

BEST PRACTICES IN INTERNATIONAL CASH MANAGEMENT

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What Leads To Best Practices?

Key Events

- Economic conditions
- Regulatory compliance
- Trends in the market
- Changes in local cash management practices
- Technological advancements
- Globalization

What Leads To Best Practices?

What keeps Treasurers up at night?

- Counterparty risk
- Availability and cost of credit
- Forecasting cash flow and the state of the economy



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Recent Market Events

Panic and loss of confidence on numerous fronts resulting in ...

- Severe dislocation in the credit market
- Extreme stock market volatility with huge declines due to company performance, credit issues and/or liquidity needs
- Debt capital market options are extremely limited with almost no bond issuance and very low Commercial Paper market demand



How Corporations Reacted

- Re-evaluated investment portfolios and shifted to low risk, shorter term investments
- Liquidated assets and turned to reserves and credit facilities to hoard cash
- Treasurers managing cash more strategically
 - Greater focus on international cash and inter-company activity to fill liquidity gaps
 - Placed greater importance on visibility and control of global cash
 - Re-assessed international liquidity structures to streamline flows of cash
 - Developed a strong partnership with Tax Advisors to access international cash balances minimizing negative tax implications
- Closer scrutiny and examination of counterparties

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Global Treasury Market Trends

Human Resources

- Identifying, hiring, retention of strategic leaders
- Project management focus
- International knowledge and experience

Process and Efficiency

- Centralization
- Development of long term strategic plans for Treasury, align with Corporate objectives
 - Investment policies
 - Treasury policies
 - Tax initiatives
- Internal process improvements



Global Treasury Market Trends

Technology

- Increased integration with banking partners to automate payments and receipts
- Greater reliance on ERP systems and treasury workstations
- Increased Straight Thru Processing (STP) transactions

Visibility and Control

- Automated view of domestic and global cash balances, leveraging multi-bank reporting
- Rationalizing / optimizing bank relationships and structures to improve and streamline cash positions
- Adopting global standards across regions for internal process and audit for better control



Global Treasury Market Trends

Risk Management and Mitigation

- Managing more risk than before (including Trade, FX, etc.)
- Developing and executing plans to mitigate identified risks
- Using ERP and Treasury Work Stations to standardized processes and strengthen controls around risk and exposure management

Optimized Liquidity and Treasury Structures

- Global cash concentration / pooling to leverage cash and optimize returns
- In-House Banks, global treasury centers, payment factories, and shared service centers
- Inter-company netting and loan administration



Global Treasury Market Trends

Expanded Role of Treasury

- Control and strong influence over all aspects of working capital
- Increased responsibilities and oversight for risk management, including Trade Finance and Capital Markets activities
- Major stakeholder in key corporate decisions
- Corporate Strategic Partner



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Global Liquidity: Maximize Liquidity Transparency and Efficiency

Centralize Treasury Management

- Implement global information reporting
- Rationalize, analyze and consolidate accounts with global bank relationships, using regional and local providers only where necessary
- Centralize liquidity management through a cash concentration structure
 - Consolidate cash to maximize investment or pay down debt
 - Realize savings through self-funding and reduce local overdraft /external funding requirements
 - Centralize credit facility based on parent company credit standing
- Use tax effective structures
- Stay current and take advantage of new international initiatives like “SEPA” in Europe
- Develop centralized Treasury policies and procedures

Working Capital: Streamline Underlying Operational Processes

Leverage investment in ERP technology for increased automation

- Accounting
 - Daily electronic bank statement to record cash and reconcile disbursement activities
 - Facilitate In-House bank and Inter-company netting activity
- Payables: Standardize PO / Invoice, electronic workflow approvals, vendor set-up and global settlement processes
 - Global multi-payables file for all payment methods
 - Supports Shared Service Center and Payment factory structures
 - In-house bank and netting settlements
- Receivables: Automate cash application for efficient A/R process



Global Liquidity: Forecast and Segment Cash Needs

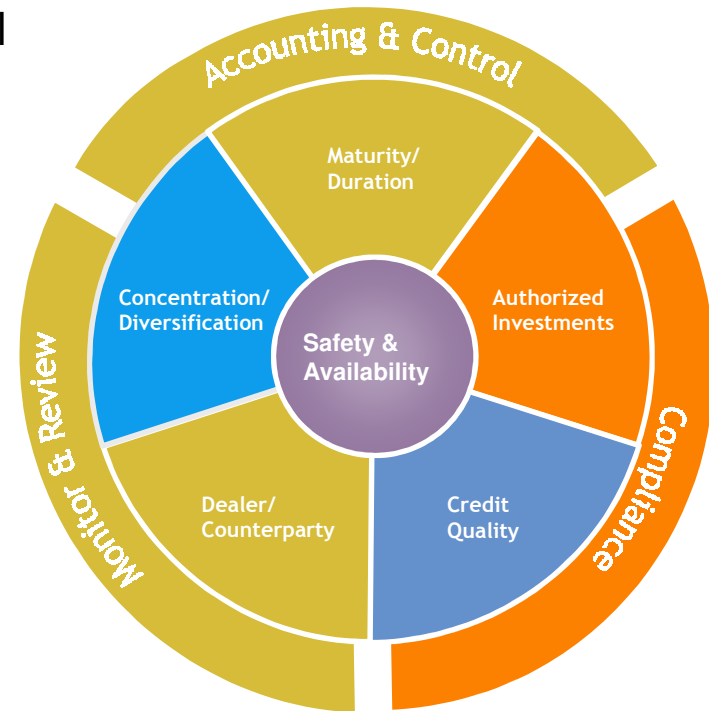
Cash Forecasting

- Develop cash flow analytics (receipts / disbursements)
 - By legal entity and geography
 - Use historical balance reporting data to develop trend analytics
 - Consider limitations / differences arising from currencies, time zones, other local in-country processes (including tax and regulatory rules)
- Establish open dialogue with key internal and external partners
- Identify key drivers and dependencies of significant flows
- Establish a “Forecast vs. Actual” variance analysis process



Global Liquidity: Establish Appropriate Investment Guidelines

- State objectives: Preservation of Principal
- Specify roles and responsibilities
- List authorized investments
- Balance flexibility and control
- Identify risk tolerances (aggregate and individual)
 - Tenors
 - Counterparties
 - Complexity
- Report investments and any guideline breaches
- Incorporate into firm-wide risk framework
- Update with evolution business model



Best Practices on Global Liquidity and Working Capital

Global Liquidity

- Forecast and segment liquidity needs
- Establish appropriate investment guidelines
- Select investments appropriate for cash segments
- Maximize liquidity transparency and efficiency

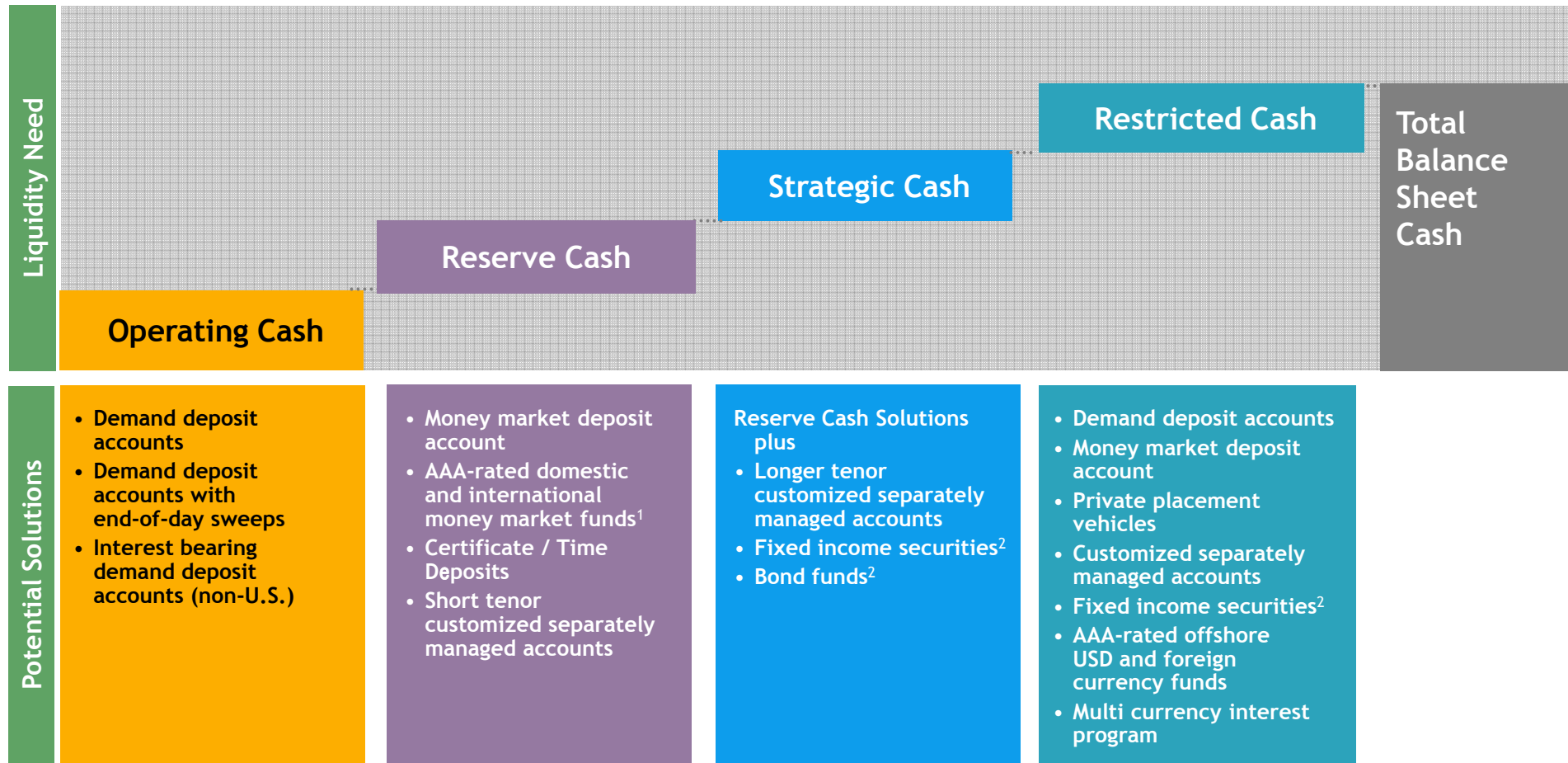


Working Capital

- Streamline underlying operational processes



Global Liquidity: Select Investments for Each Cash Segment



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Best Practices on International Cash Management

Leverage Global Banking Partners

- International cash management knowledge
 - Local in-country cash management practice
 - Relaxation of local regulations
 - Expansion of liquidity solutions globally
- Bank diversification
 - Counterparty risk
 - Disaster recovery plans
 - Cost effective solutions



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Summary on Global Best Practices

- Staff with international expertise, knowledge and the ability to act strategically
- Implement process improvements like migrating disbursements from paper to electronic channels; and incorporating new industry standards, i.e., SEPA
- Increase integration with banking partners for higher levels of automation both for collections and payments
- Leverage the functionality and standardization of ERP systems and treasury workstations
- Rationalize global banking relationships to key providers for a streamlined view/structure
- Consolidate the view of domestic and global cash balances through one platform or leverage multibank reporting, if required
- Establish global standards on visibility and control
- Take an active role in exerting greater influence and control on all aspects of working capital
- Align Treasury goals with those of corporate
- Develop and execute risk mitigation strategies in foreign exchange, trade and other areas under an expanded role in the corporation
- Build efficient liquidity structures either through cash concentration or pooling (notional and physical) to gain access and streamline flow of cash
- Establish global treasury centers, payment factories, and shared service centers

Planning Ahead – Some Questions to Consider

- What is the right amount of liquidity to make sure you can meet all of your expected and unexpected funding needs?
- How accurate is your cash forecasting? Is it conservative? Do you frequently stress test it?
- Do you segment your cash position? How often do you have to tap reserve cash?
- What is your investment strategy?
- How often do you review your investment policy or guidelines?
- When evaluating approved counterparties, do you review names for removal with equal vigor as you do for new names?
- How frequently do you review the strength of your banking relationships?
- What level of visibility and control do you have on your balances globally?
- Can I begin to standardize and centralize my global treasury function?
- Do I have an optimal account structure in place today?
- What if what you never thought could happen actually did?

Questions

