counterparty ratings which highlight risk levels across several categories. Largely used in isolation as a measure of counterparty risk before the financial collapse in 2008, ratings remain a popular tool among many corporations.

For those companies whose investment guidelines still place all their faith in the ratings agencies though, it may be time to revisit that policy and double-check its applicability in the current environment.

Corporates are working with a much tighter circle of bank counterparties today, so it is essential that a corporate can leverage that relationship on both a global and local scale. Having a nimble relationship, with full liquidity capabilities locally is key, especially in times of crisis.

Global visibility

Whichever institutions the corporate decides to work with, the key to successful management of their banking relationships – and the liquidity associated with them – is visibility. By having access to all of their accounts and all of their payments activity across the world, corporates can ‘draw’ a road map to rationalise the accounts that they have open with banks globally. But how is this possible?

One of the tools that many banks deploy today to provide customers with visibility is to physically concentrate their cash through multi-bank cash concentration. This essentially involves moving the money from the third-party banks to one institution for the purpose of visibility and counterparty risk management. This is necessary because although membership of SWIFT and...
standardised connectivity is rapidly increasing, all of the major global banks still have a propriety portal that they leverage in order to offer account visibility to corporates.

If a corporate managed all of their accounts globally with just one bank, the proprietary portal would succeed in giving the treasurer the visibility and control of viewing their entire global network. Yet, this is a utopian concept as most multinationals today leverage multiple banks for their cash management.

An additional area where working with one’s bank as a strategic advisor has become paramount is market risk, or ‘duration’ risk. Whereas pre-crisis companies would rely on short-term lines of credit to react to rapidly evolving priorities, they are now far more dependent on their cash reserves.

Taking these needs into account, it is incumbent upon the banks to work towards more agnostic visibility tools for treasurers. Some banks may be concerned that if they provide this sort of agnostic view of a client’s positions, it would cannibalise existing business. Therefore, certain institutions arguably have a vested interest in continuing to develop their tools on a proprietary basis. But at the end of the day, serving the client with the best solution for their needs is the only basis of a deep, long-lasting relationship.

Thinking differently about liquidity risk

An additional area where working with one’s bank as a strategic advisor has become paramount is market risk, or ‘duration’ risk. Whereas pre-crisis companies would rely on short-term lines of credit to react to rapidly evolving priorities, they are now far more dependent on their cash reserves. But there are a number of factors threatening corporate cash balances today — whether they are kept on deposit, or in an investment product. The following three points are good examples of potential threats that corporates ought to be aware of:

- **Basel III.** Under the latest iteration of the Basel accord, when a corporate has reserve cash sitting in a bank, that cash will have less value to the bank because the institution has a higher capitalisation requirement for it. However, if the cash were termed 30 days or more, there would be a 0% collateralisation requirement. Going forward, what this means is that when a corporate has a chunk of cash to place on deposit they will find that the banks will be slightly more competitive when the duration is 30 days out. Corporates therefore need to ask themselves whether they are willing to take on 29 days of duration risk to achieve that extra yield.

- **Federal Deposit Insurance Corporation (FDIC) expiry.** For accounts that are domiciled in the US, this falls under the category of both market and counterparty risk. The flight to quality that many banks experienced as a result of the FDIC unlimited insurance on noninterest bearing deposits is due to run out at the end of 2012. Corporates should therefore take a refreshed look at where they are holding their deposits if they no longer have full government protection. As and when the FDIC expires there is a concern that deposits would move from small regional banks in favour of the large global banks.

- **Money market fund (MMF) reforms.** The Securities and Exchange Commission (SEC) is pushing to continue reform in the MMF space. The three proposals currently out in the market are:
  - Additional capital buffer requirements.
  - Principle redemption holdbacks.
  - Conversion to a floating net asset value. Critics are lobbying for amendments that will not alter the actual profile of the fund itself. If the reforms are enacted, corporates that currently invest in MMFs will have to reassess their investments: recent surveys suggest that some companies may go so far as to liquidate their MMF holdings. This could have unintended consequences on a corporates’ ability to fund itself as MMFs are major purchasers of commercial paper. We would therefore urge corporates to speak to their fund providers and also to join in with lobbying the regulators. Feedback from end-users will only add more weight to the argument that additional disclosure by fund managers would be the most preferable risk measure.

In light of these evolving threats to corporate liquidity, it is vital that treasurers work with a banking provider that understands these risks, can advise on these risks and can provide solutions to help manage these risks.

In light of these evolving threats to corporate liquidity, it is vital that treasurers work with a banking provider that understands these risks, can advise on these risks and can provide solutions to help manage these risks.
Technology: achieving global agility

While very focused on managing risk, an increasing number of businesses are also taking advantage of the expansion opportunities available, according to Tom Durkin, Global Head of Integrated Channels for Global Treasury Solutions at Bank of America Merrill Lynch. Whether it be an M&A transaction, entering a new market, or looking to grow the business organically, if a corporate is to give itself the best shot at riding the wave of recovery, it needs to harness technology. And crucially, that technology must offer standardised connectivity. Enter SWIFT for Corporates, ISO XML and eBAM.

Adapting to change

As with the other risks and developments explored in this supplement, regulation is a key driver in the technology sphere. In fact, regulation is demanding standardisation. Take the mandatory implementation of the single euro payments area (SEPA) on 1st February 2014 for example. Migration to this harmonised, borderless payment method is dependent on the adoption of the global XML standard ISO 20022. And in order to reap the complete benefits of what this initiative can bring, corporates are encouraged to adopt this ISO XML standard as soon as possible.

SEPA aims to introduce cost-effective and competitive transactions across the European payments landscape, but corporates should also look at it as an opportunity to maximise how they structure their relationships with their banks. After all, corporates today are fully focused on diversifying their risk and managing their counterparty interactions accordingly. The ISO XML standard is a real opening for treasurers to set up an interface with multiple banking providers, as opposed to being tied to the proprietary route. This strategic ‘repositioning’ will allow the corporate the freedom and flexibility to move their business (payments, reporting and so on) from one bank to another.

With the crisis in the Eurozone persisting, it has never been more important for companies to be insulated from counterparty risk in this way. Being ready for SEPA and having a standardised format is the only option. Imagine being left with the legacy payment format in a situation where you can’t move your business and there’s a downstream impact from one of your banks. It is up to the treasurer to be ready to protect the company from that.

Becoming nimble

Technological readiness is also critical when it comes to working capital and liquidity. Being one step ahead of the competition in terms of managing the business and eliminating disruptions to operations will be invaluable for companies on the growth path. Here, SWIFT is the treasurer’s new best friend. The connectivity choices offered by SWIFT, used in combination with standardised messages, helps corporates to reduce risk, increase their visibility and control over working capital and improve straight through processing (STP) rates.

Moreover, with service bureaus and Alliance Lite2 making SWIFT increasingly accessible for corporations of all sizes, the need for vast onsite IT resources is dwindling and the costs of standardisation are decreasing. The fact that SWIFT has a 99.9% reliability rate also makes this a perfect technology to meet corporates’ evolving liquidity and business continuity needs.

SWIFT remains ‘the ultimate model’ for corporates. And the collaborative approach being taken by banks, technology providers and SWIFT is testament to the industry’s desire to understand and support corporate objectives.

Driving efficiencies

In addition, having access to an accurate view of bank balances and intelligent payment information via SWIFT, as

Potential benefits of SWIFT for Corporates

- A secure and reliable way to exchange information with financial institutions.
- A single interface for communicating with multiple banking relationships.
- Independence from bank proprietary connections.
- A global standard accepted by all SWIFT member banks.
- Greater automation and STP along the financial supply chain.
- Timely delivery of information, resulting in more accurate, speedy and efficient financial decisions.
- Supports centralisation initiatives, creating greater visibility and control over cash flow, thereby helping to reduce risk.
- Supports compliance requirements with relevant regulations and principles of good practice, such as the US Sarbanes-Oxley Act and the UK Combined Code on Corporate.
well as the value-added services that banks are able to provide around SWIFT, is essential in driving efficiencies in other areas of treasury.

Corporates are focused on maximising their payment activities – they want end-to-end capability in their procure-to-pay/order-to-cash cycles and they can get that advantage by using the right technology to drive efficiency. This then opens the door for benefits such as early discounts and better vendor management, which in turn assist in supporting the business.

Finally, the security benefits of standardisation should not be overlooked. Reports of fraud are rife and concerns around security and protocol adherence are more than justified. Standard connectivity and messaging can go a long way to help eliminate these issues and over the coming months, corporates should anticipate an increased scrutiny around the ways in which they manage their data and their technology. Under such a spotlight, the risk management benefits of a network with strong security features such as SWIFT will not only be recognised, but required.

Treasurers must present a strong business case, driving recognition from the CFO that a technology project is worthwhile over the long term. This comes back full circle to increasing visibility and flexibility, while supporting standards and minimising risk – that is where the true value lies for the corporate organisation.

As a risk mitigation and security tool, electronic bank account management (eBAM) is another initiative that should be firmly on the corporate radar going forward. Those companies adopting eBAM now are beginning to realise the value of the information available through the standardisation of account opening and maintenance procedures, and are using it for visibility around entities, accounts and signers, to create a ‘single source of truth’. Given that treasury teams’ meetings with the CFO are dominated by how they are managing risk today, to present an inaccurate list of accounts and signers would be simply unacceptable. eBAM is the way forward.

Ensuring top form

But no matter which processes corporates are looking to improve or standardise through technology – from cash flow forecasting to introducing straight through reconciliation – current macroeconomic events are undoubtedly limiting a company’s ability to do so. The onus is therefore on the corporate treasury function to come up with a winning ‘battle strategy’ in order to secure the technology resources they need to maintain a healthy operation.

Treasurers must present a strong business case, driving recognition from the CFO that a technology project is worthwhile over the long term. This comes back full circle to increasing visibility and flexibility, while supporting standards and minimising risk – that is where the true value lies for the corporate organisation.
The internationalisation of China’s currency, the renminbi, continues to gather pace, while it remains unclear when the currency will be fully liberalised, the direction of travel is certain. For companies that do business in China — a group that includes both importers and exporters and is growing every year as a result of globalisation — the implications of this liberalisation are significant.

China’s decision to begin to allow cross-border settlement of renminbi originated in the 2008 financial crisis. As the dollar fell in value, reflecting concerns about the global economic outlook, many large corporations and small and medium-sized enterprises (SMEs) lost money because their invoices were denominated in dollars. The government started to consider internationalisation of the renminbi in order to limit these firms’ exposures to the dollar.

Since then, there has been a cautious but clear advance towards the goal of liberalisation of the renminbi (see page 4 for additional details). The use of the currency — for both onshore and offshore settlement — has become steadily more widespread since 2009. Since 2011, renminbi
settlement has covered all of China, and offshore settlement has been extended to the entire world: all cross-border imports and exports can now settle in renminbi.

Data from SWIFT shows that the value of renminbi trades has increased 17.4 times from October 2010 to June 2012. SWIFT figures also show that in February 2012 there were 2,318 renminbi letters of credit (L/Cs) sent and received outside China, with Hong Kong accounting for 47% of these.

Recent important developments include the formation of an offshore renminbi market in London. This centre is expected to be a commercial rather than a settlement hub — the government favours Hong Kong as the default settlement location — but the ability to trade renminbi as a currency pair irrespective of time zone is a crucial step on the road to creation of an international currency.

Renminbi is traded both onshore in China and offshore, primarily in Hong Kong. It is the same currency in these different trading locations, but traded at different rates. This is intentional — regulation has explicitly kept onshore and offshore trading separate, and respective supply and demand conditions result in separate market-clearing exchange rates. This structure has necessitated the development of a new currency code, CNH, to represent the exchange rate of renminbi traded offshore in Hong Kong. Additionally, there is a traditional offshore renminbi market, the dollar-settled non-deliverable forward (NDF) market, which itself trades independently of either onshore CNY or offshore CNH.

**Re-invoicing in Hong Kong**

At the current time the most important development for many international companies that do business in China is the emergence of Hong Kong as a re-invoicing centre. Re-invoicing in Hong Kong is attractive to companies because it enables dollars to be converted into renminbi before they return to China. According to the Hong Kong Monetary Authority, in 2011, renminbi trade settlement handled by banks in Hong Kong amounted to RMB1.915tr or about 92% of the RMB2.081tr total of mainland China’s external trade settled in renminbi.

Re-invoicing means that a Hong Kong-based centre buys or sells products to or from subsidiaries on the mainland and then buys or sells them to its other business units worldwide. The re-invoicing centre acts as an intermediary for inter-company flows so that mainland subsidiaries no longer have to manage currency risk for invoicing and payments or perform other treasury roles, such as liquidity management. The model results in FX cost savings for exporting and importing activities from and to mainland China. It also gives a corporation flexibility and the ability to hold renminbi as the store of value.

Establishing a re-invoicing centre requires a case-by-case filing with a local People’s Bank of China (PBoC) in writing, which is submitted by the company’s settlement bank. This application must describe the group and its onshore entities — in terms of industry, business scope, the relationship between entities, current settlement model, annual settlement value, and the onshore entities’ import and export values. Among other requirements, the application must also commit to amend renminbi-denominated sales contracts and invoices between onshore and offshore entities so that settlement is routed to the account of the settlement hub. The application must also declare that settlement will not involve netting and provide evidence to verify the authorised signatory.

### Why Invoice In renminbi?

For companies outside of mainland China, there are many advantages to using renminbi. For exporters selling to mainland China, using renminbi offers the ability to sell in local currency and therefore expand their customer base. By eliminating FX risk for mainland importers, such companies may also potentially achieve better pricing on goods and services. They can also reduce Days Sales Outstanding.

Importers buying from mainland China can expand their supplier base (to include Mainland Designated Enterprises, which are companies eligible for renminbi cross-
border settlement) by having an ability to purchase in renminbi. FX risk for mainland exporters is reduced, which may help importers buying from China to obtain better terms for goods and services. In addition, by invoicing in renminbi companies can benefit from simplified documentation and customs requirements that are less onerous than for dollars.

Larger international entities are well placed to set terms for a transaction and therefore choose whether they want to settle in renminbi. However, smaller entities inevitably have less flexibility and may have to accept terms set by Chinese exporters. Nevertheless, in the long term the expectation is that both exporters and importers will move towards using renminbi as their settlement currency.

Before deciding to use renminbi as an invoicing currency, companies need first to check with their trading partners in mainland China that they are ready to pay and receive renminbi funds for trade settlement. They must also confirm with their trading partner that their banks can accept cross-border renminbi payments and that they accept renminbi payments with the account name in English.

**Deciding how to make renminbi payments**

For importers buying from mainland China and agreeing to take renminbi risk, an important decision is whether to maintain an account in renminbi or simply to convert to renminbi when payments need to be made.

When liberalisation of the renminbi first began, there was strong enthusiasm among companies to maintain positions in the currency as it was widely expected to appreciate strongly: the decision was largely speculative. As expected, appreciation occurred. While the renminbi is expected to continue to appreciate against the dollar, the speed of that appreciation has slowed considerably and it is likely that there will be some volatility over the medium term.

Consequently, the financial benefits from maintaining a renminbi position are no longer a key driver of the decision to have a local currency account. Instead, most companies' decisions to open a local currency account are based on their business needs: those companies that expect to have inflows (from collections) — rather than simply the need to make payments — are most likely to have a renminbi account and maintain a position in the currency.

Other companies may find it simpler to make payments from a USD account and convert to renminbi as necessary. Making such a payment is straightforward: the FX component can be done automatically. However, the FX conversion must be done onshore and the payment must have documentation to prove that it is related to trade in goods or services (see figure 1).

If an international company decides it is advantageous to open a renminbi account, it must then consider how to fund that account. Often companies choose to fund renminbi accounts from their USD account through the offshore market, which can offer rates that are more attractive and which does not require documentation, unlike the onshore market.
Development of Renminbi Cross-Border Settlement

In July 2009, the Chinese government launched a pilot scheme to allow renminbi cross-border settlement. The scheme was originally restricted to the trade of goods and involved 400 Mainland Designated Enterprises (MDEs) in Shanghai and four cities in Guangdong province. Offshore participants in the pilot had to be located in Hong Kong, Macau or 10 ASEAN countries. Documentary evidence was required and the use of offshore renminbi proceeds was restricted.

In June 2010, the scope of the pilot scheme was expanded to include service trade (such as royalties and management fees) and other current account items (such as dividends). The geographical range of the pilot was also enlarged to include exporter MDEs from 16 provinces and all importer companies/entities in 20 provinces. The range of offshore participants was expanded to include all countries worldwide.

Just a month later, a supplementary memorandum published by the PBoC, the country’s central bank, and the Hong Kong Monetary Authority, which fulfills the same role in the special administrative region, authorised institutions in Hong Kong to open renminbi deposit accounts for corporate customers for general purposes. It also permitted transfers across offshore renminbi accounts. In December that year, the MDE list was expanded, with 67,724 MDEs approved.

The pace of reform accelerated further in 2011. In January, a new scheme for settlement of overseas direct investment in renminbi was established and mainland China enterprises were allowed to conduct direct investments overseas using renminbi (with approval). In June that year, foreign enterprises were permitted to remit offshore renminbi back to mainland China in the form of foreign direct investment (FDI) with PBoC approval.

In August 2011, renminbi cross-border settlement expanded to all the provinces and cities in mainland China. All Chinese enterprises became eligible for renminbi settlement for import of goods, service trade and other current account items while approved MDEs were allowed to use renminbi settlement for the export of goods. In October, new regulations on renminbi FDI in mainland China were introduced: capital injections were allowed (subject to approval by the Ministry of Commerce or its local branch and registration with the PBoC). Renminbi cross-border loans (from shareholders, affiliate companies or financial institutions) were also permitted, with no need for case-by-case pre-approval by the PBoC.

In June 2012, renminbi settlement for exports was extended to all of China. In addition, China’s government said it would create a special renminbi zone in Shenzhen (where the country’s economic reforms began in 1980) called Qianhai Bay, which is adjacent to Hong Kong. Banks from Hong Kong will be able to lend renminbi directly to companies in the zone.

The location of the renminbi account can be in the US or Hong Kong: depending on companies’ bank providers’ functionality it may be possible for either account to operate through the bank’s standard global platform but with local customer service. Ultimately, the decision may be down to time zone considerations: if a corporation is making payments from Hong Kong then the market will already be closed when the US business day begins. Equally, if the account is based in San Francisco, funds would not come into the account until after the US business day.

Hedging benefits

As well as offering opportunities to lower costs, invoicing in renminbi creates risks that need to be closely monitored and managed. Fortunately, international companies have numerous possibilities for hedging different types of exposure when using Hong Kong as a re-invoicing centre.

Hedging renminbi is complex because of China’s two spot markets — CNY, CNH and three forward markets — CNY, CNH and NDF. Each market has a different curve — the onshore CNY spot is anchored by the PBoC and can only move plus or minus 1% from fixing rate. The onshore forward curve is relatively stable while the offshore CNH spot market and NDF markets are driven by supply and demand and could therefore be more volatile. Corporations that have exposures simultaneously in either of the two markets are exposed to basis risk.

Different types of renminbi hedges are applicable for different types of entities in different circumstances: restrictions can be complex so it is essential for corporations to seek advice. The onshore market is primarily used by onshore participants and onshore banks. CNY onshore forwards can be rolled over or rolled back, based on changes in payment flow.

Over the past year, despite the unsettled global economy and signs of slowdown in growth in China, there has been a rise in demand from European exporters — in the car industry, for example — to hedge CNY exposure. Up until around 18 months ago, many European corporate clients broke their EUR/CNY exposure down into EUR/USD and USD/CNY. The EUR/USD component was managed as part of the overall EUR/USD exposure while the USD/CNY component was in many cases left unhedged as CNY was expected to appreciate until the value date of the transaction. Some clients used CNY/NDFs for occasional hedges during periods of uncertainty. The local subsidiary would execute spot USD/CNY onshore on the value date or occasionally enter into
onshore outright transactions.

The hedging behaviour of many European exporters has changed and hedging volumes have risen significantly for several reasons. Firstly, CNY exposure has increased because European exporters have made rapid gains in market share within a fast-expanding Chinese market. Secondly, there is a risk of CNY devaluation: corporates are aware of the two-way risk of USD/CNY. Thirdly, the introduction of deliverable CNY means that CNY exposure management can now be part of the head office risk management process for deliverable currencies.

Finally, the growing liquidity of spot and forward markets in deliverable CNY allows some corporates with large exposures to start hedging the exposure at parent level as the market can finally take their volume. As a result, a growing number of corporates are hedging their CNY/CHF exposure in the same way as they hedge USD/CHF currency exposures: CNY has become just another deliverable currency in the risk management process at parent level.

Hedges for trade and operational flows, such as payables and receivables, should be based on actual underlying exposure or forecast payments: speculative trades are not permissible. Currently, China subsidiaries typically hedge around 75% of total exposures. The balance sheets of China assets can be hedged to mitigate unrealised FX P&L on accounting reports. The tenor of hedges should match the tenor of the exposure and can be rolled over at maturity for the next accounting period.

Onshore CNY forwards cannot be booked under the name of any offshore entities. Instead, they can either use offshore NDF hedges — with the net USD difference settled against the PBOC fixing rate — or the deliverable offshore CNY market. However, availability of CNY forwards is subject to liquidity conditions in the market. Inter-company loans in renminbi can be hedged using CNY forwards or NDFs and then injected into China in the form of renminbi. For inter-company loans in USD, the post-

conversion must be done with the bank that holds the FX account for the company.

Hedging flexibility

While the existence of three forward markets adds complexity, it also offers flexibility. Companies with the ability to access all three renminbi forward markets can decide which market to use for hedging (based on the relative attractiveness of each curve) and under which entity (onshore or offshore). Such companies can choose to hedge offshore in Hong Kong in order to consolidate and hedge exposure in a single offshore entity.

An international exporter might want to sell dollars against CNY if it offers a better rate than CNY or NDFs. Alternatively, an entity wishing to sell against the dollar may find CNY spot or forwards or NDFs most attractive, depending on market conditions at the time. As curves change on a daily basis, it is important for corporations to work closely with their bank to ensure their choice of currency best meets their needs.

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When Treasury Meets Trade

by Chris Bozek, Managing Director, Head of Global Trade and Supply Chain Products,
Bank of America Merrill Lynch

one are the days when treasury and trade were seen as separate. The move away from letters of credit in recent years has combined with a greater focus on counterparty risk and cash flow, leading more corporations to take a comprehensive approach to treasury and trade. Financial institutions and technology vendors are similarly aligning themselves to provide an integrated working capital offering – one that often features a supply chain finance component.

In the past, corporations tended to regard business-to-business invoice processing and accounts payable (AP) payment processing as a wholly separate activity from the more complex, cross-border trade finance side of the business. However, in recent years, the argument for taking an integrated approach to treasury and trade has grown stronger as a number of trends within the market have combined to make the holistic approach more attractive. Consequently, corporations, banks and technology providers are increasingly looking at ways of bringing these areas together.

The road to convergence

As open account trade continues to replace the use of letters of credit, in many companies, the gulf between treasury and trade has narrowed or closed completely. Banks have responded by building out their procure-to-pay processing, payments (cards and traditional payments), and financing business, designed for open account trading, complement traditional trade and create a clear convergence. The aftermath of the global financial crisis has increased corporate focus on strategically managing working capital. Corporations have reassessed their own processes to find ways to free up cash and reduce their funding needs. Real-time visibility has become a must-have for treasurers and CFOs. For this to be achieved, data cannot be locked in different silos at the corporate or at the bank. Businesses are increasingly starting to integrate financial and physical supply chain data in a consolidated view to increase visibility and optimise their cash position.

Many companies have increased cash reserves and are looking for short-term, lower risk means to increase their returns. As a result, the focus on working capital has become increasingly important for C-level executives, pushing cash flow strategy even higher up the corporate agenda.

There are three ways in which companies can improve the cash conversion cycle:

- Reduce days sales outstanding (DSO)
- Increase days payables outstanding (DPO)
- Reduce days sales of inventory (DSI).

In other words: get paid sooner, pay suppliers later and hold inventory for less time. Companies have been looking at ways to tackle all of these areas in order to free up idle cash or maximise their return on investment of cash reserves.

Meanwhile, the issue of vendor health has been brought into sharper focus. With some suppliers struggling to secure consistent, cost-effective access to working capital, companies have increasingly realised that their business model is only as secure as the weakest of their strategic vendors. Consequently, when companies are looking to improve their working capital position, they are increasingly taking into account the health of their key vendors and seeking ways to support their working capital needs.

Businesses are increasingly starting to integrate financial and physical supply chain data in a consolidated view to increase visibility and optimise their cash position.
Supply chain finance

In light of these trends – the growing focus on optimising cash flow and the health of suppliers – the conditions were right for two initiatives to take a central role in facilitating the convergence of treasury and trade.

One was supply chain finance (SCF) and related invoice discounting. SCF brings working capital optimisation to the next level. Both SCF and invoice discounting – which has its roots in trade finance techniques – can have a major impact on the transactional relationships more traditionally seen as part of treasury.

Invoice discounting and supply chain finance can be buyer or seller driven, and can be bank-funded or buyer-funded. In all cases, they accomplish the same goal of allowing the supplier to finance receivables at favorable terms, providing sustained access to needed working capital. Such programmes can be deployed to offset the impact of increasing the payment terms offered by the buyer, and can provide favorable balance sheet treatment.

Inventory financing can round out the opportunity and includes warehouse and inventory-in-transit financing to optimise just-in-time inventory management and financing.

E-invoicing

The second initiative is electronic invoicing. It is positioned right where treasury and trade intersect. e-invoicing can deliver internal cost benefits and process efficiencies and when used to best advantage, it can strengthen the company’s trading relationships with its counterparties. This strategy is becoming more mainstream, especially among larger corporations. Companies are recognising that e-invoicing can offer cash flow visibility and working capital advantages beyond the obvious benefits of saving processing time and costs.

Linking invoice discounting or SCF with e-invoicing delivers an even more compelling business case for vendors to adopt both.

While e-invoicing is not a prerequisite for a supply chain finance programme, the two initiatives are complementary. Combining them drives efficiency and value to parties on both sides of the transaction, and optimises cash flow visibility and working capital management.

Making the move

So far, so good – but what does the convergence of treasury and trade look like in practical terms? Where financial institutions are concerned, the first step is to provide working capital experts who are able to speak to the corporation about maximising the cash conversion cycle for local and global transactions, whether that involves extending days payables outstanding and/or reducing days sales outstanding, and whether the solution is based on letter of credit or open account payment terms.

The second component is making sure that the solutions are developed in an integrated way but offered as modules based on a corporation’s needs.

Bringing together treasury and trade includes both products and channels – delivering a unified treasury and trade view as part of the same ecosystem. Practically speaking, a solution must provide visibility to buyers and suppliers from purchase order or letter of credit inception through final settlement for processing and financing.

For corporations, adopting a combined treasury and trade solution is not without its challenges. More than ever before, treasurers have the opportunity to make a significant impact to the company’s bottom line. As the definition of a payment event moves beyond the confines of the actual payment to a broader, purchase order-to-pay scope, the treasurer is taking on a broader role in managing this area. Where working capital solutions are concerned, the impact of the solution goes beyond treasury and accounts payable to a number of areas such as technology, e-commerce, and procurement, creating a complex internal set of stakeholders.

When looking to effectively position such a project internally, the treasurer will be competing for organisation focus and investment dollars. Understanding how a successfully deployed e-invoicing and financing solution aligns with corporate strategy, and how it achieves working capital goals, and benefits each of the stakeholders, is critical to gaining widespread, senior-level support to get the project off the ground.

The future

The increasingly global supply chain, movement to open account trading, and focus on working capital optimisation continue to drive the importance of the treasury and trade conversation.

The business case for change is compelling, and treasury and trade convergence is happening now. Examples of companies approaching the efficient frontier in working capital are becoming more commonplace. Deploying e-invoicing and financing solutions as a means to achieve working capital goals will be a requirement to achieve a global competitive advantage.

Chris Bozek
Managing Director, Head of Global Trade and Supply Chain Products, Bank of America Merrill Lynch

Bozek leads the Global Trade and Supply Chain product team that is focused on delivering processing and financing solutions that improves a client’s end-to-end global supply chain. Having led both treasury and trade product teams that have successfully built out e-invoicing and procure-to-pay product offerings targeted to middle-market and global corporates, Bozek provides a unique, practical perspective on the market dynamics and critical success factors. Bozek has over 20 years of electronic payments and procure-to-pay experience, working at or with large corporates, start-ups, service providers, and global financial institutions.

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Executive summary

Liquidity risk is now considered the ‘new norm’ in day-to-day treasury management and remains a top concern for global corporations. What exactly is liquidity risk and how can treasurers better manage it? In today’s challenging risk environment, treasurers are finding that simplicity is the best policy, and the key to protecting a company’s cash flow lies in the rigorous use of tried and tested cash management tools.
One of the greatest risks that corporate treasurers manage in the current environment is liquidity risk, which is the risk that the company’s cash may not be in the right place at the right time. A wide range of factors can influence the company’s cash flow; therefore, liquidity risk is connected to many other types of risk, such as regulatory, counterparty and sovereign. In fact, since liquidity is essential to a company’s continued operation, virtually every type of risk that a company faces has liquidity implications.

The concept of liquidity risk has been around for a long time, although it became a major concern for corporate treasurers following the events of 2008 when several financial institutions collapsed, and the Reserve Primary Fund broke the buck, triggering a run on money market funds. Firms experienced liquidity risk both in funding with commercial paper, as well as with their excess cash. In the wake of the turmoil, companies have focused on building up a war chest of excess cash, and companies in the US, the UK and Europe continue to hold near-record levels of cash. Treasurers continue to refine how they manage their excess cash position so that it is accessible—particularly in times of stress.

At the same time, treasurers have continued to regard counterparty risk as a major concern, bearing in mind this is not just limited to banks, but also other issuers of short-term debt instruments. In recent months, a succession of bank downgrades by rating agencies have helped to keep counterparty risk top of mind. The economic climate continues to be characterised by uncertainty, particularly in Europe where the fate of Greece and other countries is yet to be played out. Meanwhile, interest rates remain low, and the situation is unlikely to change before 2014 at the earliest.

Companies today, therefore, have less to gain by focusing on improving yield on the company’s cash—and more to lose if they invest their funds with the wrong counterparty. In this climate, treasurers looking to balance the investment objectives of security, liquidity and yield are focusing most of their attention on security and liquidity, while yield is often a lower priority.

For companies looking to manage their liquidity effectively, this challenging landscape has led treasurers to ask many questions: What if my credit source is no longer available to me? What if I cannot get intraday credit? What if my funds are in the wrong place, or in the wrong currency? What happens if my bank’s systems fail, or my own systems fail, and I cannot make payments? And most importantly, how do I plan for these eventualities and mitigate the risks?

While the challenges are considerable, most of the tools and techniques that treasurers are using to manage liquidity risk are those which have been available for many years, such as cash flow forecasting, liquidity management structures and investment policies. What has changed is the way in which these tools are being used: with risk now a major part of the liquidity management process, treasurers are tightening up their processes in each of these areas and aiming to achieve a more robust liquidity management structure.
Managing liquidity risk

The first stage of risk management is to gain a clear understanding of the exposures that the company faces. Doing so takes time: unlike some other categories of risk, liquidity risk is very broad and is connected to many of the other types of risk faced by multinational corporations.

Counterparty risk

The company’s cash might belong to the company, but it is held in bank operating accounts, or money market funds or other investment vehicles. As such, a company’s access to its money is dependent on the health of its counterparties—and monitoring the risk associated with those counterparties is an important aspect of liquidity risk management. Some companies are opting to diversify and spread their risk across as many counterparties as their investment strategy permits; others are focusing most of their business on a single trusted bank while using smaller in-country counterparties. Whatever the chosen strategy, there is a strong focus on monitoring the counterparty risk associated with the company’s banks. External credit ratings are still an important part of this process, but companies are increasingly focusing on additional measures including banks’ credit default swap (CDS) levels, share prices, tier 1 capital—and indeed the overall stability of banks and other counterparties and their balance sheets. For example, treasurers are carrying out greater due diligence on the underlying assets and counterparties they are investing in.

Sovereign and geographical risk

Extending the theme of counterparty risk, the Eurozone crisis has brought sovereign risk to the forefront for companies looking to manage the risks associated with liquidity management. A bank may look resilient, but what if the country in which its accounts are held suffers a major crisis?

In order to monitor and manage sovereign risk, companies are looking to leverage the expertise of banks, consultants and industry bodies. Many companies are also carrying out internal stress tests which often focus on the liquidity implications of the most extreme scenarios. For example, what will be the impact to the company’s liquidity if one of the peripheral countries comes out of the Eurozone—or indeed, if a major country like France or Germany exits the euro?

While European companies have generally been very focused on stress testing, this is less true for companies outside of the region. Companies in Asia and the US—even those with operations in Europe—tend to be less concerned about stress testing, despite the likely impact on their businesses in the event of a euro breakup.

Aside from the specific risks arising from the Eurozone crisis, other geography-related risks can threaten the company’s liquidity. Political events such as major elections or uprisings can also change the liquidity environment and make it more difficult for companies to access their cash.
Other risks
Beyond the topics of counterparty and geographical risk, a company’s cash flow can also be adversely affected by a range of factors:

• Tax, legal and regulatory constraints may prevent companies from getting cash out of particular markets, such as China and Brazil.

• Regulatory developments, such as Basel III and the end of FDIC insurance on US-based balances in December 2012, can affect companies’ liquidity management decisions.

• Inefficient processes within the company may mean that pockets of cash are not being incorporated into the company’s liquidity management structure, meaning that the company has access to less cash than it should.

• Inaccurate cash flow forecasting processes may mean that the company holds a greater cash buffer than is needed—or may leave the company with a cash shortfall which will then need to be covered by external funding.

• Companies focusing on liquidity risk will typically look at all of these areas in order to identify the risks most relevant to their businesses. The next step is to address those risks.

Visibility
Whatever the company’s size, structure or geographical footprint, visibility is key when it comes to managing liquidity risk effectively. The treasurer needs to have a clear and accurate view over where the company’s cash is held, as well as an understanding of any regulatory restrictions which may limit access to particular pockets of cash. Some balances are more accessible than others, and this will need to be taken into account as the treasurer reviews the company’s overall cash position. Real-time reporting is one of the newer tools in the liquidity risk toolbox and is something that many global banks are now offering to support clients in the quest for greater visibility. More sophisticated reporting offerings can give treasurers a clearer view over their balances in real-time, as well as the opportunity to drill down by country, legal entity or currency.

Making the most of what you have got
Once full visibility has been obtained, companies often choose to manage their cash by categorising it into different ‘buckets’ or tiers. The objective is to separate cash that is needed on a day-to-day basis from cash not needed in the short term, or which is earmarked for longer-term strategic use, such as M&A activity.

Different categories of cash can then be treated in different ways according to the relevant risk-return profile. Short-term cash needs to be readily accessible and so may be held in the company’s operating accounts, or in same-day access money market funds. Longer-term cash, in contrast, does not need to be accessed quickly and can therefore be invested in term accounts or longer-term fixed income instruments which may offer a higher yield. Treasurers may also include a medium-term tier consisting of cash which needs to be accessed only occasionally or at certain times of the year. While medium-term cash does not typically require daily liquidity, it will need to be more accessible than longer-term cash, and should therefore be invested accordingly.
For companies categorising cash in this way, it is important for the company to maintain a clear view over its future cash requirements. If too much of the company’s cash is tied up in term deposits, there is a risk that unexpected shortfalls could leave the company struggling to meet its obligations. As such, cash flow forecasting is another essential tool in the liquidity risk toolbox.

**Cash flow forecasting**

The more accurate the cash flow forecast, the less liquidity the company must hold as a buffer to absorb unforeseen costs. For cash-poor companies, cash flow forecasting is important because it can reduce the amount of external funding that the company requires. But cash flow forecasting is also important for cash-rich companies because it gives them the opportunity to identify surplus cash and invest it more effectively. In the current low interest rate environment, the opportunities for improving yield are few and far between—but every little bit helps.

Forecasting is an area that many companies would like to improve. In practice, accurate cash flow forecasting is not always straightforward—particularly when the company is geographically dispersed and has a decentralised cash management structure. Nevertheless, treasurers can improve their cash flow forecasting results by making sure that individuals across the organisation are given responsibility for the accuracy of their forecasting figures.

Clear routines should be in place to position cash flow forecasting as a crucial discipline within the organisation, and the success of the forecast should be measured and analysed—firstly, so that the people who are providing the most accurate forecasts can be singled out and, in some cases, rewarded, but also so that weak spots can be identified and addressed.

**Cash concentration and notional pooling**

Knowing where the company’s cash is and when it is going to be there is an important aspect of managing liquidity risk—but it is not the whole story. The next stage is to decide how that cash will be managed. Cash pooling techniques can be used effectively as a tool to mitigate liquidity risk, and in light of the Eurozone crisis, many treasurers have stepped up their use of cash concentration structures. In many cases, companies are sweeping funds out of the Eurozone, or out of the countries they are most concerned about, on a daily basis. There is a growing trend for companies to use automated rules-based sweeps to keep the process as streamlined as possible.

Cash pooling and notional pooling structures can also be used to concentrate funds in tax efficient locations, whether that is done on a regional or global basis. In some countries traditional cash pooling structures may not be permitted, but it may still be possible to use interest optimisation or notional pooling techniques to improve yield on the company’s balances. Increasingly, companies are using hybrid structures which combine the characteristics of cash concentration and notional pooling, sweeping funds where possible into a major financial centre such as London, Singapore or New York.
Counterparty limits

Investment is another aspect of the liquidity management process, and choosing where to place funds has never been more important. In order to manage their liquidity risk effectively, companies are working to keep their investment policies up to date by carrying out regular reviews as well as ad hoc reviews in response to specific market developments.

Many companies introduced stricter counterparty limits as part of their response to the financial crisis of 2008. Some companies apply a single counterparty limit for each bank, whereas others have several limits for a particular bank covering particular regions.

While counterparty limits fulfil an important role in managing counterparty risk, this practice is leading to some challenges in the current market, particularly for companies which use money market funds alongside bank deposits.

Many treasurers are using money market funds less than they did in the past in the current low rate environment. In particular, the European Central Bank’s (ECB) recent rate cut has prompted many money market funds in Europe to close to new clients or, indeed, to close completely. As a result, treasurers are finding that they no longer have access to as many short-term investment vehicles as they might have in the past and are therefore depositing more cash into their operating accounts. But with balances building up, treasurers are beginning to hit their counterparty limits — which, for some companies, are not particularly high given the size of the company.

In such cases, companies are reviewing their investment policies again and considering whether they can either raise counterparty limits for the banks they are already using, increase the group of banks with which they can invest, or branch out into different investment vehicles.

Leveraging banks

While the liquidity management products provided by global banks tend to be broadly similar, the real differentiator is the quality of the advisory services that banks can provide. Companies should be looking for a bank that will meet with them regularly and offer expertise, as well as provide relevant liquidity management products. Banks are in a strong position to help companies tackle liquidity risk: they have access to a substantial body of knowledge and expertise based on interactions with other multinational companies, and they should be able to draw upon this knowledge to provide practical guidance. In some cases, banks will also be able to put treasurers in touch with reference clients who are willing to discuss their own liquidity management products and share their experiences, challenges and successes.

Liquidity risk checklist

- Know where the company’s working capital is and how quickly it can be accessed.
- Have a clear strategy in place for maintaining control of cash flows.
- Categorise balances in order to optimise balances where possible.
- Stay abreast of the regulatory environment and market conditions to avoid any surprises.
- Increase communication internally and with the company’s banks.
- Leverage knowledge and expertise offered by banks where possible.
- Ask questions and do not be afraid to challenge the status quo.
- Set up credit lines and contingency measures before a crisis happens, not during a crisis.
- Review, understand and update the company’s investment policies on a regular basis.
Conclusion

The key principles of liquidity management have not changed. Cash flow forecasting, visibility, cash pooling and a clear investment strategy continue to form the essential liquidity toolkit for treasurers. What’s different is the risk-centric environment in which companies are currently operating. Market forces such as the Eurozone crisis, the low interest rate environment and a sharper focus on counterparty exposures have combined to make liquidity risk an important aspect of liquidity management. Companies may have more cash than ever before — but they can no longer assume that money will be in the right place and at the right time. They cannot assume that counterparties are too big to fail, or that credit lines will materialise when they are needed if another crisis strikes. Standard liquidity management tools can be employed in order to manage these risks, and in the current risk-conscious climate treasurers are looking to use these tools more systematically and comprehensively than in the past.
Understanding Payments and Hedging in India

Nilesh Kothari, Bank of America Merrill Lynch - 4 Apr 2013

India’s economy is a key driver of global growth and an increasingly popular location for multinationals. To achieve their objectives around supporting local operations, investing, or trading in rupee, corporate practitioners must understand India’s payment system, the benefits of rupee invoicing and the opportunities for hedging.

Familiarity with a country’s payment system is a fundamental requirement when entering a new market. India has two options for domestic payments: in rupees (INR), while for amounts over INR2 lacs (around US$4,000) the real-time gross settlement (RTGS) system is usually used. For amounts less than this the National Electronic Fund Transfer (NEFT), which uses batch processing at a fixed time, is used.

India supports two types of cross-border payments, both of which use SWIFT messaging between banks as the primary communication channel:
- For inbound wires arriving in a foreign currency such as US dollars (USD) or euros (EUR), the bank in India converts the funds at its exchange rate, and deposits INR to the payee’s account. The corporate sender typically will not know the conversion rate applied, nor the final amount deposited to the payee’s account.
- For inbound cross-border wires, where the sender’s bank has converted base currency to INR, an agreed amount of INR is deposited to the payee’s account. The payer knows in advance the exchange rate applied by its bank, and can advise the payee of the amount to be received.

Foreign Exchange (FX) Market Dynamics

To operate effectively, multinational corporations (MNCs) need to be able to execute risk management strategies using foreign exchange (FX) spots, forwards and options. Spot USD-INR is fairly liquid with daily volumes of US$6bn and daily forwards volumes of US$4bn: most liquidity is found in tenors of up to two years, although the market quotes up to five years.

While there is an INR option market available, central bank guidelines prohibit corporates from being net sellers of options. However, companies can embed sold options in multi-leg cost reduction structures such as ‘seagulls’ or ‘collars’. Liquidity in the FX options market stands at about US$200m; it is quoted in tenures of up to five years but is most liquid in the up to one year range.

Indian companies and/or their subsidiaries typically have exposures in foreign currencies because they set their invoices, or are invoiced in, foreign currency terms such as USD or EUR, while their cost basis is in INR. This currency exposure can be hedged with an authorised dealer in India such as Bank of America Merrill Lynch (BoA Merrill) or other banks. If the Indian company wishes to avoid volatility and the need to create hedges, then they should work with their global partners to explore re-denominating their invoices to INR terms as this then shifts currency exposure to the global partner.

For a global company, hedging foreign currency in India may be more complex than corporate treasurers are used to in developed markets. Onshore hedges must not exceed the underlying exposure in terms of amount or tenure. To verify this, certified true copies of underlying bills and invoices must be submitted. As perfect hedges against defined exposures, onshore hedges qualify for hedge accounting and tax treatment.

Expanding Hedging Opportunities

While India’s hedging rules are strict, the central bank allows some flexibility in defining exposures; businesses that import or export can hedge using a past performance (PP) eligible limit calculation, which is the higher of either the previous year’s turnover or the average turnover in the last three years. However, PP limits have some restrictions and corporates should seek advice from experts.

Documentation requirements for hedging in India are relatively straightforward: a one-time completion of basic ‘know your company/customer (KYC)’ documentation along with the submission of documenta-
tion related to subsequent exposures that are being hedged are required. Given the potential benefits in terms of protection against volatility and improved predictability of revenue and payment streams, documentation requirements are not onerous.

Moreover, there are signs that hedging rules are evolving to MNCs’ benefit. The Indian central bank now allows non-residents such as parent companies of Indian subsidiaries or offshore entities doing business with Indian counterparties to hedge INR invoices. Trades must be in the name of the offshore entity and the authorised dealer in India and a request must be made to hedge INR exposure.

**Rupee Invoicing**

Many companies that expand into a new market invoice in USD or other home currencies in order to minimise complexity. However, there are significant advantages to invoicing in INR and, as a consequence, the practice is steadily increasing. Furthermore, this growth is being encouraged by the local regulator.

INR invoicing can benefit corporates by insulating their onshore subsidiaries and third party clients from exchange rate risk and external macro-economic turbulence. By eliminating FX risk, it can also help MNCs to increase their market reach, especially among small and medium-sized enterprises (SMEs) that may not be able to access foreign currency.

For MNCs, INR invoicing can enhance risk management by centralising it at a head office rather than at a subsidiary level. It can also prevent fluctuation of subsidiaries’ profit and loss (P&L). While there are drawbacks to invoicing in INR - for example it requires changes to internal accounting in enterprise resource planning (ERP) systems and needs agreement from counterparties - these are outweighed by the rewards in many cases.

**Cash Repatriations**

Repatriation of funds invested in India and cash accumulation back to the parent company is restricted by regulations. The most common methods by which the MNCs repatriate the funds are:

- Dividend payouts subject to taxation implications.
- Share buybacks, which are also subject to some amount of capital gains tax.
- Royalty and payments of fees for technical knowhow, advance payments.

**Conclusion**

The Indian economy offers bright prospects for MNCs, with the country’s growth expected to accelerate in 2014 and some long-anticipated economic and market reforms are underway.

To fulfill their strategic objectives and minimise their FX and other risks, corporates need to work with a provider that has a deep knowledge of the Indian payments system and the intricacies of rupee invoicing and hedging. That way, they can take advantage of the opportunities available and are well-positioned to benefit further as regulatory and market changes open up new possibilities.

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**Nilesh Kothari**

**Director, Emerging Currencies FX Origination, Bank of America Merrill Lynch**

Nilesh Kothari is a chartered accountant; a former industrial trainee with ABN AMRO Bank; a certified systems auditor and also a qualified financial risk manager from the Global Association of Risk Professionals (GARP US). In this New York-based role as director, emerging currencies FX origination, he is responsible for advising MNC clients in foreign exchange risk management for the Asian markets.

Kothari spent his earlier years in financial control as a product controller for global markets. He has also worked as a market risk manager and in the corporate sales function of ABN AMRO’s treasury. Kothari joined Bank of America Merrill Lynch in 2006 in India, serving in a global markets corporate sales capacity where he advised corporate clients on currencies and rates markets. He has represented Bank of America Merrill Lynch India in several forums and working groups of the Foreign Exchange Dealers Association of India (FEDAI).

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Through offices in 30 countries, Bank of America’s Global Corporate and Investment Banking group provides investment banking, trade finance, treasury management, capital markets, leasing and financial advisory services to domestic and international corporations, financial institutions and government entities. Bank of America has been in Asia for more than 50 years and has more than 2,000 employees based in 12 countries throughout the Asia-Pacific region.
Executive summary

The pace of regulatory liberalisation of currencies and rules is quickening in Asia Pacific, with reform of the renminbi (RMB) in China in particular, opening the way for integration into regional and global treasury and liquidity structures, potentially lessening the occurrences of trapped cash.

Contents

China is changing ........ 2
Conclusion: The importance of foresight .... 4
Asia Pacific has historically attracted a reputation as a complex region for treasury management; in that its tax and regulatory environment has often made it challenging for corporations to establish structures that allow them to optimise their cash. Indeed, in a number of countries within the region cash has either been trapped or is inaccessible to the rest of the corporate’s global enterprise.

However, the perception of Asia Pacific as a homogenous region of trapped cash is an inaccurate generalisation. In reality, the region has always encompassed a wide variety of regulatory approaches. These range from highly regulated countries — most obviously China and India — to moderately regulated countries such as Indonesia and Thailand, through to liberalised territories and countries such as Hong Kong and Singapore. To understand how regulatory reform affects treasury management, it is helpful to consider three key themes that help to define the approach taken by regulators.

The first is the mobility of cash, both domestically or across borders, and the transferability of capital as well as intercompany-related cash. The second is a local currency’s convertibility into foreign currency such as US dollars (USD); some countries, for example, operate exchange controls and require trade documents before permitting conversion. The third is how the regulators treat co-mingling of cash between resident and non-resident entities, and the methods of liquidity management through physical or notional pooling that are permitted.

It remains helpful to distinguish between the regulatory regimes of different countries in Asia Pacific. However, over the past decade there has been a steady blurring of the boundaries between highly regulated and lightly regulated markets. This trend has accelerated sharply in the post-financial crisis environment since 2008. Asia Pacific has successfully weathered difficult global conditions because of the intrinsic strength of its economies, and the lessons it learned from the Asian financial crisis of 1997. This is most notable in the huge growth in foreign currency reserves by many Asian economies since then: China’s reserves alone have increased by more than 2,200% since 1997. As a result, governments and central banks have become more confident about regulatory reform and more pro-business in their outlook.

China is changing

While regulatory reform that affects treasury management is evolving across Asia Pacific, change has been most dramatic in China — the region’s largest and most important economy. The period since 2009 has seen a broadening of the use of the renminbi (RMB) for both onshore and offshore settlement. More recently, with permission from the State Administration of Foreign Exchange (SAFE) and the People’s Bank of China (PBOC), selected companies have been allowed to structure foreign currency and renminbi cross-border sweep structures and what was impossible just a few months ago is now a reality for some.
The ability to pool foreign currency will enable overseas lending and borrowing. It will also facilitate foreign exchange (FX) hedging and inter-company borrowing and lending, and therefore allow free funds transfer with overseas accounts. By integrating China into regional and global treasury and liquidity structures, cross-border foreign currency and RMB cash concentration will dramatically improve treasury efficiency in the country.

It is important to note that cross-border foreign currency lending and borrowing are subject to existing foreign debt quotas, so must be closely monitored. Quota management is executed by establishing a new foreign currency international header account in a cross-border foreign currency sweep structure. All foreign currency movements are limited to SAFE-approved quotas between the international header account and the domestic foreign currency header account.

The quotas applied are the gross foreign debt quota (FDQ), the overseas lending quota (OLQ) of the group and the 90-day free-funds movement quota. The FDQ is an upper limit for aggregated cross-border borrowing by the onshore entity, while the OLQ is the upper limit for aggregated cross-border lending by the onshore entity. The 90-day free movement quota is a specific limit for cross-border USD sweeping.

If these quotas (see boxout at end of article) are breached, the settlement bank that is enabling sweeping is obliged to halt the sweeping activity. Consequently, companies must be confident that their bank is vigilant in monitoring sweeps so that they remain within the quota (See Figure 1 below for the structure of a domestic and cross-border foreign currency pooling structure).

Figure 1: Domestic USD and X-Border USD Structure.

Quotation and Notes:
- Onshore entity presence in China
- Parent of affiliated/related companies
- Approved on case by case basis with SAFE
- Cross-border sweeping bank and domestic pooling bank could be two different banks

Source: BOA Merrill.
China has also permitted cross-border RMB sweeping on a trial, or case-by-case basis as part of its drive to internationalise the currency. This new pilot allows overseas lending in RMB enabling companies, for example, to use the currency for investment or trade in another part of their business, and reduce risk caused by a currency mismatch. The pilot project is currently active only in Shanghai, with companies based in the city able to submit applications through their settlement banks.

In order to qualify, the lender must have free RMB funds generated from operating income, and the overseas borrower must be the lender’s parent or affiliated/related companies. The overseas borrower must have a real need for RMB funds, such as settling RMB-denominated invoices. As with foreign currency pooling, cross-border RMB pooling is subject to quota management, which is determined by the gross overseas lending quota of the group (See Figure 2 below for the structure of a domestic and cross-border RMB pooling).

**Figure 2: Domestic CNY and X-Border CNY Structure.**

![Diagram showing the structure of domestic and cross-border CNY pooling.](image)

**Qualification and Notes:**
- The lender has free RMB funds generated from operating income
- The overseas borrower is the lender’s parent or affiliated/related companies
- The overseas borrower has real needs of RMB funds, e.g. to settle RMB denominated invoices

**About Quotas**

The FDQ requires approval from SAFE and can be renewed on an annual basis. It is monitored by the settlement bank on a monthly basis.

The OLQ requires approval from SAFE for cross-border USD (and can be renewed with SAFE on an annual basis) and from PBOC for cross-border yuan (CNY). It is monitored by the settlement bank on a monthly basis.

Within the 90-day free-funds movement quota, a company can sweep funds between domestic USD accounts and the international USD header account freely. The quota is based on a net amount, meaning net sweeping between the two accounts cannot exceed the approved quota. Quota utilisation should be reported by the settlement bank on a quarterly (90-day) basis, and can be renewed on an annual basis.

**Conclusion: The importance of foresight**

The changes in China in recent months have been more dramatic than those in other Asia Pacific countries, but only serve to highlight the direction that regulation is taking in the region. Asia Pacific remains a vast and diverse continent, but it is clear that the gulf between the most lightly regulated and the most heavily regulated countries is narrowing. It is equally clear that the path of regulatory liberalisation will not be linear and will necessarily involve considerable complexities and shifts in policy.
For companies doing business in Asia, it is essential to keep a close eye on events in Asia Pacific. Corporations need to be confident that their bank maintains strong relationships with regulators and understands how and why policy is changing. Banks also need to be able to respond rapidly to changes with appropriate advice and insight on how clients can navigate the changing regulatory environment.

Equally important is that banks should have the expertise and technology in place to take advantage of change and mobilise cash rapidly. They need to have the foresight to build capabilities in advance so that they can move quickly when change does come. Equally, they must be able to modularise and to scale-up existing structures, such as notional pools in Europe or Asia, to incorporate cash from countries where it was formerly trapped so it can be used effectively. In short, corporations need to be certain that their trusted bank advisor in Asia Pacific is ready to help them harness the opportunities as they unfold for improving treasury management.

Author
Andrew Ong
Managing Director and
Asia Head of Liquidity
Product Management and
Consulting, Global Liquidity
Product Management,
Bank of America Merrill Lynch
Streamlined banking and strong cash flow helps a growing international business take flight.

Executive summary

As the world’s third largest corporate travel management company, BCD Travel makes it easier for companies to conduct business in 90 countries on six continents. BCD Travel’s expanding relationship with Bank of America Merrill Lynch is enabling the company to spread its wings with stronger, more efficient cash flow, trusted guidance and a clear view of its global liquidity landscape, from Atlanta to Brazil and beyond.

Learn more — Visit bankofamerica.com/globalstrategies for additional insight into strategies and solutions for growing your business internationally.
Navigating complexities

The global travel industry has faced significant headwinds since BCD Travel (then World Travel Partners) received an initial credit facility from Bank of America Merrill Lynch in 2000. Navigating the rising complexity of travel security, volatile energy prices and the global economic downturn, BCD Travel has steadily grown to become a global leader in corporate travel management. Bank of America Merrill Lynch has been there throughout — providing broad access to capital, cash management capabilities and guidance to help the privately owned business meet its expanding objectives.

In 2006, the company made a transformative acquisition that brought together three businesses to form BCD Travel, more than doubling its size and broadening its scope across Europe and Asia Pacific. Bank of America Merrill Lynch served as co-underwriter of a $405 million acquisition facility, while continuing to advise and deliver on various cash management needs, working closely with BCD Travel executives based in the U.S. and The Netherlands.

“We have built a long and trusted relationship with Bank of America Merrill Lynch,” says Cees Batenburg, senior vice president in Global Accounting and Treasury at BCD Travel. “Through changing industry and economic environments, they’ve continually provided financial capital and cash management insights to support our success and growth.”

Taking a streamlined approach

BCD Travel issued a request for proposal (RFP) in late 2011 with the goal of consolidating its global banking structure comprising approximately 50 banks and 350 accounts globally. According to Batenburg, the company averages between $20 million and $35 million in excess liquidity per month in the U.S. alone, representing about one third of its global cash balance. He says having large, volatile cash flows and broad, decentralized international operations creates complex cash management challenges. “Maintaining so many banks and accounts makes it impossible to achieve full transparency, effective controls and strategic cash positioning,” says Batenburg. “We’re working to streamline our approach by focusing on fewer and stronger banking relationships.”

In April 2012, BCD Travel selected Bank of America Merrill Lynch as lead cash management advisor for its entire Americas operations, spanning from Brazil, Bolivia and Peru to Costa Rica, Mexico, the U.S. and Canada. “The Americas region represents a major part of BCD Travel’s global cash flow today, and also provides significant growth opportunities, especially as demand for corporate travel services continues to rise across Latin America,” says Tom McKinstry, a senior vice president in Global Commercial Banking at Bank of America Merrill Lynch, and the company’s client manager since 2005.
Drawing on a trusted guidance

As BCD Travel expands in Latin America, Batenburg says they value having an advisor versed in the nuances of conducting business and banking in various countries. “Brazil is new territory for us, but not for Bank of America Merrill Lynch,” says Batenburg. “They help us understand how day-to-day banking works in places that have unique local processes and requirements, such as Brazil, and they have been a great resource for guidance and information we can trust.”

Batenburg also notes the broader knowledge and resources available to their company. “As we grow, we can draw on the expertise of Bank of America Merrill Lynch to meet a full range of needs, from cash management to capital markets to M&A advisory. We know that they understand our business and are committed to our success.”

Creating one-stop efficiency

Brad Mallow, treasury sales officer at Bank of America Merrill Lynch, says a centralized approach in the Americas, and a highly streamlined global banking structure, will enable the company to more effectively put its idle cash balances to work, such as reducing outstanding debt. “We provide BCD Travel with a holistic view and control over its cash flow and liquidity across the Americas through a single online platform,” says Mallow. “Using CashPro® Online speeds the end-to-end banking and cash management process by providing comprehensive functionality, reporting and controls, all designed to deliver a world-class user experience and efficiently connect multiple cash flows, regions and providers.”

Batenburg agrees that having a single provider and banking system to meet all its needs in the region is paramount to improving cash management efficiency. “The strength of CashPro Online was a key consideration in awarding the business to Bank of America Merrill Lynch. From viewing processed checks online to strategically managing user rights and authorizations to gaining transparency into our cash balances throughout the region, we’re able to streamline complex cash management challenges,” says Batenburg.

In addition to managing its treasury and credit through CashPro Online, BCD Travel is in the process of migrating from a legacy system to CashPro® FX to seamlessly execute and manage its global currency trading in the Americas, comprising mostly spot-type currency transactions.

Creating tailwinds for growth

“Consolidating our global banking structure is the first phase in being able to centrally control organizational liquidity so we can operate and grow more strategically and efficiently,” says Batenburg. “Our relationship with Bank of America Merrill Lynch is highly important to us today and built to grow with us over the long term.”
Onboarding new EMEA card capabilities

One component not included in the company’s recent RFP is its card program. Jennifer Guy has been the company’s card manager at Bank of America Merrill Lynch since they initiated the program in 2007. “They use a traditional purchase card program to book meetings and events for their corporate clients, which enables them to take advantage of payment float as a cash management tool,” says Guy. “On the travel side, they use ePayables for vendor payments, which automates paper-intensive processes, reduces cost and provides rebates on card spend,” Guy adds.

In late 2011, BCD Travel initiated a new global card program for local currency payments in EMEA. “They recognize the benefits that a strong card program can deliver in terms of automation, reconciliation and cash management, and we’ve worked closely to tailor functionality to meet their expanding needs,” says Guy.

“Our relationship with Bank of America Merrill Lynch is highly important to us today and built to grow with us over the long term.”

Cees Batenburg
Senior Vice President
Global Accounting and Treasury
BCD Travel

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On-the-Ground Expertise and a 56-year Banking Relationship Provide a Powerful Foundation for International Expansion

Executive summary

When NBBJ’s founding partners first sought to expand their Seattle-based architecture firm, they began a banking relationship that now spans nearly six decades. From before the advent of computerized banking records through today’s rapid global business expansion, automation and integration, Bank of America Merrill Lynch continues to design solutions and guidance that help bring NBBJ’s growth plans to life.

Learn more — Visit bankofamerica.com/globalstrategies for additional insight into strategies and solutions for growing your business internationally.
Laying the foundation

Building on a relationship that began in 1956, the year transatlantic telephone cables were first introduced between North America and Europe, NBBJ today calls on the expertise of Bank of America Merrill Lynch more than ever to help the firm connect with expanding business opportunities worldwide. It’s no wonder that Richard “Skip” Kepler is on the company’s speed dial, considering he’s been their go-to banker for the past 30 years.

“The partners at NBBJ have always envisioned big things for their business, and today they serve a ‘who’s who’ list of the world’s leading companies and organizations,” says Kepler, a senior vice president in Global Commercial Banking at Bank of America Merrill Lynch. “The mutual knowledge, trust and respect that we’ve developed over many years is the foundation for a highly collaborative and successful relationship.”

Kepler says NBBJ’s founding partners developed an appreciation for their banking relationship with Bank of America Merrill Lynch early on, when the firm required financing to accommodate a complex development project in the 1980s. “They emerged from that experience with total confidence in the bank’s commitment to them, and a conservative approach to growth that has seen NBBJ steadily expand from a small Seattle-based business to a globally recognized architecture leader.”

Building momentum globally

Taking an organic growth path, NBBJ has become the third-largest architecture firm in the U.S. and tenth-largest worldwide by producing a broad range of acclaimed work. Examples include a 12-acre urban campus for the Bill & Melinda Gates Foundation; Seattle’s Harborview Medical Center; the New York Tolerance Center; and the Hangzhou Olympic Sports Center in China, scheduled for completion in 2013.

NBBJ Controller Brenda Clark, who is responsible for the company’s accounting and financing operations, says that the bank is helping pave the way for the company’s overseas expansion. “We see significant opportunities globally, especially in Asia, and we know we can count on Bank of America Merrill Lynch to provide expertise, insights and resources to help us succeed,” says Clark.

NBBJ’s global expansion began in earnest more than a decade ago, when it opened its first international office in the United Kingdom. Bank of America Merrill Lynch not only provided local bank accounts but also made introductions and financial guarantees needed to secure office space. Subsequently, the bank has provided on-the-ground expertise to support the opening of NBBJ’s office in Shanghai, China.

“We see significant opportunities globally, especially in Asia, and we know we can count on Bank of America Merrill Lynch to provide expertise, insights and resources to help us succeed.”

Brenda Clark
Controller
NBBJ
"We made multiple introductions to the Chinese government on behalf of NBBJ, which is important to establishing and growing a business in the region," says Kepler. "Leveraging our expertise in Asia, we’ve advised on a range of complex issues, from local regulatory and compliance requirements to currency and interest-rate risk, tax implications and letters of credit language."

Addressing regional challenges

One requirement of doing business in China is that NBBJ accept local payment in Chinese renminbi. Due to the restricted nature of the currency, this can create issues for non-Chinese companies seeking to move the funds to accounts or operations outside the country. This is particularly important to a professional services firm such as NBBJ, which can incur project-related expenses in the U.S. but receive payment in tightly controlled foreign currencies. To that end, Bank of America Merrill Lynch has advised NBBJ on fund repatriation strategies.

Citing another regional challenge that NBBJ had to overcome, Clark says the bank’s in-depth knowledge of both the firm and the complexities of global business helped NBBJ satisfy client requirements for a large project mandate in the Middle East. "Understanding the nature of our business and what it takes to provide architectural services in the region, Bank of America Merrill Lynch stepped up to address contract language issues and provide a letter of credit to a local bank that we needed to move forward with a significant Middle East project," says Clark.

Streamlining cash management

As NBBJ has grown, so has the scale and scope of its payments, receipts and liquidity management needs. Belynda Walls, the company’s treasury sales officer at Bank of America Merrill Lynch for the past six years, says the bank focuses on providing the latest technology and insights based on NBBJ’s evolving needs. "We maintain a close dialogue to ensure we align our treasury solutions to support what’s most important to them as their business evolves and grows."

The bank’s CashPro® Online client portal makes it easier for NBBJ to address its broad range of treasury and banking requirements by providing efficient access to necessary functionality, information and controls. "Payments overseas often come at project milestones not fully within our control, making cash flow projections more challenging," says Clark. "CashPro provides visibility into our funds and easy access to the full gamut of capabilities that we need, from ACH and wire transfer to image lockbox, web-based check deposits from our remote offices. Our team at Bank of America Merrill Lynch also provides ongoing guidance on ways to further automate and streamline our processes, whether it’s explaining new capabilities or providing regional insights as they’ve done recently in response to our interest in Canada," says Clark.

"Leveraging our expertise in Asia, we’ve advised on a range of complex issues, from local regulatory and compliance requirements to currency and interest-rate risk, tax implications and letters of credit language”

Skip Kepler
Senior Vice President
and Client Manager
Bank of America Merrill Lynch

“Payments overseas often come at project milestones not fully within our control, making cash flow projections more challenging. CashPro provides visibility into our funds and easy access to the full gamut of capabilities that we need....”

Brenda Clark
Controller
NBBJ
Providing capital strength and flexibility

NBBJ’s prudent financial management and internal controls, combined with a long-time banking relationship, have enabled the bank to be highly responsive and flexible in meeting the company’s credit needs. Bank of America Merrill Lynch Credit Manager Stephen Maloney, who has worked with NBBJ for nearly a decade, says the company’s credit agreement and reporting requirements are designed to help NBBJ save costs and reduce administrative burden. “Knowing NBBJ’s partners and their judicious use of leverage as well as we do enables us to tailor credit terms and processes to their needs,” says Maloney. In addition to the credit facility, Bank of America Merrill Lynch has provided term loans as necessary to fund the improvement and expansion of multiple NBBJ facilities.

Breaking new ground

Seeing a unique need at NBBJ and other professional services firms, Bank of America Merrill Lynch worked closely with the company to create an innovative loan program for the firm’s partners. The program enables the partners to partially finance their required capital contributions to the firm by drawing on the firm’s creditworthiness to attain lower interest rates than they would receive through standard personal loans.

Kepler notes that the program provides lower-cost partner financing, representing a potential new industry best practice. “We collaborated closely with NBBJ leadership to create a loan solution that benefits both the company and its partners, and is already generating significant interest from other professional services firms,” says Kepler.

In addition to the innovative partner loan solution, Bank of America Merrill Lynch also offers group banking services to the firm’s associates, who can access a broad range of account, credit card and discounted loan solutions, as well as award-winning online and mobile banking.

Designing for the future

“We aspire to be a place for solving global problems by contributing to a more livable, healthier world,” says Clark. “Our relationship with Bank of America Merrill Lynch grows as we grow, and we’re excited about where opportunities will lead us next.”
UMG Case Study

Using ISO 20022 XML to harmonize bank interfaces

Executive summary

Universal Music Group (UMG) is the world’s largest music content company with market-leading positions in recorded music, music publishing and merchandising. Its artists range from Justin Bieber and Lady Gaga to the Rolling Stones and U2. UMG, which is 100% owned by Vivendi, is the world leader in recorded music, selling more than one in every four records around the world, and has the largest catalogue of music rights.

As a truly global company, Vivendi wanted to streamline how UMG interacted with its banks by using the ISO 20022 XML standard for UMG’s credit transfer messages and SWIFTNet for data transmission. In the U.S., where UMG works with Bank of America Merrill Lynch, the bank supported this change. It also worked to ensure UMG’s lockbox and Payee Positive Pay would continue to function effectively following its migration to a new SAP environment, prompting the move to the ISO 20022 XML standard.

October 2013

Contents

Goals and challenges ........2
Creating a solution ...........3
Solution outcomes ............4
Goals and challenges

In 2011, Vivendi decided that its wholly owned subsidiary, UMG, should roll out a new SAP environment worldwide. It recognized that implementing SAP in each of the 77 countries where UMG operates would entail development costs to accommodate local payment formats and interfaces with its many banks. Consequently, Vivendi decided to use the opportunity to streamline how UMG managed its 650 bank accounts. Vivendi hosted a meeting with UMG’s nine main banks to determine the best way to consolidate various bank interfaces into a single platform to reduce complexity and improve efficiency.

XML was considered the most appropriate single payment format because it is increasingly supported by banks and financial application providers globally and is also used by an increasing number of payment systems globally. “XML was fairly new at the time but we decided it was the best format to meet our requirements,” explains Olivier Chasseau, Treasurer at Vivendi. “Not only would it reduce the development costs associated with the SAP implementation but it also provided an opportunity to introduce straight-through processing (STP) through the chain.” Specifically, Vivendi wanted UMG to use ISO 20022 XML for credit transfer messages—enabling the use of a single global interface—recognizing, however, there would be country- and bank-specific content required.

Vivendi was already using SWIFTNet for group treasury purposes, including managing cash sweeps, so it decided to use SWIFTNet for UMG’s bank connectivity. Vivendi realized that SWIFTNet would enhance UMG’s productivity gains from the SAP project and improve productivity in its shared service center. SAP’s standard accounting module did not have a payment process tool that integrated with SWIFTNet, leading Vivendi to select a middleware platform, SWIFT Application for Payments & Statements (SWAPS), to streamline connectivity. MT940 messages would be used for reporting and to automate the bank reconciliation process. Payment instructions would be sent in a customized SAP file, generated within UMG’s ERP and automatically sent to its banks.

In the U.S., UMG identified that changes needed to be made to its payments process in order to move its vendors from paper-based payments to an electronic environment. “Unlike many other territories, the U.S. remains complex because of the need for check handling,” says Vangie Flowers, Vice President/Group Controller, U.S. at UMG. A year ahead of the SAP/ISO 20022 XML project, the U.S. business unit began an initiative to encourage as many vendors as possible to move to ACH and away from checks. “The initiative was successful,” says Flowers. “Our ACH/check split changed from roughly 70%–30% in favor of check to 60%–40% in favor of ACH. We continue to notify current vendors to convert to ACH and all new vendors are required to accept ACH. However, we knew some vendors would not switch and we would have to continue issuing checks and other payment types.” While ACH and check payments are done in separate payment runs, Chasseau says an essential part of the solution is to require that all payment-related information, of any type, be contained in the same format:
“Having this requirement facilitates STP and the outsourcing of many manual tasks such as payment inputting, tracking and reconciliation.”

Creating a solution

UMG’s banks determined that the ISO 20022 XML standard would be a viable solution and created a detailed, multi-phased plan to engage its banks based on the company’s project timeline. A pilot group of locations—Germany, Switzerland and Austria—was selected, as they had already been chosen as the first countries to go live with SAP. The pilot revealed a number of challenges that made subsequent phases more straightforward. The unique requirements of the U.S. implementation, however, raised additional unexpected challenges.

As part of the holistic suite of solutions, Bank of America Merrill Lynch enabled UMG to provide a single file that includes cross-border, foreign currency, wire, ACH and check payments. This solution resulted in new functionality in UMG’s payment capabilities, such as the ability to issue foreign currency transactions to its vendors located outside of the U.S., along with in-house and bank check printing. “Our need to issue checks required the setup of printing instructions in SAP and additional testing of the XML file to be certain that the requisite information to print the check was in place,” explains Flowers.

In the U.S., in order to accommodate UMG’s choice of SWAPS middleware to access SWIFTNet, Bank of America Merrill Lynch used an already-supported real-time or store and forward solution, SWIFTNet FileAct, making implementation reasonably straightforward in the U.S. “Much of our effort, therefore, focused on rigorous testing of the new arrangements and provision of support for UMG during implementation,” says Susan Colles, Director, Global Standards head at Bank of America Merrill Lynch.

Bank of America Merrill Lynch already provided UMG with lockbox services in the U.S. for check processing as well as Payee Positive Pay, which is an anti-fraud service that sends data to a bank when checks are issued. The move to SAP meant that the lockbox and Payee Positive Pay data transmissions had to be retested in order to accommodate utilization of the SWIFTNet FileAct channel. In the new lockbox solution, checks are received at 16 post-office boxes nationwide, scanned to capture remittance information and then sent to UMG for account receivables processing in SAP.

As part of its move to a new SAP environment, UMG wanted to receive its bank statements using SWIFT MT940 messages. “Although this is not a standard format used in the U.S., Bank of America Merrill Lynch is completely flexible regarding standards and formats,” says Heidi Hawthorne, Technical Implementation Consultant at Bank of America Merrill Lynch. “Indeed, Bank of America Merrill Lynch was able to group together MT940 messages for UMG to ensure processing efficiency and lower costs.”
Solution outcomes

Within a tight timetable, UMG successfully migrated to ISO 20022 XML for its banking interface with Bank of America Merrill Lynch in the U.S. and to SWIFTNet for bank communication. As a result, its goal of bank harmonization was achieved. The company successfully moved to MT940 messages for reporting while its lockbox and Payee Positive Pay data transmission were tested to ensure they worked flawlessly with UMG’s new SAP environment. Uniquely, the company now uses a single channel to deliver payment files and information reporting.

The project went live in January 2013. Its success was attributable to internal sponsorship from Chasseau, Jason Gallien, Senior Vice President Finance at UMG U.S., key stakeholders, and a committed project management team. The full dedication and focused work of Flowers, Julien Alimi, Vivendi Treasury project leader, Tian Yang, UMG IT lead, and the Bank of America Merrill Lynch project team helped deliver the initial phase, on time and within budget.

“The project was successful because everyone involved was experienced and well prepared,” says Alimi. “We were able to use the experience of Germany, Switzerland and Austria to streamline implementation and manage the pressure associated with the go-live. Moreover, we made sure we started kickoff well in advance of go-live and had all the necessary physical meetings scheduled well in advance.” Adds Yang: “Sometimes simple things like that make all the difference.”

UMG has gained increased visibility and control because of its move to a single bank interface and channel. Its payment processes have been streamlined and the solution has delivered benefits in terms of improved efficiency and significant cost savings. “Our move from paper to electronic bank statements and reporting not only will produce substantial efficiency gains, but we now have also been able to automate transactions that were previously manual,” says Flowers. Chasseau adds: “In countries where the solution has been implemented, our Treasury associated costs have been cut in half. As importantly, ISO 20022 XML enables UMG to manage its bank relationships more effectively and is an investment in the company’s future efficiency and flexibility.”

Bank of America Merrill Lynch maintained close communication with UMG at all times to help ensure the success of the project and offered strong support in its capacity as a trusted advisor to the company. In order to meet UMG’s ambitious deadline, Bank of America Merrill Lynch committed all available resources to the project.
Capital Strength, Efficient Cash Flow and Trusted Relationships Provide a Passport to International Growth

Executive summary

Since its inception in 1982, Maryland-based FTI Consulting has grown from a small, private startup venture into a publicly held global business advisory firm. With more than $1.5 billion in annual revenues, it has an expanding client roster in 24 countries on six continents. Bank of America Merrill Lynch has played a multidimensional role in the company’s significant growth trajectory for the past 15 years — providing broad access to capital, comprehensive cash management capabilities, employee-defined contribution and 401(k) plan management services, and trusted relationships at every level.

Learn more — Visit bankofamerica.com/globalstrategies for additional insight into strategies and solutions for growing your business internationally.
A trusted relationship

FTI Consulting helps organizations and industries worldwide address a broad range of business, economic, legal, and strategic and technological challenges. Building specialized expertise across multiple disciplines, it has transformed from a small litigation services business into a far-reaching global business advisory firm with 29 consecutive years of profitable growth.

Bank of America Merrill Lynch and FTI Consulting have worked closely for the past 15 years. During this time, each has drawn on the expertise of the other in various client-advisor capacities. As a go-to financial provider, Bank of America Merrill Lynch delivers comprehensive financing, cash management and employee retirement plan capabilities to help FTI Consulting address the financial complexities that come with expansion, both domestically and abroad.

“It’s all about trust,” says Roger Carlile, chief financial officer of FTI Consulting. “If you want to be a market-leading firm, you want to associate with other organizations like that. And to work with people whom you know you can trust.”

Strong capital, innovative ideas

According to Carlile, financing from Bank of America Merrill Lynch was critical to executing the company’s acquisition strategy during the 2000s. This included the 2007 acquisition of Financial Dynamics, a global strategic business and financial consulting firm, funded by a $215 million senior notes offering, as well as an increase in its bank credit facility from $100 million to $150 million.

In 2010, Bank of America Merrill Lynch led the company’s new $250 million senior secured revolving credit facility as well as a $400 million high-yield bond offering to support the company’s ongoing expansion and operating objectives. The bank also proposed an amendment to the company’s syndicated bank deal that enabled FTI Consulting to gain additional tax efficiencies in the United Kingdom. Other professional services firms in the region have since adopted the structure. “Drawing on our relational knowledge and the expertise of our global platform, we were able to create a new solution for a new opportunity,” says Peter Knickerbocker, senior client manager in Global Commercial Banking at Bank of America Merrill Lynch.

Efficiency, visibility and control

“Being the sole U.S. cash management provider for FTI Consulting has enabled us to take a holistic approach,” says Rob Starr, senior treasury sales officer at Bank of America Merrill Lynch. “From payments and receipts to information reporting, we provide complete, fully integrated solutions to make the flow of funds and information far more efficient.” This includes innovative tools such as remote deposit, which enables local personnel to scan checks received outside their lockbox solution and transmit directly from their desktop to the bank, saving time and cost.
Starr says that CashPro® Online from Bank of America Merrill Lynch makes it easier for the company to manage all its banking activities and accounts. “Whether it’s tracking balance levels or transferring funds for more effective positioning, reviewing exception items in positive pay to help prevent payments fraud, or initiating payments through preferred channels, CashPro Online is command central in terms of providing clear visibility and control.”

**Benefiting employees**

In 2011, FTI Consulting issued an RFP for administration of its employee-defined contribution and 401(k) programs. Drawing on the full power of the Bank of America Merrill Lynch platform, they awarded the business to Merrill Lynch Global Wealth and Retirement Services. Mark Shapiro, a client relationship manager within the wealth and retirement services unit, says that outsourcing administration of its employee benefits plan saves significant time and cost. “It takes the burden off company staff and frees them up to focus on more strategic initiatives,” says Shapiro. In addition to streamlined plan administration, FTI Consulting can now offer its employees a wide range of investment options and convenient decisioning tools.

**Ongoing global growth**

Anticipating what will happen in various world regions and where to expand is an ongoing challenge, but our growth will probably be about 35% outside the U.S.,” says Carlile. “For us to successfully grow and serve clients, we need access to the kind of financing, capabilities and ideas that Bank of America Merrill Lynch provides.”

“Being the sole U.S. cash management provider for FTI Consulting has enabled us to take a holistic approach.”

Rob Starr  
Senior Treasury Sales Officer  
Bank of America Merrill Lynch