



# Efficient Treasury Management in Asia Simplifying Complexity

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Coming soon to a theatre near you.... Asia



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# Asia's response to the economic crisis

## Pre crisis – 2007

- One of the world's top ten companies by revenue was Asian
- 162 of the top 500 were US companies
- China and India had 30 companies within the top 500
- Few Asian companies with professional treasury management

## 2010

- Five of the world's top ten companies by revenue are Asian
- 139 are US companies – 8.5% decrease
- Chinese and Indian companies now number 54 – 57% increase
- China ranks 3rd after US and Japan for number of companies in the top 500
- Asian companies flush with cash, are professionalizing treasury management
- Asian companies setting up regional treasury centers, eg Huawei, Haier, Tata, Sinopec
- Asian companies are acquiring and investing offshore

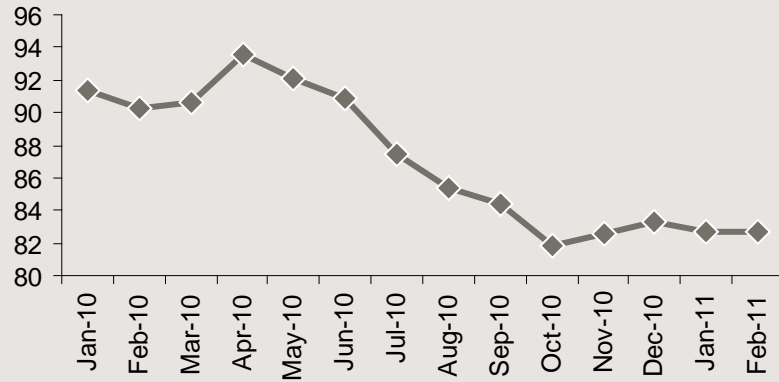
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# Reality Check

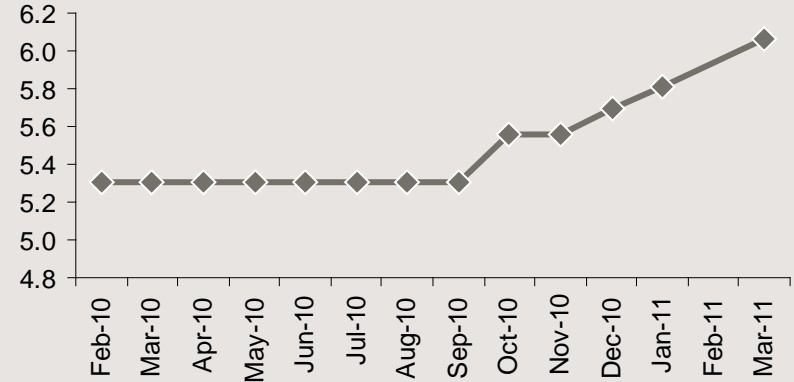
- Selected acquisitions by Asian Companies – Jaguar, Rover, Volvo, IBM/Lenovo, Novellis
- Growing importance and size of Asian Market:
  - Telecom (mobile)
  - Resources & Commodities
  - Retailing / Luxury Brands
  - Supply Chain
- Increased Competition from Asian Companies
  - Emergence of India and China
  - Transfer of FX risk from China – RMB internationalization
  - India : Capital Account Convertibility ?
- Gradual market reform
  - Automation of clearing systems
  - Currency bands widening

# The world is a risky place

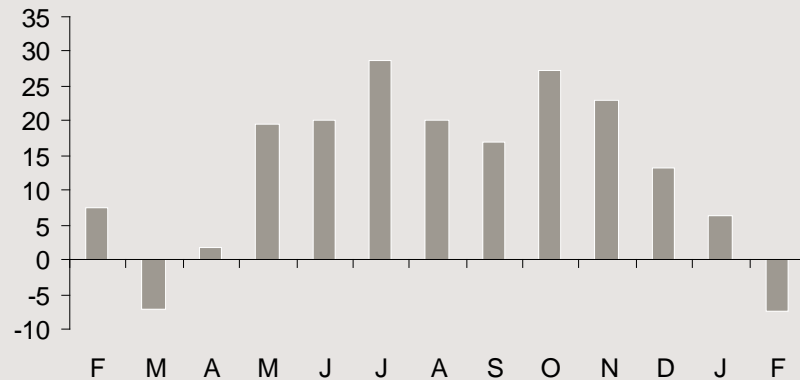
## Japanese Yen to USD



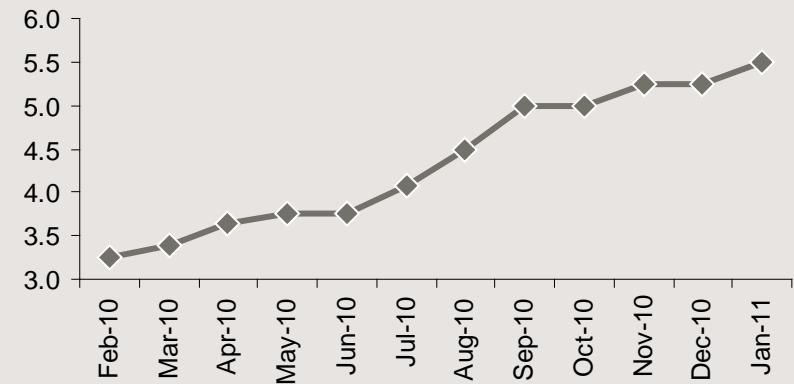
## China Interest Rates Value



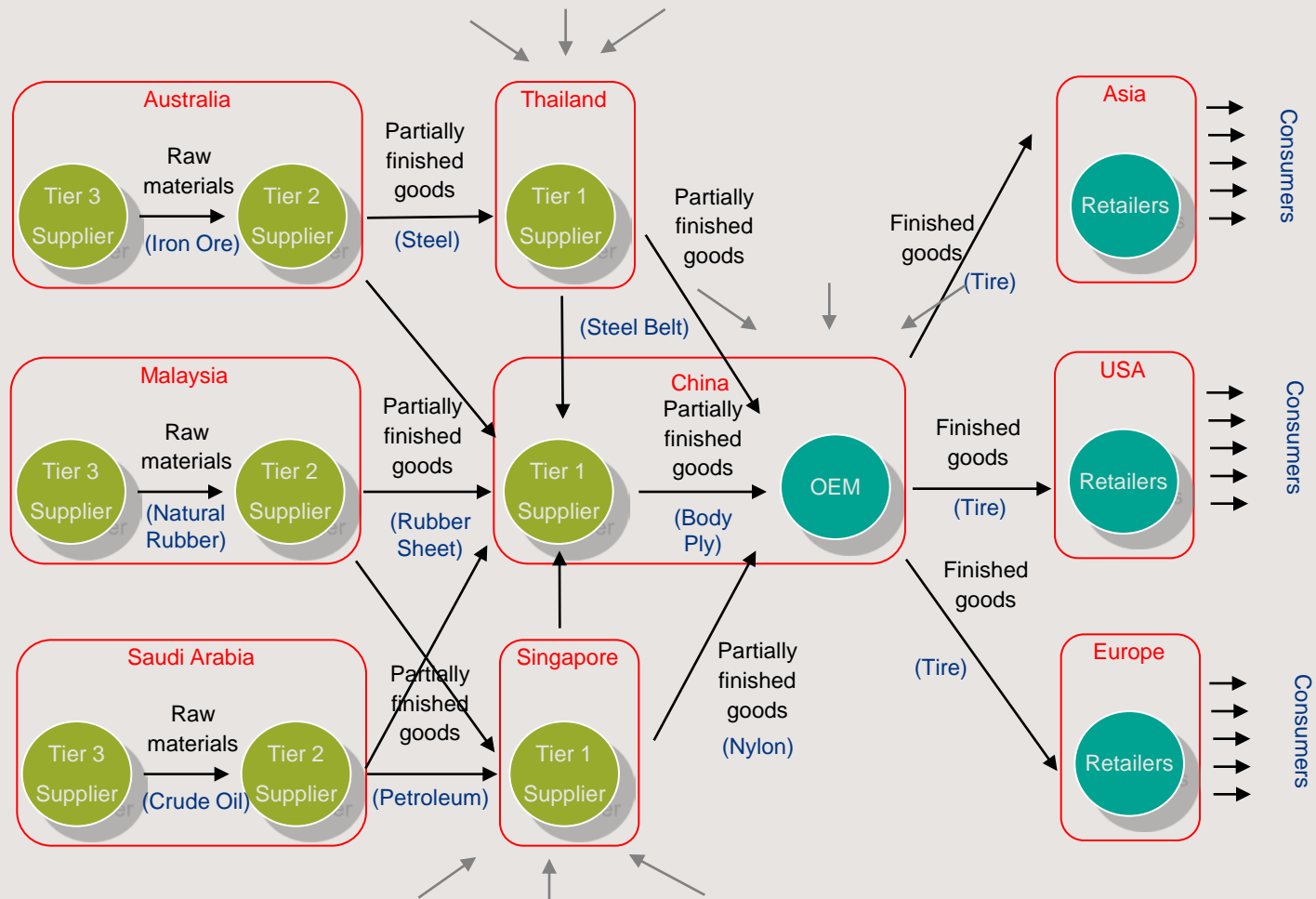
## China Trade Balance



## India Interest Rates Value



# International Supply Chain “Ain’t What it Used to Be”



# Cash Flow Forecasting Challenges

## **Volume \* Price = Revenue**

- World politics unstable
- Clients demanding
- Global competition drive prices
- FX volatility

## **COGS + SG&A**

- Fast moving commodity prices
- FX volatility
- Wage inflation

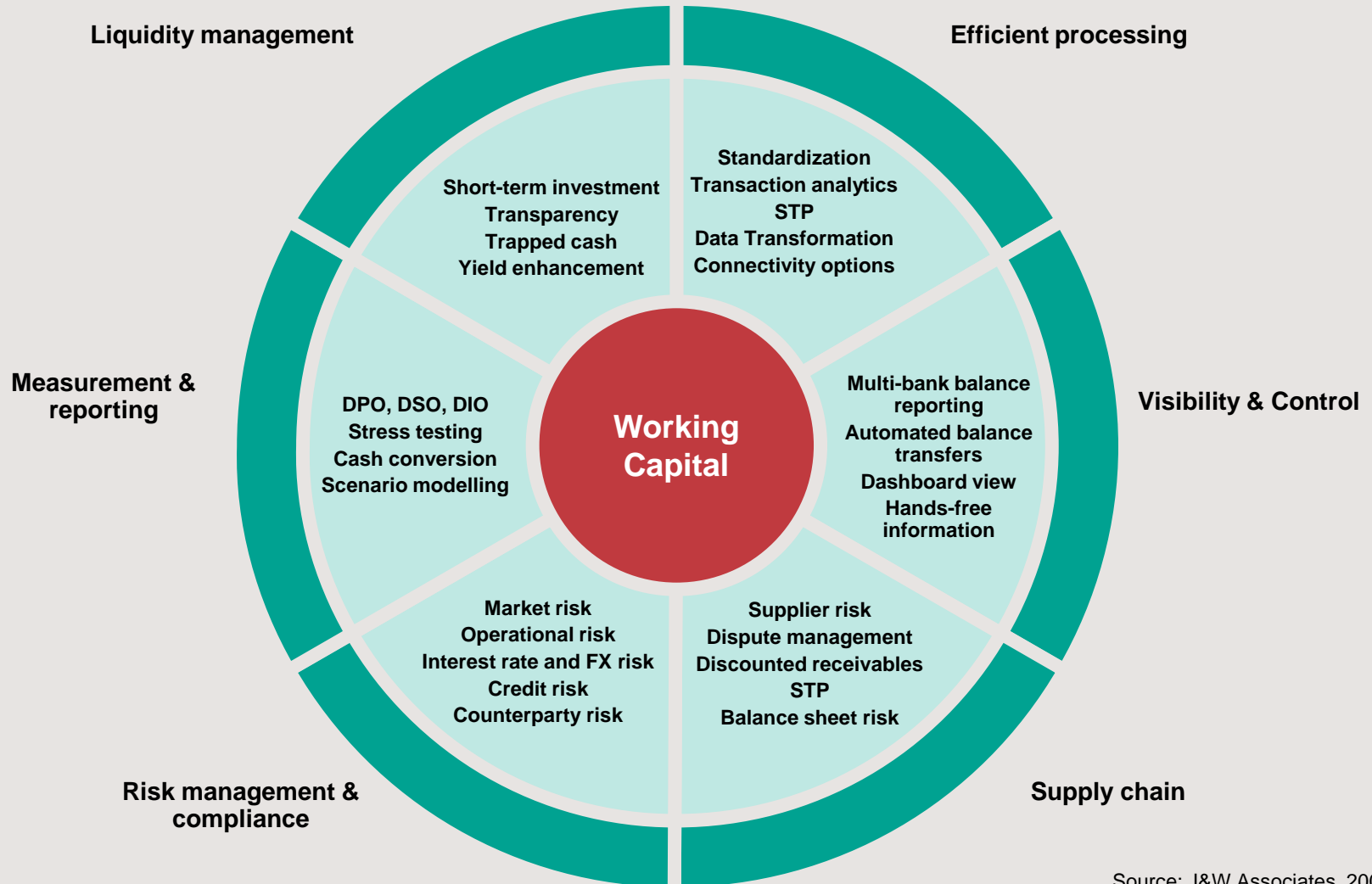
## **Investing / Financing**

- Interest rate rising
- Changing regulatory environment
- Contractionary monetary policy

**Predictability is Challenging!**



# Working Capital Fundamentals have not Changed



Source: J&W Associates, 2009

RBS68178

# The Voice of the Corporate

Only half of organizations can accurately predict cash-flows up to 4 weeks ahead

More than a third of organizations keep the majority of their liquidity in operating accounts and short-term Time Deposits

## Customer Liquidity Survey \* 2010

On average, organizations keep almost 50% of their short-term liquidity overnight

Organizations find “instrument credit rating”, “overnight liquidity” and “investing with credit providers” to be the top factors that influence their cash investment policy

Almost two thirds of organizations rely on operational cash-flow as their top source of working capital funding

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# Treasury Management in Asia

- Most global companies are now present in Asia in some capacity
- All businesses are affected by Asian developments
- Largest markets for Foreign Direct Investment, China and India, are also the most highly regulated in Asia
- Optimal level of capital injection to reduce “trapped cash” in regulated countries
- Type of establishment should be “fit for purpose”: impacts ability to repatriate profits

## Small Companies

- Mainly sales focused
- Alternatively small manufacturing or assembly
- Financial expertise resides at headquarters
- Limited treasury mass in Asia
- Collections, transparency and control key concerns
- Regular fund remittances to headquarters
- Tends to trade in home currency if possible

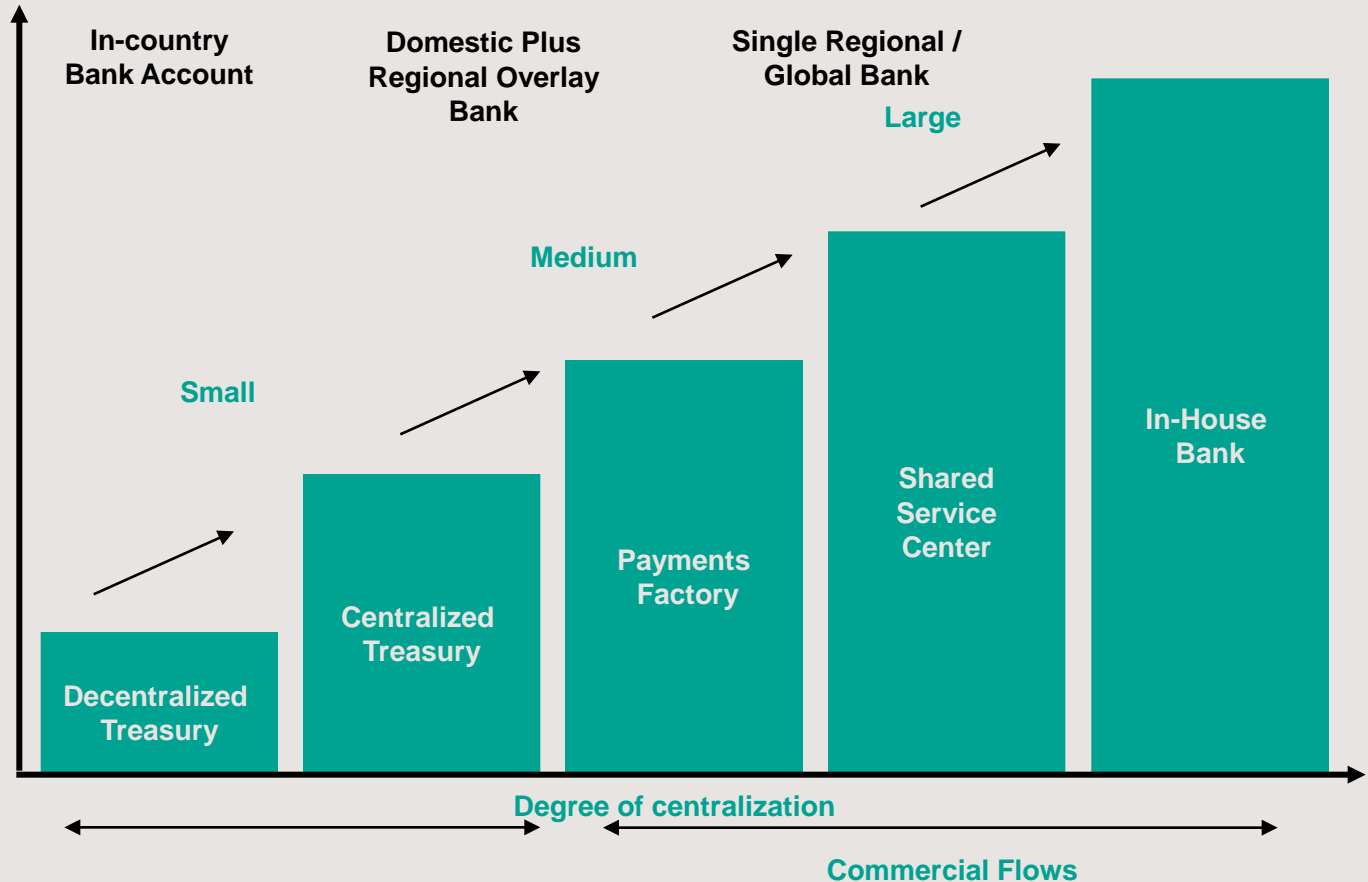
## Large Companies

- Full functional suite: sales, design, R&D, treasury
- Empowered offshore/regional treasury staff
- Sophisticated treasury management systems with tiered authorization structure
- Straight through processing/electronic collection processes, automated fund sweeps, centralized liquidity
- Liquidity investment management
- Offshore pooled funding accounts
- Multi-currency, multi-jurisdictional receipts and payments

# Natural Progression of Company Set-Up in Asia

## Functions Centralized

- Bank Accounts
- Invoicing
- Accounts Receivable
- Accounts Payable
- Accounting
- Payments
- Collections
- Intra-company Netting
- Balance Management
- Cash Pooling
- Intercompany Funding
- FX / Interest Management
- Long-term Funding



# Realities of Treasury Management in Asia

## Challenges

- **Globalization**
  - More currencies, countries, entities
- **Cash Flow Forecasting**
  - Timely information
- **Risk management**
  - Counterparty
  - Country
  - Operational
- **Regulations**
  - Legal, tax, accounting
- **Different time zones**



## Challenges

- **Account Complexity**
  - Managing multiple accounts with multiple banks
- **Cash Concentration**
  - Manual transfers between banks
- **MM & FX**
  - Processing internal and external investments / funding and FX Swaps
- **Small treasury teams**

# Asia Pacific Regulatory Landscape is Variable

## Less Regulated Countries

Hong Kong  
Singapore  
Australia  
Japan

- Account opening for residents and non-residents
- Local currencies are freely convertible
- No restrictions on domestic or cross-border foreign exchange transactions
- No restriction on in-country and cross-border cash sweeping and single-currency in-country and cross-border notional pooling
- Accounts held in these countries can be part of a global automated cross-border sweep
- HK and Singapore are popular locations for regional treasury centers due to non-restrictive nature and low tax environment

## More Regulated Countries

Indonesia  
Korea  
Malaysia  
Thailand  
China  
India

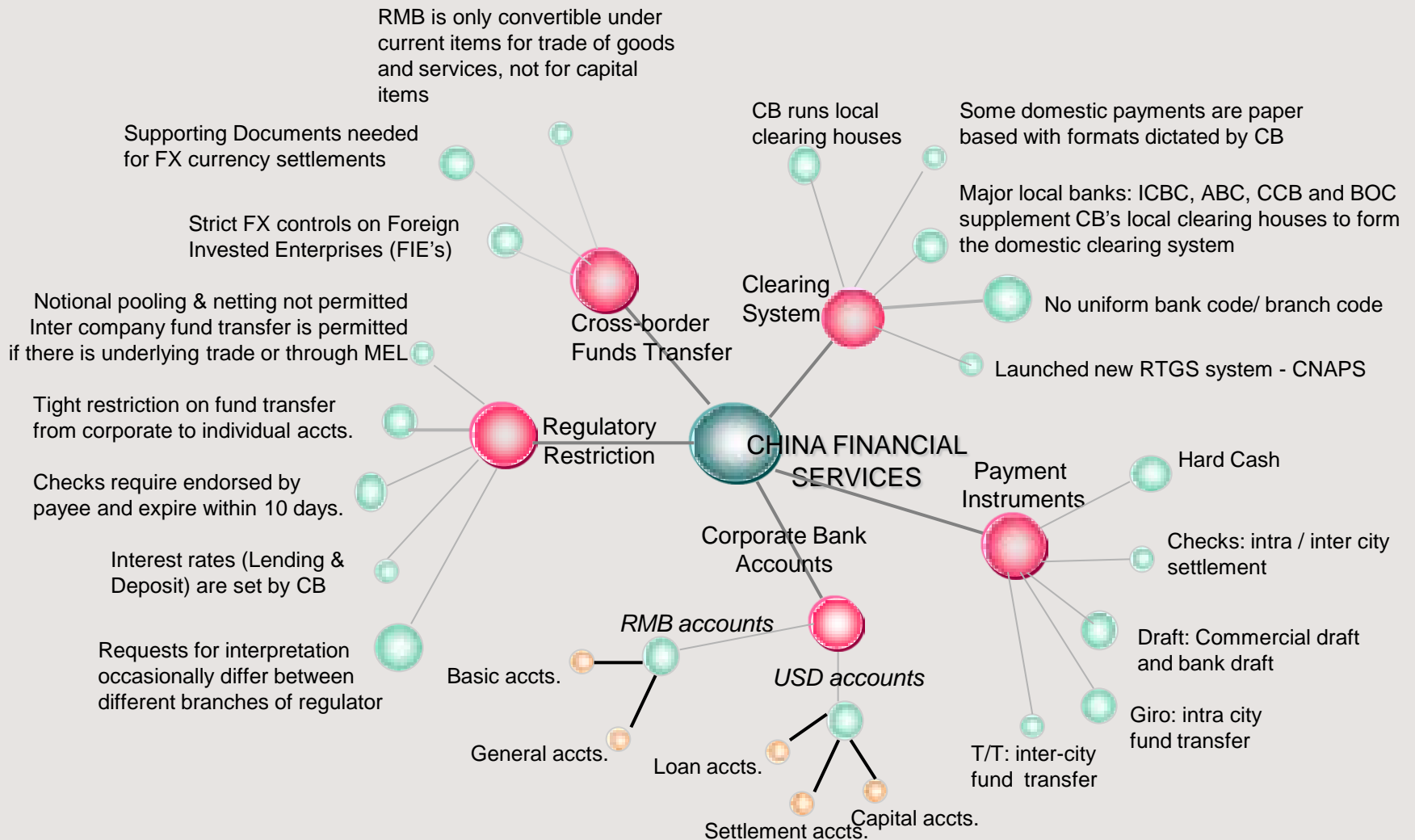
- Varying degrees of stringent regulation, with India and China being the most highly regulated
- Local currencies are not freely convertible
- Restrictions may apply on account openings by resident and/or non-resident entities in local and/or foreign currency
- Restrictions and reporting requirements may apply on domestic and/or cross-border foreign exchange transactions
- In some countries, cross-border remittances are restricted to settlement of trade transactions, dividend payments, royalties, management fees, etc with documentary proof of transactions required
- Restrictions apply on domestic liquidity options: in most countries foreign currency notional pooling is not allowed. In addition, local currency notional pooling is not allowed in India and China. Restrictions may apply on domestic sweeping, especially between resident and non-resident entities. Approvals/reporting may be required
- Restrictions apply on accounts in these countries being a part of a global cross-border sweep
- Increasing liberalization and deregulation: eg. RMB cross-border trade settlements

# Regulatory Framework in Asia is Complex

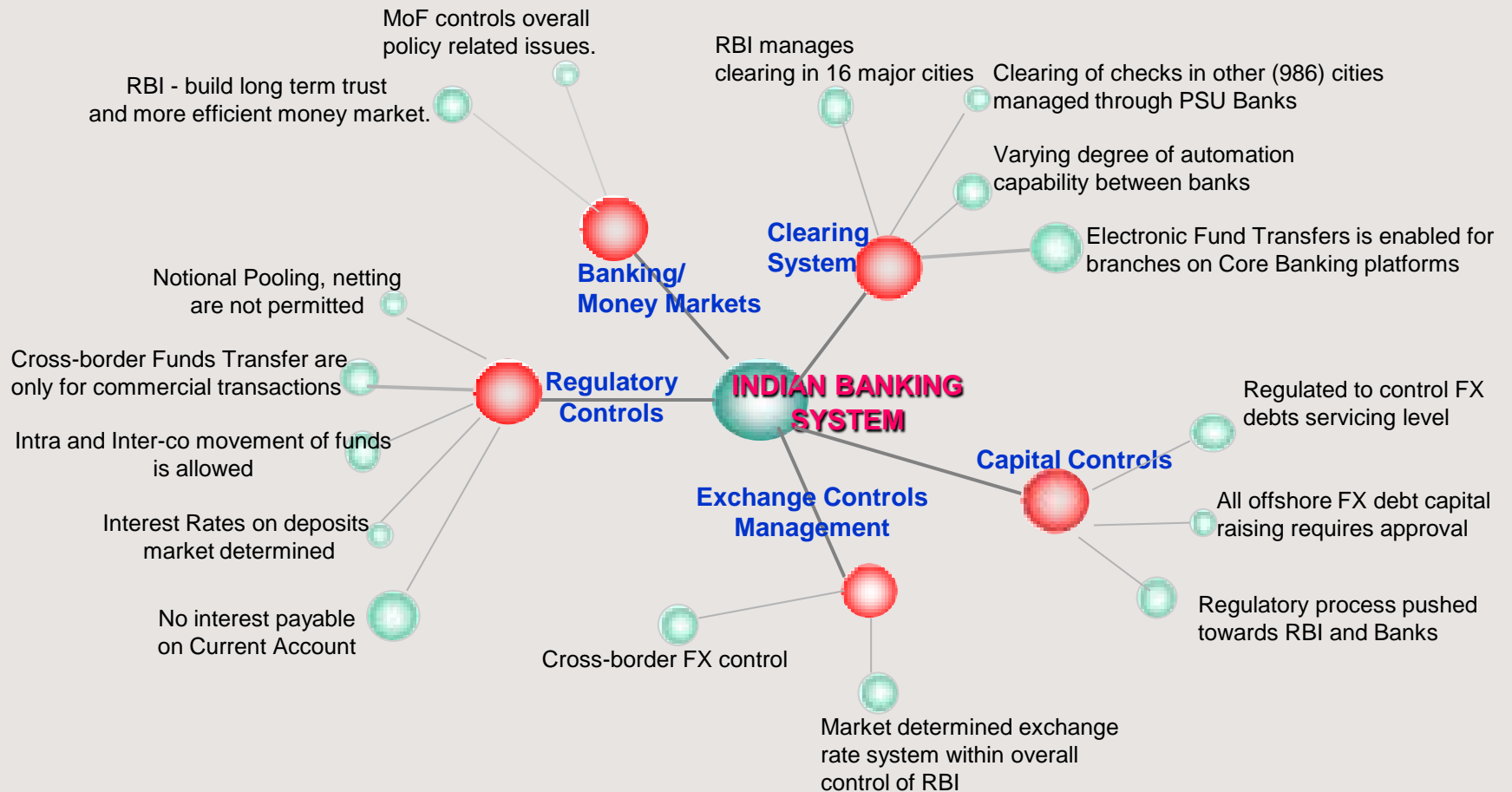
			Australia	China	Hong Kong	India	Indonesia	Japan	Malaysia	Singapore	South Korea	Thailand
<b>Availability of Accounts/Services</b>												
Opening of Onshore Accounts	By Resident Entities	In Local Currency	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
		In Foreign Currency	✓	✓^	✓	✓*	✓	✓	✓^	✓	✓	✓^
	By Non-resident Entities (with no PE)	In Local Currency	✓	✓^	✓	✓*	✓^	✓	✓	✓	✓	✓
		In Foreign Currency	✓	✓^	✓	✓*	✓^	✓	✓^	✓	✓	✓^
Opening of Offshore Accounts	By Resident Entities	In Local Currency	✓	✓*	✓	x	x	✓	x	✓	x	x
		In Foreign Currency	✓	✓*	✓	✓*	✓	✓	✓^	✓	✓^	✓^
Accessing of Short Term Overdraft Facilities	By Resident Entities		✓	✓^	✓	✓^	✓	✓	✓	✓	✓	✓
	By Non-resident Entities (with no PE)		✓	x	✓	x	x	✓	✓	✓	x	✓^
Availability of Interest Bearing Short Term Investments	via Term Deposit		✓	✓^	✓	✓^	✓	✓	✓	✓	✓	✓
	via Current Account		✓	✓^	✓	x	✓	x	x	✓	x	x
<b>Availability of Cash Concentration / Movement of Funds</b>												
Domestic Scope	Physical Sweeping of Funds	Between Resident Entities	✓	✓#	✓	✓^	✓	✓	✓	✓	✓	✓
		Between Resident & Non-resident Entities	✓	x	✓	x	✓^	✓	✓^	✓	✓^	✓^
	Notional Pooling of Funds	Single Currency	✓	x	✓	x	✓^	✓^	✓	✓	✓^	✓^
		Cross Currency	✓	x	✓	x	x	✓^	✓^	✓	x	x
Cross-border Scope	Physical Sweeping of Funds	In Local Currency	✓	x	✓	x	x	✓	x	✓	x	x
		In Foreign Currency	✓	✓^	✓	x	✓^	✓	✓^	✓	✓^	✓^
	Notional Pooling of Funds	In Local Currency	✓	x	✓	x	x	✓	x	✓	x	x
		In Foreign Currency	✓	x	✓	x	✓^	✓	✓^	✓	✓	x
<b>Key Tax Consideration</b>												
Effective Corporate Tax Rate			30%	25%	16.50%	33% - 42%	25%	41%	25%	17%	24.50%	30%
Withhold Tax Rate on Interest			10%	10%	-	10% - 40%	15% - 20%	15% - 20%	0% - 15%	0% - 17%	22% - 27.5%	1% - 15%
Transfer Pricing Ruling			Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
VAT/GST			10%	17%	-	10.30%	10%	-	5%	7%	10%	7%
Controlled Foreign Company Legislation			Yes	Yes	No	No	Yes	Yes	No	No	Yes	No

- ✓ :Allowed
- ✓^ :With approval / notification / report / restrictions
- ✓\* :Only for eligible companies
- ✓# :via Entrustment Loan
- x :Not Allowed

# China Regulatory Environment

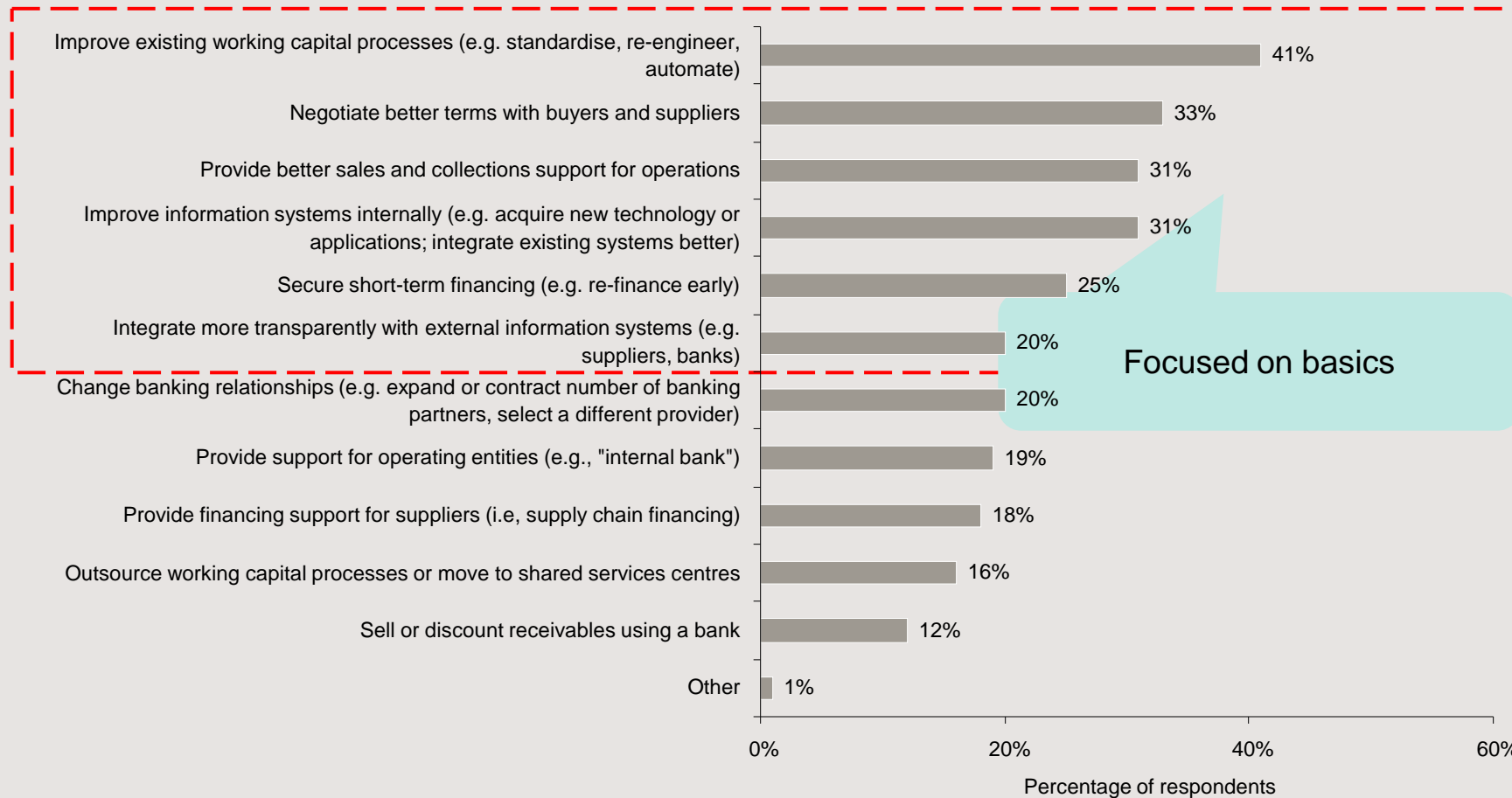


# India Regulatory Environment



# Asia Treasurers: What needs to be done....

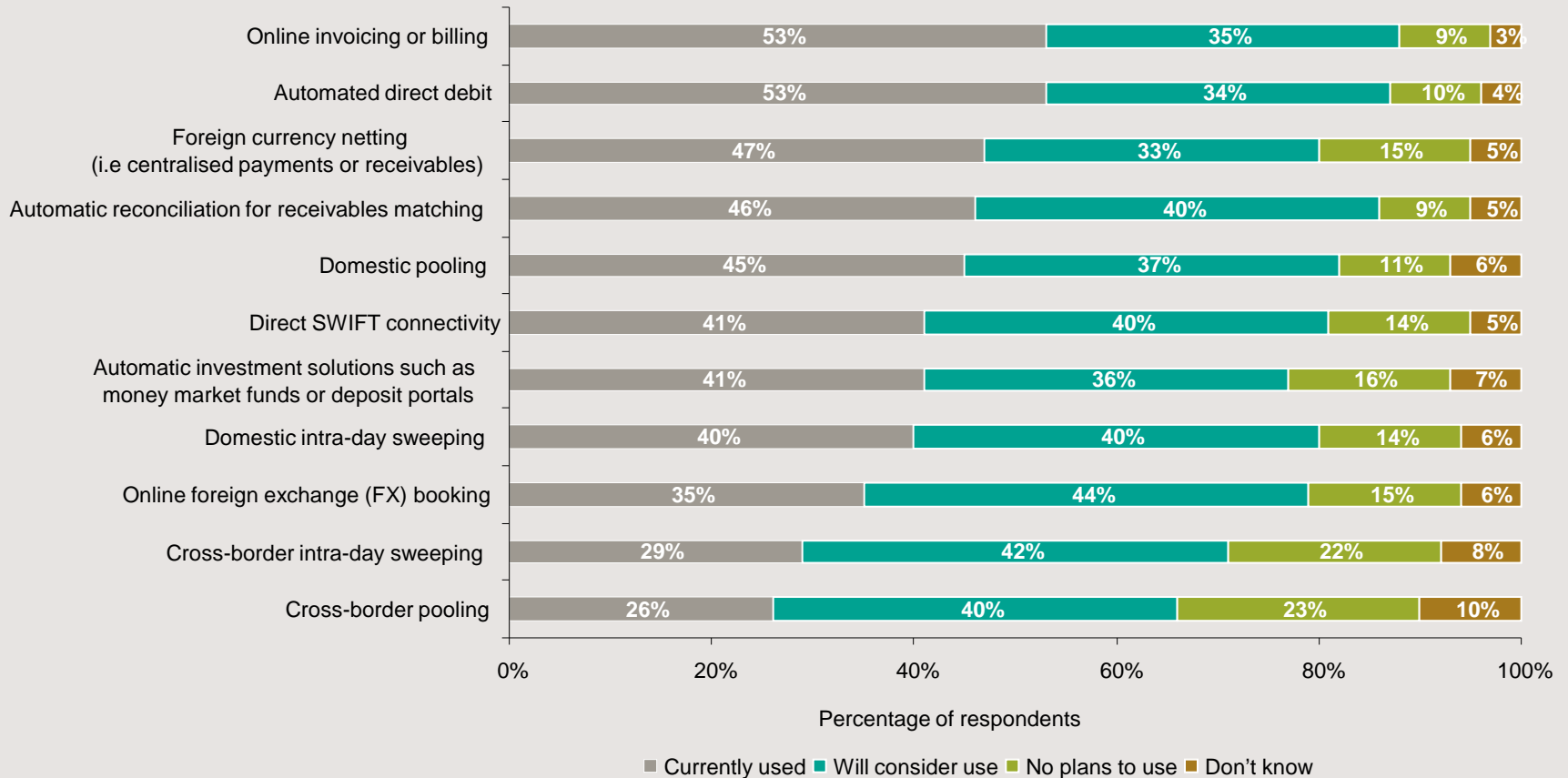
Finance executives in Asia indicate they will take a wide-ranging approach to improving working capital. Over the next year, which, if any of the following actions will be most important for improving your company's working capital performance?



Note: Respondents were asked to select up to three choices

# Asia Treasurers: Proposed and Existing Cash Management 'Tool Box'

Companies in the Asia-Pacific region employ a variety of automated cash-management tools. Does your company use, or plan to use, within the next year any of the following types of techniques for cash management?



Note: Percentages may not total 100% due to rounding

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# Local vs Centralized: To be or not to be....

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**Treasury activities are more likely to be localized for companies in the Asia-Pacific region than they are in Europe or the United States**

Treasury activities are...	Asia	Europe	United States
Primarily localized	23%	15%	9%
Primarily centralized	49%	70%	64%
Both centralized and localized	28%	16%	27%

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CFO Research Services 'Working Capital Management in a Post-Recession Environment: The View From Asia

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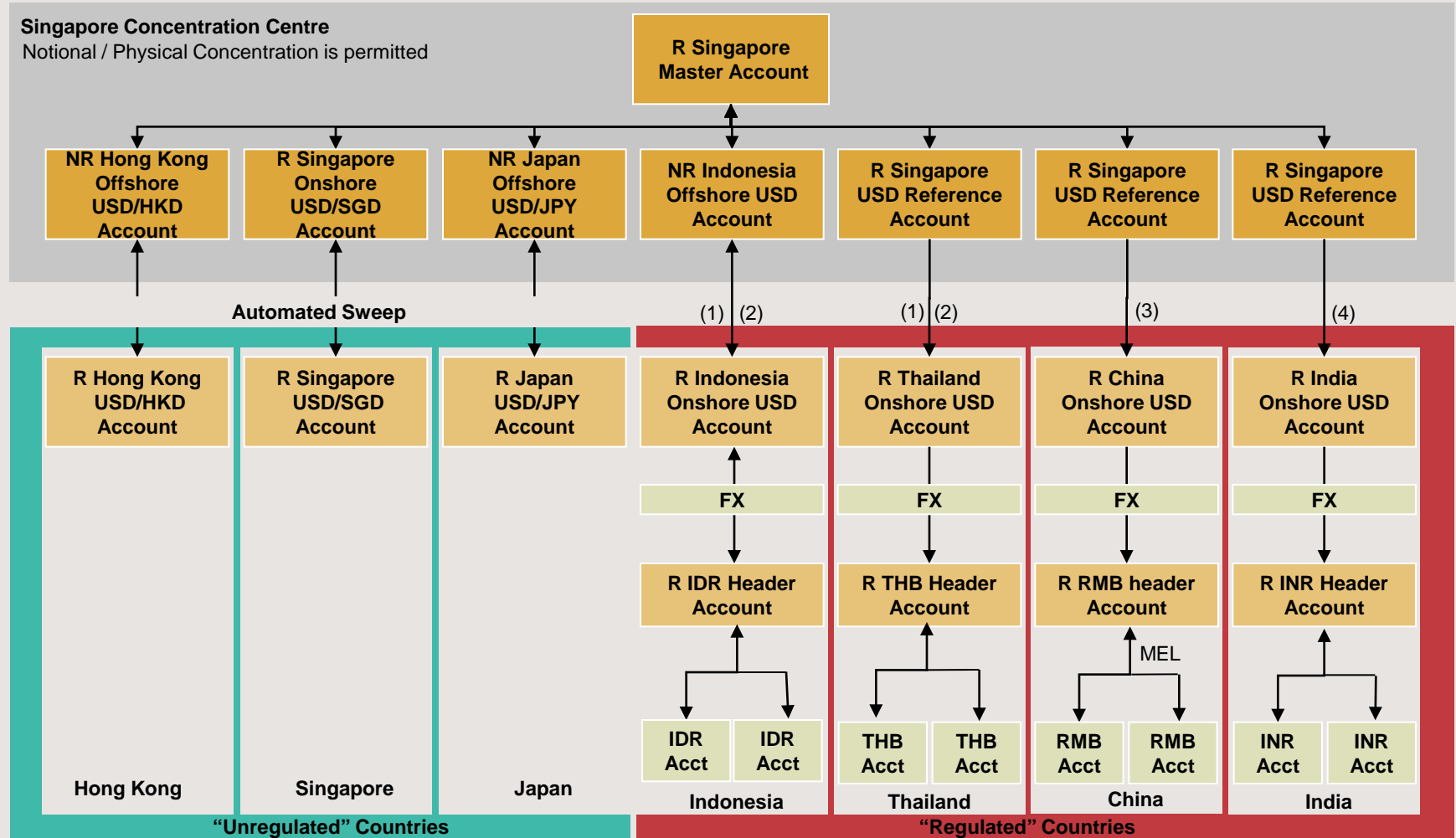
## But there are benefits to be had...

### Hong Kong and Singapore are attractive destinations for regional treasury centers

- Low corporate income tax environment
- Allow interest deductibility for tax assessment
- Mostly no withholding tax on bank interest
- Wide treaties (multi lateral and bilateral)
- Low stamp duties
- Abundance of English-speaking qualified professionals
- Stable economic/political environment
- Good corporate governance and infrastructure, which promote good risk management
- Government continuously introducing schemes to attract the set up of Financial/Treasury related business (i.e. tangible incentives/ rebates)

# Illustrative Regional Liquidity Management Structure

Combination of in-country and regional structures to mobilize and optimize cash efficiently across countries and currencies, subject to local regulatory restrictions



(1) Reporting requirements for cross-border FCY transfer  
 (3) SAFE approval required for intercompany borrowing in FCY

(2) Intercompany borrowing in FCY subject to central bank approval and reporting  
 (4) Subject to requirements of External Commercial Borrowing (ECB) Policy

# Steps in the RMB Internationalization Process

## 1. Peripheralization

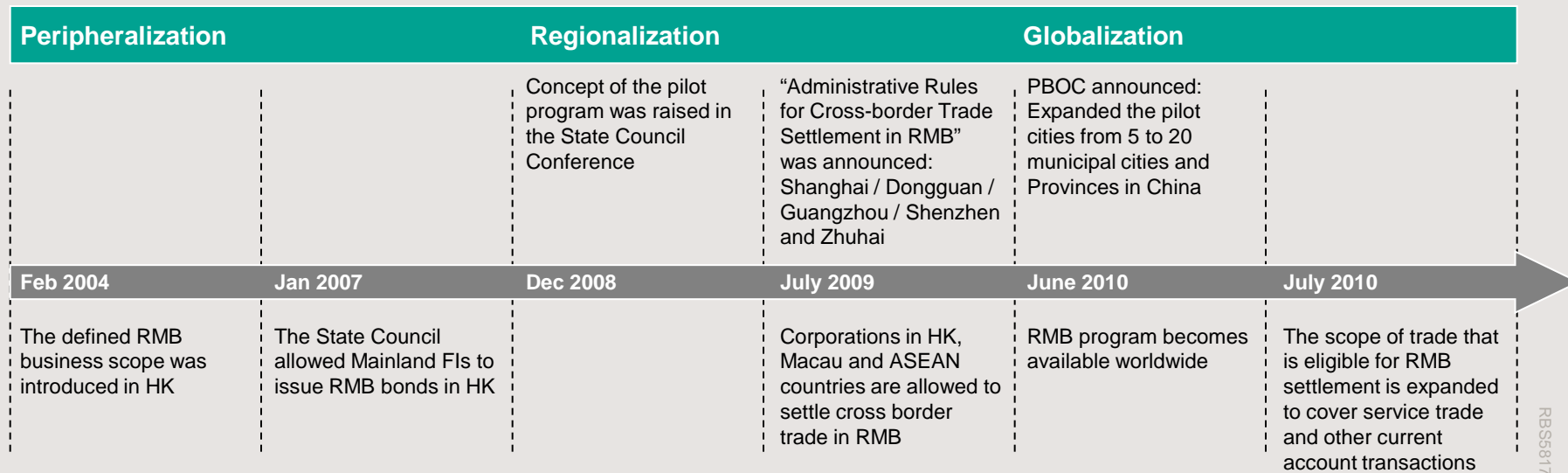
- Hard cash circulating outside the borders of Mainland China (Hong Kong, Macau, etc.)
- In 2004, banks in Hong Kong were allowed to conduct RMB deposit, remittance, exchange and credit services for personal customers on a pilot basis
- In 2005, seven designated business groups were allowed to open RMB deposit accounts in Hong Kong

## 2. Regionalization

- In July 2009, banks in HK, Macau, and ASEAN countries (Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam) were allowed to participate in China's pilot scheme of RMB Cross-Border Settlement

## 3. Globalization

- Expansion of the pilot program to the rest of the world
- Offshore investment options
- Targeting full convertibility of RMB



# The Opportunity: Benefits of RMB Cross-border settlement to Multinational Corporations

## Liquidity Management and Investment Diversification

- Companies will have the opportunity to more effectively manage RMB liquidity, with the option to hold RMB accounts outside of China, convert RMB into/out of other major currencies, and have access to greater funding and investment options in RMB.
- While USD and EUR have depreciated in the recent financial crisis, RMB value has remained stable and companies stand to benefit from the flexibility of adding an alternative currency to their portfolio.
- The Chinese government and China based companies as well as foreign companies continue to issue bonds denominated in RMB in overseas markets. Overseas companies thus have the opportunity to diversify investment options by investing in RMB dominated assets.

## Risk Management

- Holding an RMB cash position is a natural hedge for two-way import and export flows with China

## Increase Control

- Manage the timing of your foreign exchange transactions

## Increase Pricing Transparency

- As a buyer from China, goods can be priced and settled in RMB without any potential markup from foreign exchange

## Access to a wider buyer/supplier base

- More and more Chinese companies will start to use RMB as the settlement currency for trade. Overseas companies that have the flexibility to settle trades in RMB will have a competitive advantage. Settling in RMB may provide access to a wider supplier and/or client base who might have limited access to foreign currency

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# China: Liquidity Management & Key guidelines on Fund Repatriation

## Interest Optimization

- Balances held in China could be part of a regional or global interest optimization solution

## Loan to overseas company against cash pledge in China

- RBS China issues a SBLC to an overseas RBS branch to secure a loan to offshore entity against the cash pledge from a local entity with RBS in China, within the limit of RBS's overseas guarantee issuance quota approved by SAFE

## Offshore discounting of RMB L/Cs in intercompany trade-related transactions

- Applicable when a China entity imports goods from an overseas affiliate, where the China entity issues an RMB usance L/C against a cash pledge, favouring its offshore entity
- The offshore entity gets the L/C discounted overseas and receives the funds offshore in USD (non-deliverable forward may be required to hedge USD/RMB exposure)

## Intercompany trade-related payments (re-invoicing)

- Through a trading company, the group may set up internally agreed transfer pricing between subsidiaries in China and related counterparties overseas. The pricing arrangement should be benchmarked against international practises which SAFE will monitor
- Supporting documents required (invoice, bill of lading etc)
- Advance payments of imports possible (with restrictions)

## Dividends

- RMB is freely convertible for current account items, which include trade of goods and services and profit repatriation by foreign-funded companies after tax clearance
- Conditions: subject to retained earnings/reserve funds, registered capital must be fully injected, required documentation (audit report, tax receipts etc) and procedure must be strictly followed, FCY proceeds should be remitted abroad within seven working days after the conversion from RMB
- The most common legitimate way to repatriate profits

## Management fees/ service fees / royalties

- Tax implications differ, tax clearance generally required
- SAFE approval transferred to designated FX banks

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# China: Liquidity Management & Key guidelines on Fund Repatriation

## Fixed Deposits

- Available in both RMB and FCY with tenor from overnight up to five years, shortest tenor for RMB time deposit is 3 months
- RMB deposit rates are set by PBOC while ceiling FCY interest rates are imposed by SAFE

## RMB Structured Deposits

- Yield enhancement with 100% principal protection
- Tenor can be customized to suit client's need to improve liquidity and achieve a higher yield than normal PBOC fixed deposit rates

## Domestic Multiparty Entrustment Loan for Cash Pooling

- Intercompany lending/borrowing through an entrustment loan mechanism with a bank acting as agent
- Within resident companies in the same group
- Available for both RMB and foreign currency
- Governed by local regulatory and tax authorities

## Cross-border Inter-company Entrust Loans

- SAFE has allowed Foreign Investment Enterprises (FIEs) to send their surplus FCY funds overseas to participate in the global cash pool (with limitations)
- FCY remittance only, maximum period of 2 years (RMB cannot be converted)
- SAFE pre-approval required

## Third Party RMB Entrust Loans

- Require an agent bank to act on behalf of the Principal (Lender) and the Borrower; interest rate and tenor are subject to negotiation
- The Principal usually requires another bank to issue a bank guarantee to cover the Borrower's risk
- The Principal can benefit from higher rates than fixed deposits and the Borrower can benefit from lower rates than bank borrowing at PBOC regulated rate

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# India: Liquidity Management & Key guidelines on Fund Repatriation

## Investments

- Local currency surpluses can be invested onshore in fixed deposits
- Investment into Money market funds

## Intercompany Lending

- Within resident Indian Companies
- Only in Local currency
- Governed by the Companies Act and Tax act

## Dividend Payments

- Can be made with RBI Approval given at the time allocation of shares to Non Residents
- Compliance with guidelines laid in the Companies Act and Dividend distribution tax as applicable
- No cap prescribed on the number/amount of dividends declared per financial year

## Royalty Payments

- Royalty Payments recently liberalised by RBI
- Previous restrictions on amount of royalty payment waived since May 2010
- Basic documentation to be completed for remittance

## Buyback & Reduction of Share Capital

- Can purchase own shares out of free reserves or share premium account
- Buyback cannot exceed 25% of total paid-up capital (all shares should be fully-paid)
- The company should not make any further issue of securities within 2 years, except bonus, conversion of warrants, etc.

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# India – Company set up is key

## Liaison Office

- Liaison offices are not allowed to carry on any commercial, trading or industrial activity or earn any income in India. It is required to maintain itself out of inward remittances received from abroad through normal banking channels. Permission for setting up Liaison Office is granted by RBI

## Branch Office

- Branch Offices established with the approval of RBI, may remit outside India profit of the branch, net of applicable Indian taxes and subject to RBI guidelines. Permission for setting up Branch Office is granted by the Reserve Bank of India (RBI)

## Joint Ventures/Wholly Owned Subsidiaries

- Local incorporation may be done through any of these options. Repatriation of dividend applicable is permissible in proportion to the foreign investments

## Project Office

- Project Offices may remit outside India the surplus of the project on its completion or intermittently, general permission for which has been granted by the RBI

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# Simplify Complexity

- Asia is complex and the world is risky
- Predictability and forecasting are difficult
- Treasury management is critical and “cash is king”
- Asia complexity will test working capital assumptions/business processes
- Choose structures and solutions that suit stage of development
- Look to a bank’s technical and operational capabilities
- Choose a banking partner to help simplify complexity

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**“Everything should be made  
as simple as possible.... but  
not simpler.”**

**Albert Einstein**

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