International Treasury
Best Practices and Updates

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Negative Rates Upend the World

SPECIAL REPORT Central bankers are pushing deeper into the once-unthinkable: negative interest rates—essentially charging customers to hold their cash. The benefits and pitfalls are rippling around the world.

A Swiss bank enters uncharted territory, and signs are positive

BY JOHN LERTZING

ZURICH—Negative interest rates are rattling banks around the world, but one small Swiss lender has learned to stop worrying and lean in.

Alternative Bank Schweiz AG late last year became Switzerland’s first bank to comprehensively pass along negative rates to all of its customers. Violating an almost religious precept in the financial world, ABS informed its clients that they would have to pay a charge of at least 0.125% to maintain their accounts at the bank starting in 2016, instead of the bank paying them interest.

In January, as the titans of global finance gathered in Davos, ABS Chief Executive Martin Rohner was poring over data in his bank’s Zurich office near a gritty red-light district and sounding cautiously hopeful. In the first two full months after ABS’s October negative-rate announcement, 1,797 clients had left the bank, but 1,830 new accounts had been opened, for a net gain of 33.

“We had an excellent year,” Mr. Rohner said at the time. Fresher data for January and February, the most recent available, showed that ABS still was not positive on accounts, with its gain expanded to 59.

Pietro Majno, an ABS client, said he never considered leaving after the bank started charging him to hold his money. A professor of surgery

Duration risk: the bomb ticking inside today’s bond market in era of low and below-zero rates

BY MIKE BIRD

A quiet risk is making an impact on bonds in the era of low and negative rates: duration bonds with lower coupon payments, because low coupons mean more waiting. Duration implies risk: A rule of thumb is that a one-year bond will drop by one percentage point and fall 25% if rates rise by the same amount. Japanese debt is a prime example. Last year, Japan issued a 50-year bond with a coupon of 1.75%. Before the eurozone debt crisis, France was issuing similar bonds with coupons of 4%.

German life insurers feel pain of low rates and face pressure to boost capital levels

BY MADELEINE NISSEN AND PAUL J. DAVIES

German life insurers are caught in a pinch that could eventually threaten their survival. Regulators are forcing them to boost capital levels at the same time that low rates make it hard to make money with their investments.

The question is how long before the ride gets bumpy enough to shake out the weakest firms.

German regulators are so concerned about the impact of negative interest rates on the country’s life insurers that they have said they can only be sure the sector is safe through 2018.

Even today, half the industry would be short of capital without the help of special measures.

The trouble lies in the promises insurers made to policyholders years ago, when nobody would have guessed central banks around the world would send interest rates barrelling toward zero, only to remain there for years on end and even break into negative territory.

The German life industry is particularly badly affected by very low or negative interest rates because companies have historically offered what now look like high levels of guaranteed returns over very long periods.

Some insurers need to earn a continuing investment yield
Challenges of International Cash Management

- Treasury Structures
- Payments Collections Liquidity
- Local Practices
- Controls and Visibility
- Risks
- Regulation
Treasury Centralization

Treasury Structures

Centralized

Decentralized

Hybrid
## Payments and Receivables

### International Payments/Collections Considerations
- High-Value vs Low-Value, non-urgent systems – increasing move to real-time vs batch (e.g. FasterPay in UK)
- Settlement across different time zones
- Holiday schedules
- Cut-off times
- Value Dates
- Lifting charges/intermediary bank fees
- Exchange control regulations
- Foreign language & characters
- Payment information

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Liquidity Management

Credit and Debit Interest

Cash Concentration/ZBA

Notional Pooling
Best Practices for China

Gain Account and Cash Visibility

Strong Controls on Access to Accounts, “Chops”, etc.

Strategy for Trapped Excess Cash: Profit Repatriation, Intercompany Lending, etc.

Manage Currency Volatility

How does China fit into your global and APAC operations, particularly Hong Kong?

Offshore RMB vs. Onshore RMB
### Many similarities
- Online banking, accounts, lockbox, ACH/EFT, wire....
- Electronic payments growing, check (cheque) still important in corporate space

### Differences
- Canadian Payments Association Rules (Cheque, ACH, Wire)
- Taxes on banking services
- Image Cash Letter/Remote Deposit
- Mobile banking, alerts, reporting

### Complexities of managing a business across multiple borders:
- Cross border funding and repatriating money
- Cross border payments and collections
- Local payables, receivables, currency exposure associated with daily operating expenses and payroll
- Risk management, rules and regulations, foreign currency exposure
- Access to working capital and managing different interest rates
- Tax payments

### Best Practice:
- Understanding the similarities and recognizing the differences in banking services, regulations and market risks to impact your bottom line appropriately
Best Practices for Europe

Understand need for local accounts and efficient structures

Understand in country low value payments platforms including SEPA (EUR), BACS (GBP), etc

Obtain Account Access and Cash Visibility through Multibank Services

Mitigate Currency Volatility especially in jurisdictions that are currently experiencing negative interest rates (EUR, CHF, SEK, DKK)

Strategize uses for excess cash: acquisitions, paying down debt, longer term investment vehicles, etc.
Trade Risk – Credit Risk

Country RISK??

Yes

Shipment ONLY if Commercial & Political Risk is Secured by:
- Cash in Advance
- L/C Confirmed
- Bank Guarantee Confirm
- Export Credit Insurance

Yes

Credit Worthy?

Yes

Decision On:
- Credit Limit
- Payment Terms

Recommendation

No

Credit Application to Credit Mgmt

Gather Information
- Financial Stmts
- Bank Reference
- Trade Reference
- Credit Bureau Rep

Shipmen ONLY if Commercial & Political Risk is Secured by:
- Cash in Advance
- L/C Confirmed
- Bank Guarantee Confirm
- Export Credit Insurance
Global Regulatory Environment

Movement of funds require approval by Central Bank
Liquidity focused to in-country solutions

Limited control by Central Bank
Availability to centralize some foreign currency liquidity

Freedom to move local and foreign currencies

Minimally restricted → Highly Restricted

Regulatory Environment

Free Flowing

Challenging

Liquidity Flows

Global

Mainland China

India

Vietnam

Korea

Brazil

LatAm

Mainland China

Philippines

Taiwan

Thailand

Malaysia

Indonesia

Eastern Europe

North America

Australia

Mexico

Hong Kong

Japan

Singapore

Western Europe

North America

Australia
Market Knowledge - International Resources