

# Best Practices in International Cash Management

Ten points to navigate a smooth journey

Tommaso Todesca  
Global Transaction Services  
International Treasury Solutions

**Bank of America**   
**Merrill Lynch**

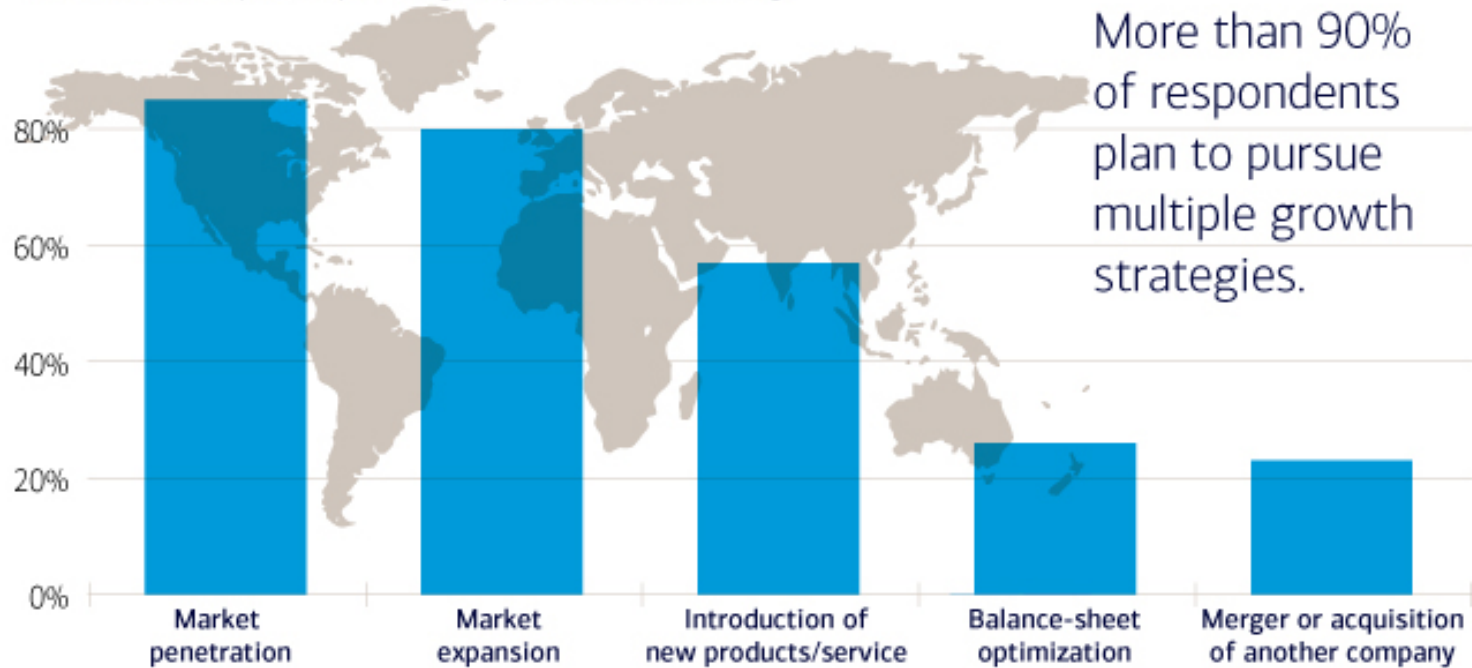
**Bank of Am**  
**Merrill Lyn**

Expanding Globally

Bank  
Merrill

### Growth strategies

Percent of companies planning to pursue the following:



Source: 2016 CFO Outlook<sup>1</sup> – Bank of America Merrill Lynch

Expanding into new markets continues to be a top growth strategy for companies headquartered in the U.S.

<sup>1</sup> The 2016 CFO Outlook Survey reflects insights gathered by Granite Research Consulting, which conducted 500 interviews with U.S. financial executives - primarily CFOs - between September 16, 2015 and November 3, 2015. Survey participants represent a broad cross section of American companies and regions.

# Going Global

10 essential points to navigate a smooth journey

Bank  
Merrill

# 1. Payments Environment

- Is there a low-cost local payment instrument that can be leveraged?

Be sure to identify the local equivalents of ACH and Wires and their peculiarities. Within these frameworks, there may be payment methods that are applicable only to a specific country.



- Should payments be managed centrally by HQ or should the local office maintain independence?



Investigate the answers to following questions:

- What payment terms are typical in this market?
- How are vendors paid?
- Where and how can the company make payments?

- How should petty cash be managed?

Explore the use of pre-paid purchasing cards and local currency cards for travel and entertainment. Be familiar with local regulations regarding petty cash. For example, China requires a dedicated petty cash account to be set up.

## 2. Collections Environment

Consider each unique market. While checks are still popular in the U.S., electronic methods may be the primary collection method in other countries.



Consider these options...

### Adoption of an integrated receivables hub.

Aggregate incoming payments and associated remittance details from multiple payment sources

### Leveraging virtual accounts.

A mechanism to collect funds into sub-accounts which eliminates the need for multiple bank accounts and simplifies the account reconciliation process

### Using credit card payments.

Invoiced in company's domestic currency or customer's home currency

## Partner with an experienced international tax advisor

### Tax considerations often drive cash management structure

- Tax Advisors: Important role in formation of new entities, their locations, and types of business activities they support
- Treasurer/Finance team build banking framework off those decisions

### Offshore Entity: Resident or Non-resident?

- Impacts how taxes are assessed
- Affects how easily funds can be transferred across borders
- Changes type of banking arrangement allowed
- Any impact of country, regional or global sweeping structures

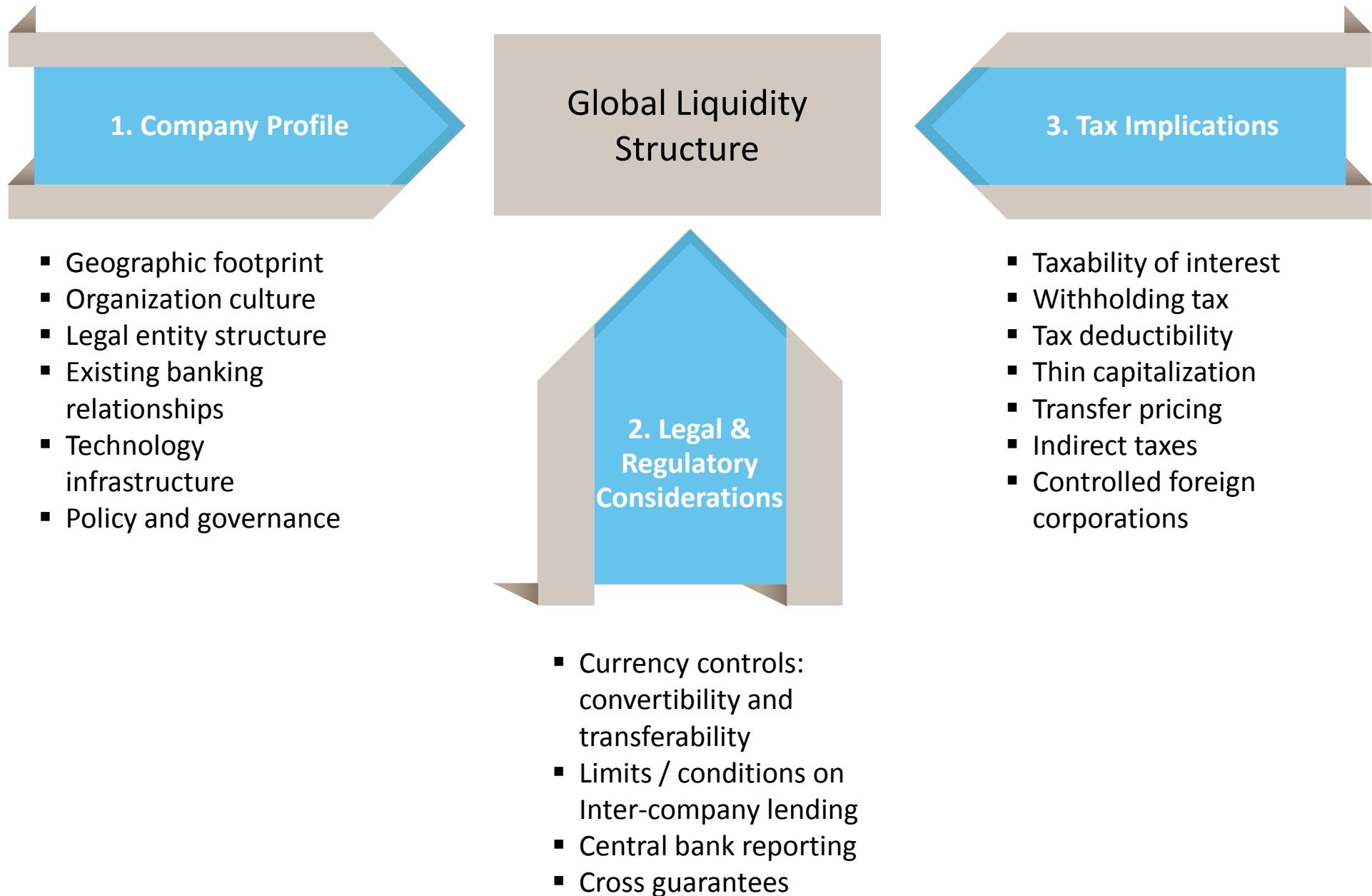


Some companies choose to delay focusing on their banking infrastructure because they are giving full priority to tax considerations – but this may mean that valuable time is lost and important decisions are not given the full consideration needed.



# 4. Liquidity

## Considerations when designing a liquidity structure

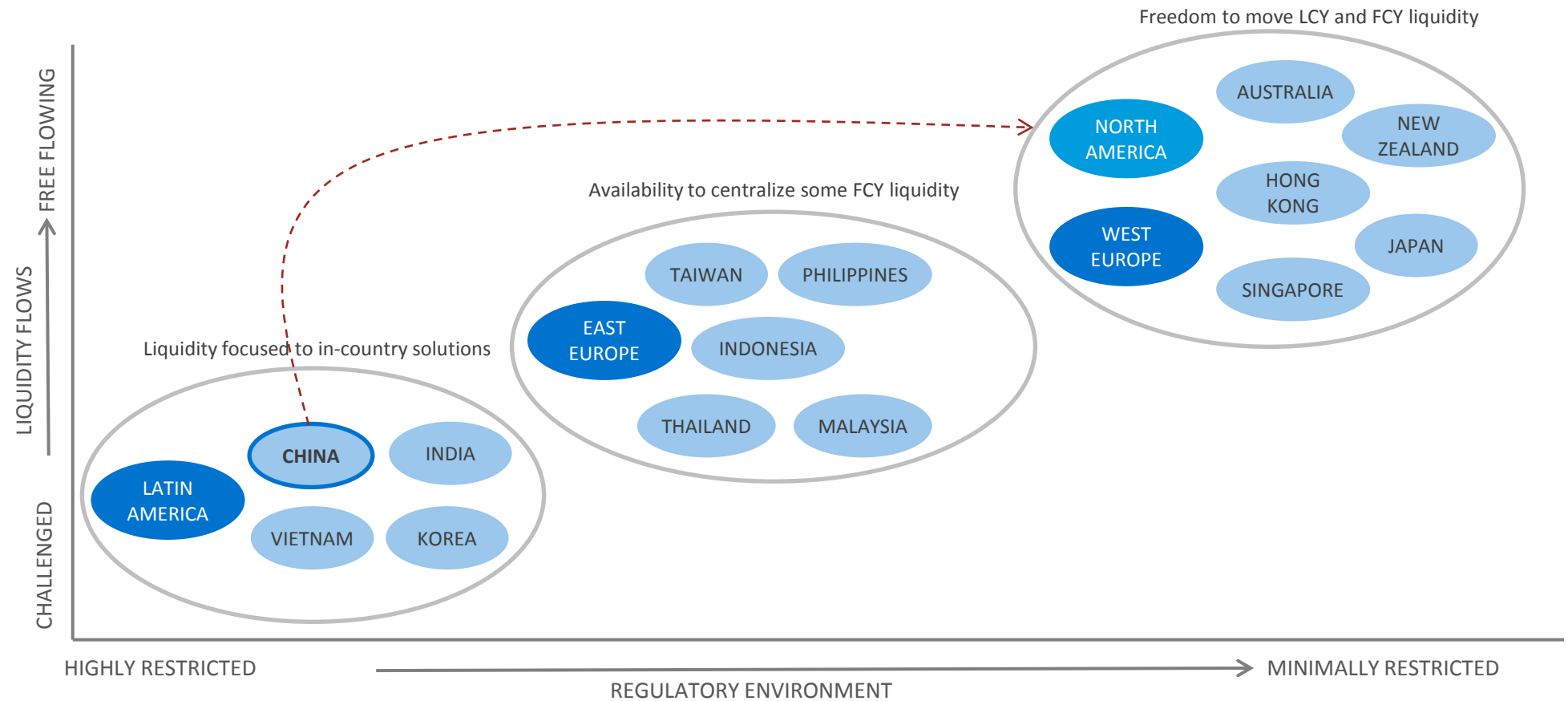




# 4. Liquidity

## Regulations affecting liquidity management

<b>Mobility of cash</b>	<ul style="list-style-type: none"> <li>▪ Cross Border Transferability of LCY and FCY</li> <li>▪ Cross Border Transferability of capital related and inter-company related transactions</li> </ul>
<b>Convertibility of cash</b>	<ul style="list-style-type: none"> <li>▪ Freely convertible, Non-convertible or Convertible onshore only</li> <li>▪ Exchange Controls</li> </ul>
<b>Co-mingling of cash</b>	<ul style="list-style-type: none"> <li>▪ Co-mingling of cash between Residents and Non-Residents and consideration for Joint Ventures</li> </ul>



# 5. Currency

## Key considerations in managing FX exposure:

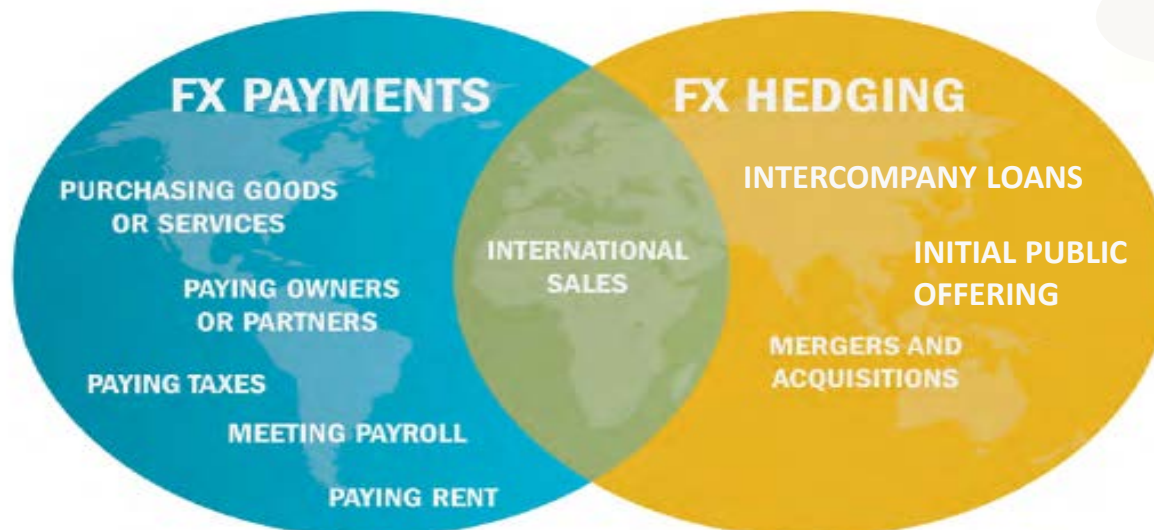
- Are market exchange rates fixed, floating, or pegged?
- What capital and exchange controls are in place?
- Are there any specific administrative requirements?

## Decisions to Make

- What constitutes a material exposure?
  - Initiate formal policy outlining responsibility for identifying and managing the risks
- What currency is used to bill customers?
  - Paying in dollars eliminates FX risk on transactions
  - Billing in local currency bring possible advantages such as competitive pricing

Be sure to reach a crystal clear view on your natural currency hedges. Wherever you don't see one, there is an opportunity for better risk management – and cost savings.

## Do you use a budget rate for a particular FX exposure and manage to rate?



# 6. Banking Model

Factor in future plans when choosing between regional banks, global bank, or a hybrid solution

## Use of Local Banks

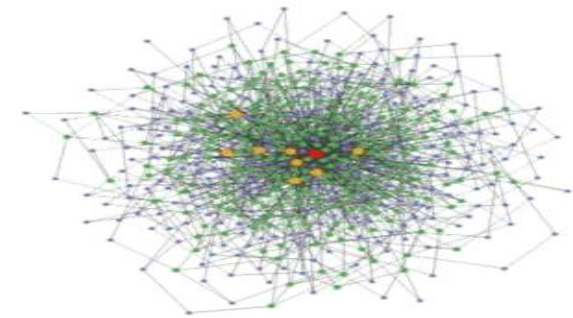
- Local Advisors are biased towards regional banks due to local practice knowledge
- Lack of global perspective hinders consistent internal policies across globe
- Overseeing local banking relationship may not be primary responsibility of local staff

## Common Misstep

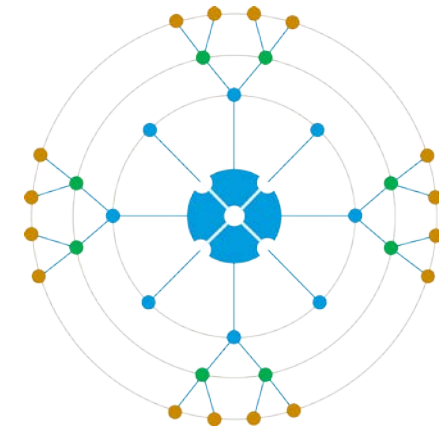
- Awarding cash management to bank that supports you globally through correspondent partners

## Asia is the Exception

- Local banks part of regulatory environment, specifically China and Japan for local tax payments
- Need local bank to access specific payment instruments



Complex  
Account Structures



Simplified and Standardized

# 7. Visibility on Local Activity

## Open Communication is Essential

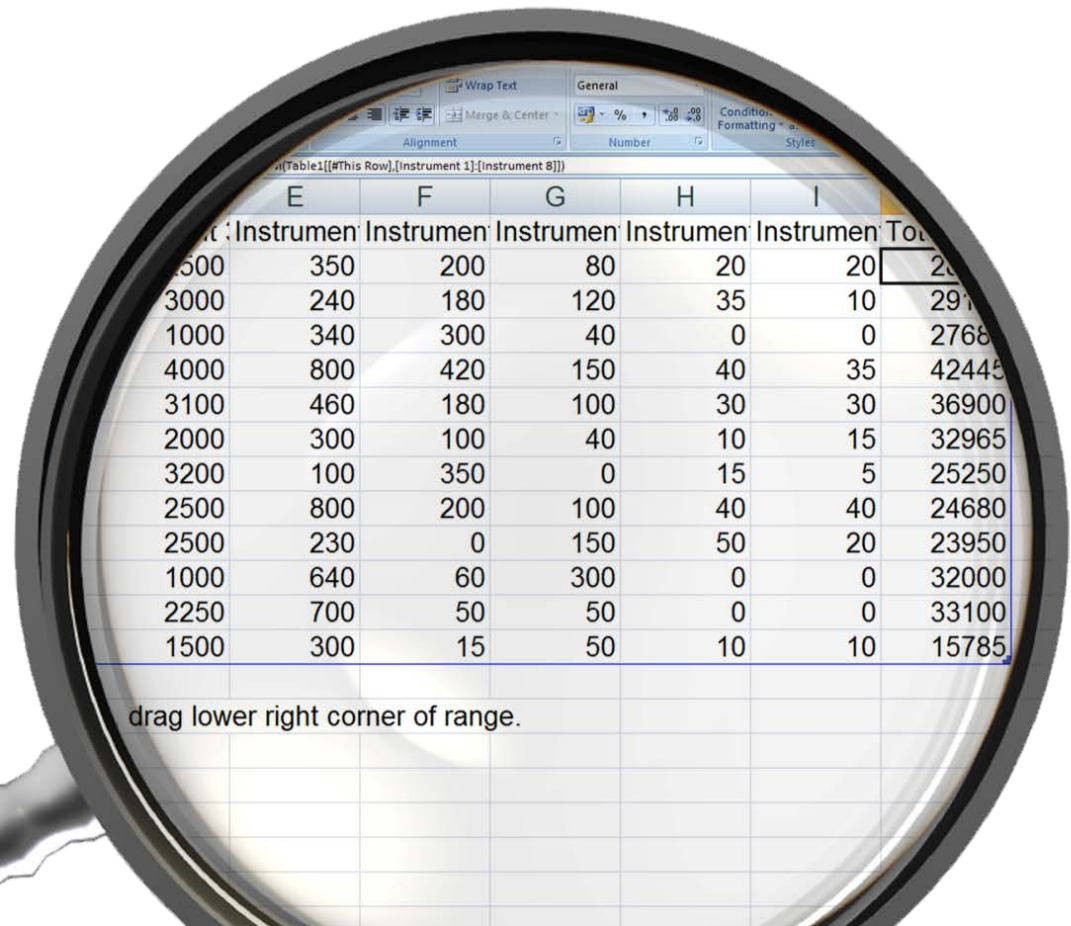
- Need communication between local controllers and HQ to obtain near complete visibility
- Treasurer should put in tools at onset:
  - Dedicated treasury workstation or banking systems
  - Multi-bank technology allows for single portal

## The Challenge:

- Maintaining same level of visibility as new processes are created within the business
- Obtaining the same level of information about overseas cash as one has on US cash balances

With today's technology, you can have all your international accounts information in one single online page, available in real-time.

Do not settle for anything less.



The image shows a magnifying glass focusing on a portion of a spreadsheet. The spreadsheet has columns labeled E, F, G, H, and I. The rows contain numerical data. Below the table, there is a text instruction: 'drag lower right corner of range.'

	E	F	G	H	I	
Instrument	Instrument	Instrument	Instrument	Instrument	Instrument	Total
500	350	200	80	20	20	20
3000	240	180	120	35	10	291
1000	340	300	40	0	0	2768
4000	800	420	150	40	35	42445
3100	460	180	100	30	30	36900
2000	300	100	40	10	15	32965
3200	100	350	0	15	5	25250
2500	800	200	100	40	40	24680
2500	230	0	150	50	20	23950
1000	640	60	300	0	0	32000
2250	700	50	50	0	0	33100
1500	300	15	50	10	10	15785

# 8. Shared Service Centers



**Many companies think of moving to a SSC model when it's too late. In order to avoid unpleasant restructuring processes, establish your SSC from the very start, where appropriate.**

## The Shared Service Centers Model

- Centralizes accounts payable, accounts receivables, customer services, and human resources
- Increases visibility and use of consistent data formats
- Streamlines cross-border transactions

## Key Decisions

- Where to locate SSC
  - Engage local trade/investment body to gain insight on advantages of establishing SSC in their country
- Think about migrating back-office processes before migrating customer-facing activities

# 9. Control: Headquarters vs. Local



## Problems with decentralized approach

- Local controllers may have different focus, out of sync with corporate goals
- HQ will receive data in varying formats, inhibiting direct comparisons

## Main Objective for Long Term

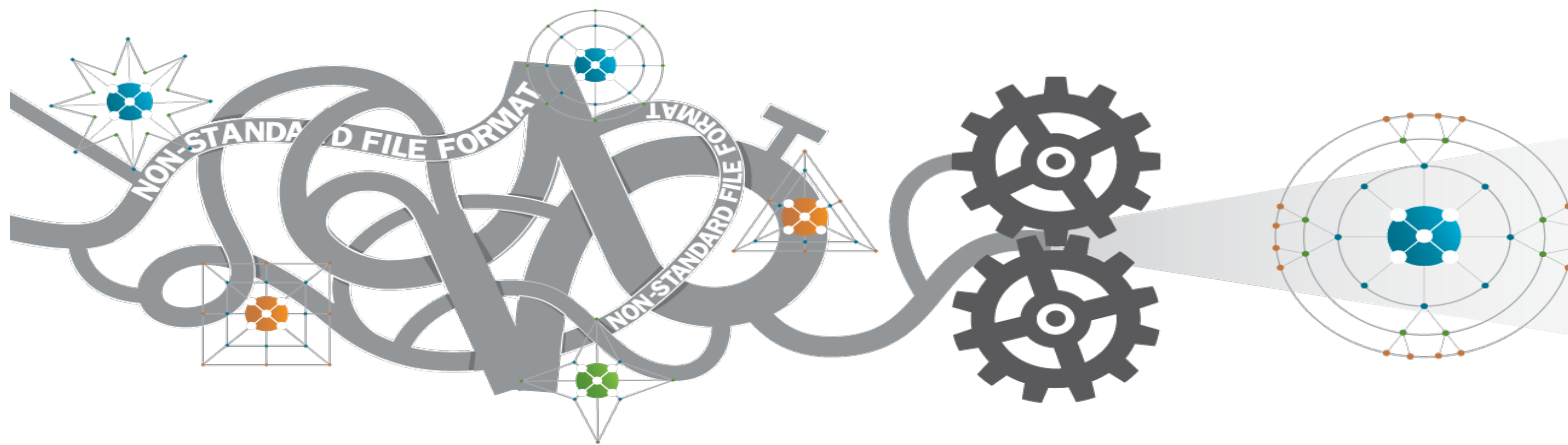
- Keep most of the control at headquarters
- Any delegated processes should be done in deliberate manner
- Put in early strategy to deal with cash repatriation restrictions

**HQ should always maintain a degree of control over their international cash management. Various levels of delegation will build the most efficient “control pyramid” to cover the global operations.**

# 10. Information Technology Integration

## Strategy for IT Requirements

- HQ should drive IT infrastructure decisions for new operations
  - Can later modify to suit local operations
- Take a 5 year view rather than 12 month view
- Avoid systems home-grown or with a local focus wherever possible
- Take into account local nuances when considering ERP implementation projects
  - Example of SEPA using XML file format
  - SWIFT integration



# Best Practices

Bank  
Merrill





- HQ control of international cash management



- Determine regional model – global bank or hybrid solution



- Consolidate accounts receivable
- Understand market practices, currencies and terms

## CONTROL

## VISIBILITY

- Maintain international accounts information in one place



## BANKING MODEL

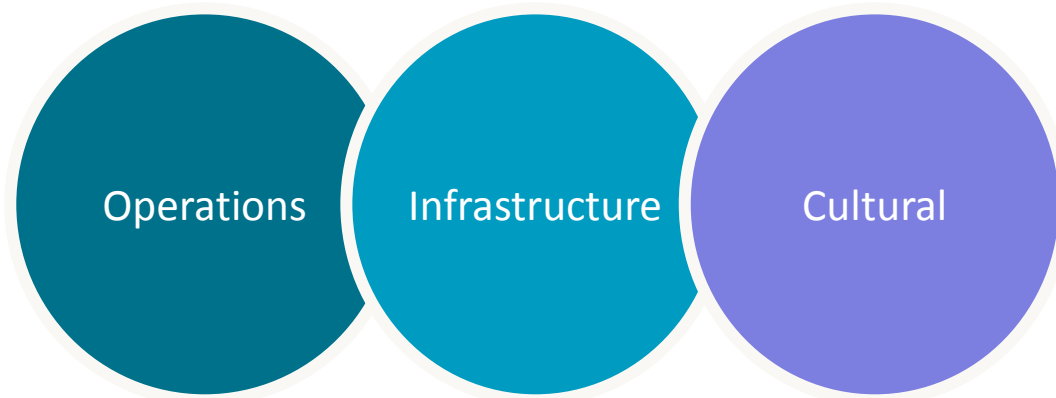
## PAYMENTS

- Know the local payments environment
  - ✓ Where and how you can make payments
  - ✓ Currencies – local vs. regional, global/paper vs. electronic



## COLLECTIONS

- International growth will continue.
- It is an opportunity to be captured now.
- People: Local expertise and understanding cultural sensitivities is critical
- Acquisition: If you grow through acquisition, gain thorough knowledge of newly acquired subsidiaries cash management function
- Process: Executive sponsorship and framework to drive decisions; Ongoing assessment and risk monitoring
- Technology: Global applications often need to be localized



# Questions and Answers

Bank  
Merrill