CTC GUIDE

Leadership in Treasury: Entering New Emerging Markets

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Entering New Emerging Markets

Executive Summary

Making a success of a corporate decision to expand into a new market is always going to be a challenge. Marketing new products, establishing new clients and fulfilling orders are always more complicated in an unfamiliar location with its own particular culture and characteristics. From a treasury perspective, the core responsibilities are the same as ever: ensuring cash is available to fund the company’s activities and to manage risk effectively. Again, however, the peculiarities of a different market can make these tasks more complex. In any new market, it can be difficult for the treasury practitioner to forecast cash flows accurately, for example. In the case of a move into an emerging market, additional complications exist for a number of reasons. Levels of functionality which are standard in the company’s established markets may not be available in an emerging market. For example, relatively common hedging techniques may not be cost-effective or even available because of a lack of liquidity in the local market. Local exchange control regulations may make cross-border wire transfers, used to support activities across the rest of a multinational group, expensive or impossible. These differences in emerging markets can arise from surprising sources.

There are two scenarios in which a corporate treasurer has to assume responsibility for activities in a new territory. The first is when the company makes an acquisition of another group with operations in one or more new markets. The short-term challenge for the treasurer is to ensure a smooth transition of ownership, before making any decisions to absorb activities into the wider treasury activities. (In some cases, the acquired company may have a more appropriate treasury structure, so the corporate treasurer could choose to migrate to that.) There are significant challenges with this scenario. However, there will be pre-existing policies and processes, detailed consideration of which is beyond the scope of this guide.

“Globalization is driving strategic decision-making in order to build shareholder value and accelerate revenue growth. Historically, treasury was reactive and informed at the tail of the globalization decision-making process. Currently, in leading treasury departments, treasury is taking a more proactive position in understanding opportunity and identifying risk within the review of their company’s globalization strategy.”  

Jason Torgler, Reval.

This guide focuses on the scenario where the requirement is to establish treasury operations in a new emerging market. One of the biggest challenges is to recognize when activities which may be taken for granted in a home or developed market, such as opening a bank account or effecting a cross-border payment, present a significant challenge in terms of time or documentation. Understanding where the potential pitfalls lie will help the corporate treasurer plan the move into the new market much more efficiently.
Obstacles to Effective Operation in Emerging Markets

The corporate treasury practitioner's fundamental responsibility is the same wherever the organization operates. It is to ensure there is sufficient liquidity in the correct currency to meet obligations as they fall due. The difficulty, when overseeing liquidity management in a new emerging market, arises from uncertainty over a wide range of factors, including regulation, market practice and banking partner functionality. These factors can complicate what are usually relatively straightforward activities, ranging from opening bank accounts, to making a wire transfer, to calculating cash positions. This added complexity can make all core treasury activities time-consuming and difficult, if they are even possible at all.

That said, there has been a change in attitude towards expanding into emerging markets such that treasury practitioners now expect, and are expected, to be able to manage activities more closely. This change has been helped by the growing acceptance of SWIFT standards and the consequent extension of electronic banking functionality into those markets. It also means it is possible, for example, to obtain bank account positions on at least an end-of-day basis for most countries around the world, even though treasury practitioners may not have access to the same level of electronic banking functionality in emerging markets as they have become reliant upon to manage US or European positions. Improved levels of banking functionality mean it is realistic for treasury practitioners to view an expansion into an emerging market in a similar way to an expansion into another developed market.

This guide is designed to help treasury practitioners identify the factors which have the potential to cause complications when seeking to manage liquidity in new markets. From a strategic level, understanding where difficulties might occur, and how long they make take to resolve, can help the treasury practitioner support the planning of any business expansion. The key for a move into any new territory is not to assume that established practices can simply be transferred into the new location. At a minimum, for example, a US-based organization expanding into the UK will have additional currency exposures to manage. When expanding into an emerging market, the differences can be significant: the banking and payments infrastructure will be different, and the currency and other exposures will be more complex to manage.

The important point to remember is that all countries have their own regulatory requirements with varying levels of banking functionality, meaning that liquidity management challenges differ from one country to the next. In other words, it pays not to make assumptions about the impact of regulation, and instead to review all issues at the outset for each new territory. It is also worth bearing in mind that something which presents a significant challenge in one emerging market may be relatively simple to resolve in a neighboring jurisdiction. As an example, exchange controls vary widely between different countries in South America.

In the analysis below, we will examine the major issues which can and do cause problems for treasury practitioners. All issues should be assessed for their potential to cause difficulties for each new market for which the treasury practitioner has responsibility.

Objectives

As with any project, the first step is for the treasury practitioner to set the key objectives that are to be achieved when establishing operations in the new territory. The detailed objectives will vary both by organization and by territory of operation.

“Understanding why the business is moving into a new country is vital for the treasurer. Treasury’s role is always to support the corporation to maximize the return from a business opportunity in any new location while managing some of the risks.”

Ken Shuyama, Director of International Treasury, Stanley Black & Decker.
Initially, the company will need to ensure it can operate legally within the new territory via a structure which permits it to perform its required activities. This is a board-level strategic decision, with the typical options being a fully owned subsidiary registered as a separate legal entity, a joint venture, a branch (which is normally considered part of the group head office) or a representative office. In most countries, representative offices are not permitted to engage in trade-related activities; however, it may be possible to manage an outsourcing or distributor agreement via a representative office. The treasury practitioner will want to have an input into this decision.

“In Stanley Black & Decker, treasury becomes involved in the process once there is a business opportunity. Our role is to identify the issues and how to manage them. We make sure we have communication as early as possible. It is difficult to get input to a contract once it has been 90% negotiated.”

Ken Shuyama.

The process for determining the most appropriate in-country vehicle will vary from organization to organization. From the treasury practitioner’s perspective, the decision will have some significant implications for the way treasury activity, including liquidity, is managed. However this is determined, the treasury practitioner will have to set treasury-specific objectives. These will include the following:

- **To maintain sufficient in-country liquidity to meet obligations.** If it is possible, and appropriate, to pay suppliers from a remote location, zero liquidity may suffice.

- **To ensure access to sufficient short-term and medium/long-term finance.** Depending on the outcome of the first objective, the treasury practitioner is likely to have to ensure both sufficient working capital funding as well as access to longer-term finance. In some jurisdictions, a new legal entity requires a certain amount of paid-up capital before it can be formally established and registered.

- **To manage risk appropriately.** The treasury practitioner will need to assess how the organization’s exposure to financial and other risk changes with the move into the new territory. This will typically include exposure to more complex currency risk as well as to operational risk (as a result of the differing levels of functionality within the banking and payment infrastructure) and regulatory risk (as a result of the implications of, for example, tax and exchange control rules).

- **To optimize the use of cash within the location.** Once a new structure has been operational for some time, the treasury practitioner will want to review the initial processes and procedures to identify whether any efficiency savings can be made.

“Prudent treasury operations typically advance the globalization initiative by first gaining visibility. Transparency into bank relationships, bank balances, cash positions, intercompany funding, cash projections, foreign exchange and commodity risk is paramount to understand. After solid analysis of these data points, treasury is then prepared to present optimized, global solutions to streamline operations, tap internal liquidity and mitigate risks.”

Jason Torgler, Reval.

**Treasury Structure and Policies**

To meet these objectives, the treasury practitioner will have to establish appropriate treasury procedures and processes in the new location. As indicated, the new entity must be able to operate legally within the new territory. Legal advice should always be sought, both when planning the most appropriate entity through which to operate and then to ensure registration and other requirements are met on establishment.

The treasury practitioner will need to ensure there are sufficient funds available to support the initial establishment of the new entity in the new location.
This will include any costs associated with formal registration of the new entity, such as registration fees and legal fees, as well as to meet any requirement for initial paid-up capital.

Once this initial requirement is satisfied, it is necessary to ensure that treasury operations can be effected in the new territory. At a minimum, these will require the ability to make and receive payments and to demonstrate sufficient control to satisfy auditors, regulators and investors in the home market(s). The treasury practitioner has the advantage of being able to establish operations without the encumbrance of legacy processes. Any initial structures should include some baseline best practices covering control, visibility and process, so that the central treasury has a clear view of activity. In due course, the treasury practitioner will want to review operations in order to optimize efficiency. Any initial operations should be flexible enough to allow changes to be made without the need for time-consuming or resource-consuming investment.

At this initial stage, the treasury practitioner should be in close contact with the tax department as well as external advisors, to ensure the structure is established in a tax-efficient way. Discussions should focus on both short-term and longer-term issues. In the short term, the treasury practitioner will need advice on the application of common issues such as transfer pricing and thin capitalization rules. Tax experts will also help the treasury to determine the most appropriate way of financing the new entity by providing advice on issues such as the application of withholding tax on interest on intercompany loans (if these are permitted), tax on loans from non-residents, corporation tax, and stamp duty (and other taxes) on loan documents. All these issues have the potential to determine the most cost-effective way of funding and operating a new entity.

Tax discussions should also take the longer-term future of the new entity into account, as the treasury practitioner will want to avoid an initial structure which might later give rise to capital gains or other tax liabilities once changes are made to make the treasury operation more efficient.

The treasury practitioner should also consider the most appropriate way of managing communications between the new entity and the rest of the group. Much of this will depend on the existing group culture. An existing decentralized operation may be the easiest to replicate in an emerging market.

Managing talent within the new entity is also of vital importance. Much will depend on the level of responsibility that staff members in the entity will enjoy. It may be possible to retain treasury decision-making in the existing group treasury department. In these circumstances, there could be a need to retrain existing talent to support the new challenges of hedging exotic currencies and managing cash flows and surplus balances in the new markets. However, if decision-making is devolved to the new entity, then there will be a requirement to ensure there is a sufficiently strong skill base in the local treasury team. This may be possible with effective recruitment. However, it may also be necessary to support the new team either via direct secondment from an existing team, or via remote support from group treasury.
Case Study: The Importance of Planning

In this case study, Jean Furter, Treasurer at Brocade Communications Systems, explains the importance of planning to ensure that entry into a new market is as efficient as possible. Brocade is a provider of network solutions and is present in more than 160 countries around the world.

Brocade has established a cross-functional team whose role is to review any proposals to enter into a new market. With representatives from across the group (including legal, tax, treasury, import/export, facilities, accounting, sales, etc.), the team evaluates the business case for any new proposal and performs a cost-benefit analysis to ensure that any changes to business processes are justified. It is also responsible for coordinating all expansion projects so that actions are timed appropriately to avoid unnecessary delays.

The team works with a range of advisors, including banks, legal firms and accountants, to identify the most appropriate vehicle to establish a presence in a particular country. For example, in some countries, the team has found it necessary to establish a full subsidiary, whereas in others it has been possible to operate via a distributor.

As part of this process, Jean Furter and the treasury team spend significant time to understand the implications of all relevant local, including central bank, regulations. They try to identify best practices, and wherever possible Furter talks with treasurers already operational in the country. “Other treasurers are a tremendous potential resource when planning these projects,” explains Furter. “There is no substitute for getting real practical advice from someone who has already faced the same challenges.” Once the team has identified a preferred way to operate, the processes are documented. This allows decisions to be reviewed in the future, both in the event that something goes wrong and also as part of a process to improve efficiency.

Treasury at Brocade is highly centralized, with great emphasis on having tight control of and reporting for all entities. Wherever possible, the team controls the opening of bank accounts from the center. In countries where regulations demand local control of bank accounts, authority is delegated to local personnel under very strict parameters.

During the planning process, Furter and his team will also establish the most efficient way to fund the new entity. “We identify the entity’s cash flow requirements and then assess the relative benefits of different funding mechanisms. These might be commission-based structures, intercompany loans or equity-based funding. The decision will depend in part on the applicable regulations and the local tax code. For example, if intercompany loans are permitted, we plan carefully to ensure the debt-to-equity ratios are compliant with local tax rules,” says Furter. The team also examines the best techniques for repatriating cash, although this is not usually a problem if there are trading relationships or intercompany loans in place. They will also evaluate whether it is possible to repatriate cash through the payment of dividends.

This approach means that any expansion by Brocade into new territories is effectively planned, with clear objectives. However, as with any process, Furter is always trying to learn from experience to find even more efficient ways of operating.
Case Study: The Importance of an Involved Finance Team

In this case study, Steve Klueg, Senior Vice President and CFO at Affinia Group, explains how involving the central finance team in new market activity can help to avoid risks faced across an international organization.

Before entering any new market, it is essential to perform proper due diligence, understanding that great opportunity brings great risk. Most importantly, it is necessary to recognize any underlying reasons for expanding into that particular market. Making the decision simply because your competitors are active there is not sound reasoning. For Steve Klueg, due diligence by the finance team is essential, as this group brings a non-emotional perspective to business ventures that cut to the bottom line. “In our experience with new markets or new product launches, any struggles experienced were the result of a lack of sound understanding of the fundamentals related to the market. Better preparation could have changed the course of history.”

Each market brings unique opportunities and challenges, so it’s vital to have a deep understanding of the local marketplace. “The distribution model for Affinia products in the USA is very mature. Elsewhere, distribution models and methods of business may still be developing, which will have an effect on the sales process and perceived value of the product.” A great example of this difference is demonstrated in Affinia’s development in the Asian market. We know what to expect walking into a US auto parts store – good product information and customer service; however, the Asian market is much more fragmented. The distribution process in Asia is still developing, and there are countless players and more brand sensitivity, meaning the customers’ requirements and expectations are vastly different. These differences will have an impact on the expected cash flow profile and the group’s exposure to risk.

In many ways, operating in a new emerging market is similar to operating in any new market. The company needs to select a trusted banking partner. The finance team needs to understand liquidity requirements, how capital will be financed, how foreign exchange will be managed, and how to move cash out of the country. “Besides these financial concerns, the new market will bring plenty of communication challenges, including language barriers, cultural understanding and time zone obstacles. These may sound like ‘softer’ challenges, but they are certainly critical to success. Open communication between the finance group and the in-country business team is essential for success.”

For the Affinia finance team, the biggest challenge is to clearly understand the business plan in the new location, being very aware of all the underlying risks involved: “It is critical that the Treasury team is very familiar with the underlying assumptions in the business plan for the new country and the true return on capital. The only way Treasury can understand these details is to communicate effectively with business teams around the world by developing relationships with the local finance teams.”

Klueg places great emphasis on building relationships: “Communication is critical to global success. It’s extremely important to make site visits, building relationships within the local environment, especially for an international business with many cultural differences. Putting communication first builds a solid, trusting relationship, which cultivates an environment for open discussion, making it much easier to identify and openly discuss potential challenges and risks to the business. When visiting a location, I spend significant time meeting with sales, purchasing and supply chain teams – not just the finance team. These extended discussions bring immense value to truly understanding the relationship between our business and underlying risk.”

As part of an ongoing process to emphasize communication, Affinia’s senior leadership team hosts a weekly conference call with the top 50 leaders across the global organization: “We talk specifically to all international sites on both the operational and sales sides. Through open discussion, we gain an in-depth understanding of our financial positions...
and any significant changes our global operations may have encountered during the week. The weekly discussion allows us to assess how our company’s plan is working in each location, and subsequently translate that knowledge into a financial picture which demonstrates risk.”

According to Klueg, the key to successful results is ongoing communication to ensure sound execution across borders. “Communication – good or bad – takes place even when we may not intend it. Add in a global environment with language barriers, cultural differences and time zone challenges, and open communication can be a challenge. Today’s global environment requires patience, understanding and dedication. Communicate often and candidly, striving to reinforce positive results!”

There may be a need to amend group treasury policies and processes within the group as a whole. For example, it may be necessary to adjust the group hedging strategy because exotic currency volatility is typically much greater than that of established market currencies. Managing new currency exposures will require more investment in individuals and, potentially, systems to understand the impact of volatility on cash positions and the profit and loss account. These impacts may need to be considered more centrally as the hedging strategy is modified with the support of both the board and the CFO.

Once treasury activity has been established and operational for a period of time, then it is appropriate to start to try to optimize structures. The treasury practitioner will first want to have a clear view of actual cash flows and exposures. This will build up over time as the patterns of activity are established. There will also need to be appropriate reviews of activities with all group entities, including any new establishment. Some organizations send central treasury team members to visit entities around the world as part of an information-gathering process. Others hold regular meetings of treasury personnel at group headquarters, or off-site, to allow all attendees to discuss problems and share strategy.

Any decisions to adopt a more optimal structure for an entity in an emerging market will be determined, at least in part, by the group’s wider approach to treasury structures. Values in a centralized treasury structure are different to those in a more decentralized arrangement. Approaches to liquidity management structures, for example, will be affected by both the group’s overall culture and the environment on the ground.

Funding New Activity

The treasury practitioner will be responsible for ensuring the new entity has access to sufficient funding to operate efficiently. As discussed, there may be a requirement for some initial funding before any new entity can be established and formally registered. The next stage is for the treasurer to identify the most appropriate sources of both long-term and working capital finance. These decisions will need to be consistent with the group’s overall funding strategy, as well as complying with any particular strategy for the new entity. This may require a review of the group funding strategy, as local regulation may make it difficult for a new entity to be funded in the same way as other group entities. For example, restrictions on cross-border wire transfers may make it impossible for entities in some locations to join the group cash pool designed to provide working capital finance.

The long-term funding strategy will be determined, at least in part, by applicable local regulations. For example, a non-resident parent company may require permission from the local central bank to advance an intercompany loan to its new subsidiary. Regulations can also have an impact on established group-wide funding strategies. For example, in a company which funds group entities relatively aggressively (with a low proportion of long-term funding), it may be necessary to fund a new entity in a country quite conservatively. Relatively restrictive exchange controls may make it difficult to fund working capital from outside the country efficiently. In these circumstances, it may be preferable to prefund a new entity, to ensure cash remains available in-country when needed. However, this gives rise to an additional risk: the
treasury practitioner will need to manage this cash until needed by the new business. In addition, if the entity is expected to generate cash quickly, the group may not want to inject too much equity into the new business, especially if exchange controls may make it difficult to repatriate that cash subsequently.

In organizations with a decentralized funding strategy, it may be difficult or expensive for a new entity to raise funds in the new market without a guarantee from the parent company. This may require both a change in group policy and permission from the local regulator.

In most organizations, the board should discuss its approach to long-term funding and indicate a direction to the treasury department. The treasury practitioner’s responsibility is to understand and communicate any potential problems with a particular strategy and identify additional risks which arise from alternative scenarios.

The next step is to establish how the company can be funded on a short-term basis. Increasingly, companies are seeking to implement cross-border liquidity management structures. Regulations and bank functionality in emerging markets can make participation in such structures difficult for corporate treasurers to manage effectively from the perspective of providing working capital finance for new entities.

There are a number of different regulations which prevent the effective cross-border pooling of cash. These include bank capital adequacy rules (which typically restrict the provision of notional cash pooling solutions), rules against intercompany lending (which may mean one entity cannot have an overdraft with another group entity), lifting fees (fees applied on transfers between resident and non-resident bank accounts), exchange controls (which impose constraints on cross-border transfers, including transfers between resident and non-resident bank accounts), thin capitalization rules, and transfer pricing rules. Note that local tax authorities are becoming ever more concerned to protect their own national tax bases, and will contest measures seen as constituting tax avoidance. Each country has its own regulations, and their application will also depend on the structure of each individual group of companies. Because of the potential impact on the efficiency of different structures, treasury practitioners should always seek formal tax and legal advice before committing to a particular working capital financing strategy.

Opening and Managing Bank Accounts

To be able to effect and receive payments, the treasury practitioner must determine if, where and in which currency (or currencies) the entity will hold bank accounts.

In terms of the decision-making process, the first step is to decide whether the organization can operate without opening any in-country bank accounts. This will be determined by a combination of the company’s activities in the new market, the way in which the local entity (if there is one) is established, and any restrictions imposed by the application of local regulations.

The treasury practitioner will need to estimate to some degree of accuracy the volume of transactions which will be generated by the new entity. The company’s activities will play an important part in determining this. If the company is starting with an exploratory sales process, it may be able to collect payments via an existing bank account on a cross-border basis. This may work, for example, if the company decides to sell via an online presence (where it could accept credit and debit card payments, depending on the acceptability and level of card issuance in the new market) or, if it operates on a strictly business-to-business wholesale basis, if payment can be effected by cross-border electronic transfer. However, if the company has any form of physical presence in the country, it may be too difficult to avoid opening an in-country bank account. If the company needs to pay local employees or to make more than a minimum level of local payments, it may also need to operate an in-country bank account to effect those payments.

If the treasury practitioner decides to open bank accounts in-country, the next decision is to determine the number, type and currency of each bank account. When expanding into a new territory as a result of an acquisition, the treasury practitioner’s tasks include making sense of the existing use of bank accounts and, often, working to rationalize them. When entering a
new market for the first time, the treasury practitioner cannot rely on conducting operations through existing bank accounts. However, there is the opportunity to structure bank accounts in such a way that the challenge of achieving visibility and control is simplified.

Local regulation will play an important part in determining how bank accounts can be opened. The way the entity is established may restrict them to particular types of bank account. Most importantly, there are often restrictions on the types of bank account non-resident entities may hold and, in some countries, the type of payments which can be made from and into non-resident bank accounts.

Regulators may also prohibit residents and/or non-residents from holding in-country foreign currency accounts and, in some jurisdictions, non-residents from holding in-country domestic currency accounts. Exchange controls often prevent domestic currency accounts being opened outside the country. These factors may be significant enough for the treasury practitioner to ask for the organization to register a legal entity in the country so that resident bank accounts are available.

All these factors can affect the flexibility a treasury practitioner has when seeking to open bank accounts. Most notably, from a control perspective, regulations can often make it much more complex to both open and manage bank accounts.

Next, the treasury practitioner will need to consider the most appropriate bank (or banks) with which to open bank accounts. Again, much will depend on the nature of the company’s activities and the likely pattern of payments in the country. The treasurer cannot assume payments will be made in the same way as in established markets. Infrastructure varies quite significantly between countries (payment systems have different capabilities), there are widely different payment practices (even between countries in the eurozone, for example) and cash, in particular, can be an important payment tool.

As well as understanding the likely pattern of payments, the treasury practitioner should also try to assess the range of services required from an in-country banking partner. Does the company need physical access to a branch (or network of branches)? Is it necessary to open collection accounts with more than one bank?

In countries without direct debit services, it may be easier to collect payment via intra-bank transfer. Can collections be arranged via a provider other than a bank, such as via physical collection of notes and coin or via a credit card company?

Having determined the requirements, the treasury practitioner must then select the best banking partner. The easiest solution both in terms of opening bank accounts (the process could be managed through the existing relationship manager) and in terms of control of balances (see below) may be to use an existing banking partner in the new location. However, it is important to establish that any existing partner has the capability of supporting requirements in the new market. Does it have a permanent establishment or branch in the country? If it has a branch, what functions does the branch support? Even if the bank does not have a presence in the market, it may be part of an alliance or network with a local bank which the partner will use to deliver services in the new location. The advantage of these banking alliances is that the treasury practitioner can continue to manage activities through the existing provider. However, the treasury practitioner should check the terms of any service level agreements between banks, to identify which one takes responsibility in the event of any problems.

If an existing bank is not suitable, it may be possible to use another international bank. However, this is likely to become a less common strategy as international banking groups review their presence in markets around the world. A number of international banks have withdrawn from certain markets over the last five years. These banks have adopted a strategy where they will only retain a presence in a market if they are a leading player, rather than being present in as many jurisdictions as possible. They have recognized that they can continue to service their international clients without a direct presence in a particular market. The wider use of SWIFT messaging means it is easier than ever before for international banks to collect and collate bank account information from multiple banks on behalf of their corporate clients, without having to incur the expense of establishing or maintaining a branch in that country.
Finally, the treasury practitioner may prefer to enter into a direct relationship with a local bank. Although the bank should have to meet certain minimum standards of functionality, selecting a local bank is also often a result of considering other factors. For instance, local suppliers and customers will often be more comfortable transacting with an established local bank. There may be fundraising benefits, either initially or down the line (when the new entity is more established and has a credit profile allowing it to tap local markets). There may also be regulatory benefits from working with local banks. These will often have better relationships with the local government and regulators than the branch of a large international banking group. This may pay dividends when the treasurer starts to look more seriously at establishing liquidity management structures.

Whichever route the treasury practitioner decides to follow, the fundamental requirement of any banking partner is probably membership of SWIFT. This will give the company access to daily cash positions across all its accounts. It may not be necessary to route these through one of the multibank reporting tools offered by international banks. The treasury practitioner should be able to use tools provided by their technology partner to access positions from their local banks to obtain the necessary visibility over group positions. International banks have relationship managers and product specialists, whose help may be important when the company decides to try to integrate the new market into the wider group liquidity management structure in the future.

The selection of a banking partner is ultimately a matter of preference. Decisions are often driven by corporate treasury policy and the wider structure and practices within the group as a whole. In centralized groups, there may be more pressure to keep activities with a small core group of banks. In decentralized groups, local operatives may have a greater say in the use of particular banks (as long as those banks meet certain specified criteria within the group as a whole).

Having decided where, and with which bank, to work, the final stage is to manage the process of opening the new bank accounts. A combination of know-your-customer requirements and local market practices can make opening bank accounts a very time-consuming process. It is important that the treasury practitioner fully understands the requirements. Documentation requirements can be particularly onerous and may require a board-level minute, the filing of company articles of association and, on occasion, documentation translated into the local language.

Group culture will play a role in determining how bank accounts are opened. About 30% of global companies have a highly centralized approach to bank account management. They have complete control over them, including the opening of accounts, completely removing local offices from any control. Other organizations employ a workflow approval process. Under this structure, the local operating companies can request that a bank account is opened for them. The approval process allows central treasury to check that the request conforms to the company's policies. This should reduce the risk of group entities in emerging markets opening a number of bank accounts which remain to all intents and purposes hidden from central control.

As long as the central treasury has full control over the process of opening bank accounts, it is able to gain visibility over them and include them in forecasts and positions as appropriate. Daily control of these accounts will be determined by signing and payment authorization rights. These will vary according to company policy although, in some jurisdictions, there will be a requirement for a local permanent establishment to have signing control. In these circumstances, the central treasury may have to formally delegate authority to act to the local entity. The record-keeping elements will provide an auditable trail, with central treasury able to track positions and cash flows.
Case Study: Controlling Cash around the World

Exercising control over cash around the world is an important part of treasury’s role. Stanley Black & Decker has a set of standardized processes for managing cash and bank accounts, which is followed by its North American and European shared service centers. As the company expands into new territories, local regulations, such as exchange controls and central bank requirements, can make it difficult to impose the same level of control.

“There are circumstances where integration into our banking structures, for example, is difficult. However, we will not compromise on our policies,” explains Ken Shuyama. “We will wait until a rule change allows us to incorporate an entity into our wider structure. In some cases, we do have to adapt our procedures; otherwise we will not be able to operate in a particular territory. A common example is the use of local signers. In most cases, we control bank accounts from central treasury. However, in some locations, local regulations require a resident signer on all bank accounts. In these circumstances, we apply the same policy, but delegate signing authority to the local entity.”

Maintaining Liquidity, Visibility and Control

International treasury organizations often seek to exercise control by standardizing processes across all group entities. However, local infrastructure and bank capabilities may make it impossible to transfer existing processes for managing group liquidity and visibility of cash into new emerging markets. As discussed, access to a group cash pool may be impossible or impractical because of the application of exchange controls or restrictions on lending to non-resident entities. Even where participation in a group cash pool is permitted, it may not be cost-effective. The costs of wire transfers to and from emerging markets are often significantly higher than in more established economies. In addition, foreign exchange costs are much higher. This is because the lack of volume of trades in exotic currencies means that margins are not as tight. If the treasury practitioner determines that participation in the group pool is not possible or cost-effective, balances will need to be managed in-country, adding a layer of complexity to the processing of obtaining information.

This relatively common problem highlights that treasury practitioners may need to adopt a different approach to exercising control over new group entities in emerging markets. When seeking to achieve visibility of cash as part of a move into a new market, the treasury practitioner has the advantage of being able to determine how many bank accounts should be opened and where and with which bank they should be located. Such a streamlined bank account structure will aid visibility and make any future adoption of a liquidity management structure easier to implement. It should also be flexible enough to grow as the new entity’s activities and resultant transactions increase.

With the correct initial structure in place, the treasury practitioner should then be able to use other tools to demonstrate control over, and retain visibility of, cash and then to manage liquidity efficiently. First, the treasury practitioner will want to understand the new entity’s changing funding requirements. Over time, these can be built using cash flow forecasts and actual positions, and funding requests. There will always be a tendency on the part of the decentralized entity to request greater volumes of cash injection than would be necessary if it participated in a group cash pool. This is most likely to be the case when the entity has limited ability to raise any cash from local sources.

As the entity becomes more established and cash flows start to bed in, the treasury practitioner will want the emerging market entity to complete standardized templates regarding cash flows and positions as regularly and frequently as other group entities. In this way, the
new entity moves from being treated (and seeing itself) as a speculative entity to being a fully functioning part of the wider group. International corporations can no longer afford to “hope for the best” in emerging markets, and instead have to demonstrate the same level of control over all group entities.

This information will be used to develop more sophisticated cash position forecasts. It will also help group treasury get a better understanding of both the liquidity and currency exposures faced by the new entity, and how they impact on the group as a whole. With this improved information, the treasury practitioner is better placed to adopt a more efficient structure.

Being able to demonstrate control over group activities is a key foundation element on which a more efficient structure can be developed. For example, the treasury practitioner needs to ensure there are records of documented funding requests from all group entities, including those in emerging markets. These will also help to demonstrate compliance with various tax rules. Transfer pricing and thin capitalization rules will apply in most jurisdictions. Others have more general anti-avoidance rules in place. Revenue services around the world are increasingly coordinating their efforts to ensure companies do not use offshore entities to hide cash. With good record-keeping processes in place, treasury practitioners can also manage cash more effectively. Stored data will allow historical records to be tracked against outcomes. For example, funding requests and position forecasts can be tracked against actual balances.

This data can then be used if the treasury practitioner is able to place the emerging market entity within a group regional or global cash pool. Regular balances will be required to ensure participation is appropriate, given the volume of cash involved. If an entity participates in a pool then appropriate interest charges should be applied. Historical records will help to support the decision to charge interest on a weighted average cost of capital fee, for example. The treasurer will also want to ensure any balances are routinely settled to avoid any sense that the resultant intragroup transfers are permanent intercompany loans. Finally, good record-keeping can also be important if supporting documentation is required when a company wants to repatriate profits to group headquarters and if the group has to comply with central bank reporting requirements.

Again, the lesson for treasury practitioners in an emerging market is first to use as clean and as streamlined a structure as possible to get the entity operational from a treasury perspective. Such a structure should allow the treasury practitioner to have visibility and control from the beginning and to retain them as the organization grows. Over time, the treasury practitioner should require the new entity to act in the same way as other group entities, so that, as cash flow patterns, for example, become established, these can be forecast effectively. Data should be fully recorded, not only to support forecasting and auditing, but also to provide evidence to comply with exchange control requirements.
Case Study: Automating Processes

In this case study, Brad Vollmer, Treasurer at Gilead Sciences, explains the importance of achieving automation of processes and full visibility of cash across all global entities. Gilead Sciences is a research-based biopharmaceutical company, employing 6400 people in offices on five continents. It generated USD 11.2 billion revenues in 2013.

Gilead has a group of revolver banks, each of which has strong regional or global capabilities. When planning an expansion to a new territory, Vollmer and his team look to the revolver banks’ capabilities to identify which one has the best coverage in and knowledge of that location.

At the planning stage, the team will assess specific issues. For example, they will discuss with the shared services center which types of payments will be made, including any specialty payments. They will identify whether any special bank accounts need to be opened with local banks to make, for example, tax or social security payments. They will establish how to open a bank account.

Vollmer then uses the appointed bank to project manage the process of opening bank accounts and to provide advice on the detailed requirements. They also use information from outside counsel and the group’s in-house legal team. “This all takes time,” explains Vollmer. “We need to pay close attention to detail and have to work with different groups across our organization. The real challenge is to find out about country-specific or even city-specific requirements. In Shanghai, for example, we had to open a social security account with a specific local bank.” As well as ensuring bank accounts are opened efficiently, Vollmer and his team also assess foreign exchange processes.

They work to understand if there are exchange controls and to identify any specific requirements for moving cash in and out of the new territory.

Vollmer places great importance on automating processes. “We are a small team so automation is important. We have a global view of cash, and global processes for foreign exchange and moving funds. Our challenge is to figure out how to keep these common global processes, while accommodating the differences in rules and regulations in each country. Our standards must be strict enough to give us control, but flexible enough that all entities can participate. Our approach is to group countries into different buckets, according to the regulations which apply in each location. This means we retain the key flexibility, without treating any country as a special case which requires manual intervention.”

Vollmer relies on the support of the company’s cash management banks. Gilead has implemented SWIFT, so all treasury fund movements are sent via that network. This use of standard messaging also means Vollmer has visibility of cash almost straightaway. “There is sometimes a short delay between setting up a bank account and getting visibility on our system,” explains Vollmer. “It can be more difficult tracking outgoing payments across the group.”

Vollmer recognizes that achieving automation in emerging markets is costly. Unlike more developed markets, core treasury products have not yet become standardized or commoditized. “If we cannot automate 100%, then we will continue to be involved in transaction processing and we will not be adding value to the business.”
Conclusion

This guide has highlighted some of the key issues which can affect the treasury practitioner’s ability to establish an effective operation in a new emerging market. The application of very different rules in each emerging market means that treasury practitioners cannot afford to treat any two market the same. There is understandable pressure, from shareholders and investors, to take advantage of the opportunities available in many of these markets. However, there are hurdles set by regulators and market practice in those markets which have the potential to disrupt the opportunity to generate a return from an investment in a new market. For the treasury practitioner, whose role is to support corporate strategy, it is vital that clear objectives are set, and any regulations and market conditions are understood, if an effective treasury operation is to be established in the new location.
Best Practices for Entering Emerging Markets

There are a number of key best practices that all treasury practitioners can adopt to ensure any expansion into a new emerging market is as efficient as possible.

Setting a Treasury Structure and Policies in an Emerging Market

Being able to operate in a new, emerging market requires key objectives to be set, an initial operation to be established and then, after a period of time, the operation to be optimized.

There is a three-stage process to developing an effective treasury operation for a new entity.

1. Ensure the entity can operate legally.
2. Ensure treasury policies are in place and payments can be made and received.
   a. Make any structures tax efficient initially and flexible if they have to be changed.
   b. Establish clear communications between the new entity, group headquarters and the rest of the group.
   c. Invest in talent, both at group level and locally.
   d. Amend group treasury policies and procedures to reflect changing circumstances, if necessary.
3. After a period of time, review structures to make them more efficient, if possible.

Key Questions when Setting a Funding Strategy

Establishing a funding strategy for the new entity is a key step for the treasury practitioner. It is vital that the responsibilities for arranging funding, the timing of any funding (both long-term and short-term) and any resulting risks are fully understood.

1. Who will be responsible for arranging funding for the new entity? Is funding to be arranged locally or will the new entity be funded from the group? Note, there may be significant restrictions on local lending to non-resident entities and on non-resident lending to resident entities.
2. Will the funding be arranged up front or when it is needed? If funding is arranged up-front, the treasurer has to find a place to invest any short-term surplus cash. There are risks associated with this strategy – counterparty risk (which is likely to be significant in a new emerging market when the company is unfamiliar with potential counterparties), currency risk (this will apply if the company holds the cash in an international currency or in the local currency) and interest rate risk (especially if there is significant inflation).

   If funding is to be arranged as needed, what are the potential liquidity risks? Can funds be raised outside the emerging market and then transferred to the new entity? Note that in some countries, all funds raised outside the country have to be translated into the domestic currency. If the emerging market entity’s needs change, can externally raised funds be repatriated easily? If funding is to be raised locally, what are the sources of funds? Funding may be available from banks and other financial institutions in various forms: loans, leases, factoring and invoice discounting. What happens if the funds are not available from the first-choice lender when cash is required?

3. Is there an initial capital requirement? Does the company need to pay up some capital to fund a new entity?

4. How will working capital be financed? What is the anticipated cash flow forecast for the new entity? Will the new entity be generally cash-rich or cash-poor? Is it possible to integrate the entity into a regional or global cash pool? If not, is in-country pooling possible?

   What is the relationship between this entity and the rest of the group? Is it a sales entity, primarily aiming to generate cash for recycling back to group HQ? Is repatriation a straightforward activity or does there need to be documentary evidence to show how cash was generated? In which currency will any cash be repatriated?
Alternatively, is the company going to be manufacturing in the new territory? If so, how long will it take to establish production? Will cash be found for the whole process, or will it be staged? Once the manufacturing element is operational, where will product be sold? Will there be any shortfall locally? How will any surpluses be purchased from outside the country? What are the rules on foreign currency use here?

Opening and Managing Bank Accounts

Before opening and managing bank accounts, three questions need to be answered:

1. Are in-country bank accounts needed?
   The treasury practitioner needs to establish the likely pattern of payments and collections, and understand local exchange control rules, to decide whether it is possible to operate without in-country bank accounts.

2. If in-country bank accounts are needed, how many accounts, of which types, should be opened, in which currencies?

3. With which bank(s) should the accounts be opened?
   The treasury practitioner should ensure an established process or workflow is followed when each new bank account is opened.
Country Reviews

The challenges posed by local business practices and regulation vary significantly from country to country. In this section, we highlight some of the key problems faced by treasury practitioners operating in three selected countries: Brazil, India and Malaysia. Each profile shows how regulations and market practice in these locations affect the range of options available to a corporate treasury practitioner. Comparing the three profiles highlights how different issues affect companies in each location and shows the importance of fully understanding local tax and other regulation, as well as market practice, in each location. There is further detail on Brazil and India in the AFP Country Profiles www.afponline.org/pub/country/profiles.html.

Country Profile Brazil

Despite being one of the most popular destinations for foreign direct investment, Brazil has a reputation for being a difficult place from which to integrate group operations in a group based outside the country. In particular, it is extremely difficult to integrate Brazil-based bank accounts into a wider regional or global cash pool. This, in turn, has implications for short-term funding and borrowing strategies, which cannot be realistically achieved via a liquidity management structure.

Treasury Structure

The options for establishing operations in Brazil are broadly similar to those commonly available in other countries. Establishing a subsidiary as a closely held public limited company requires some initial paid-up capital. It is also possible for international companies to operate in Brazil via a branch; however, this is a complex process, which can be time-consuming. Representative offices in Brazil are not permitted to enter into sales activities.

From a tax perspective, Brazil has a small network of double taxation treaties. This can be important, as interest and royalty payments to non-residents attract withholding tax unless a tax treaty is in place, although dividend payments to non-residents are free from withholding tax. Profits generated by affiliated foreign subsidiaries or branches are taxable to resident companies, whether or not distributed. If such profits are subject to income tax in the source country, this tax may be offset against Brazilian tax if certain conditions are met.

Brazil continues to apply a number of exchange controls. From the perspective of an organization establishing a subsidiary or making an acquisition in the country, all foreign investments, whether in the form of equity or debt, have to be registered with the central bank. However, there are no restrictions on the remittance of profits abroad, which are exempt from corporate tax, although the company must have supporting documentation.

Funding

As indicated, one of the challenges for operating in Brazil is the difficulty in managing cash on a cross-border basis. Notional cash pooling is not permitted domestically (or cross-border) – only physical pooling is permitted. International companies with Brazilian operations can (and do) establish in-country physical cash pools to optimize liquidity within Brazil.

Non-resident accounts may participate in cash concentration structures, but lifting fees may apply on transfers between resident and non-resident accounts. In addition, transfers between resident and non-resident accounts must be reported to the central bank.

As resident companies are required to credit export receipts to an account held by a Brazilian bank abroad, firms may establish a cross-border cash concentration structure in which one multi-currency account acts as a header account. Funds collected in other jurisdictions are swept to the header account prior to repatriation. However, BRL-denominated accounts or domestic bank accounts may not participate in such structures, and the header account may not be located in Brazil.

Non-resident entities may not participate in cross-border sweeping structures based in Brazil.

One of the key challenges for any treasurer seeking to manage liquidity on behalf of a Brazilian entity (or
group of entities) is to identify the most efficient way of funding those streams.

When funding a group entity, the treasury practitioner must ensure compliance with Brazilian transfer pricing rules. These require a profit margin to be applied (rather than the funding to be arranged using the arm’s-length principle), and also any interest derived from a cross-border loan has to be calculated according to a spread set by the Ministry of Finance. At present, the spread on inbound financial transactions is set at a maximum 3.5%. The corresponding rate for outbound transactions is 2.5%.

Any foreign exchange transactions and loans (and other financial transactions) may also be subject to the Brazilian financial transactions tax (IOF). The Brazilian government views this tax as a key instrument of economic policy and can change the rates at short notice. (The current rates are available in the Brazil Country Profile.) Note too that most royalty payments attract CIDE (a federal-based tax payable by Brazilian payees). This is in addition to any withholding tax, and it cannot usually qualify for foreign tax credit.

**Opening and Managing Bank Accounts**

Residents may hold bank accounts denominated in domestic currency (BRL) in Brazil or abroad, and foreign currency abroad. A small number of resident entities are permitted to hold foreign currency accounts in Brazil. Accounts held by residents in domestic currency cannot be freely converted into foreign currency. Resident entities must be incorporated in Brazil.

Non-residents can hold domestic currency accounts in Brazil and can convert them into foreign currency, although most non-residents are not permitted to hold foreign currency in Brazil.

The balances in resident and non-resident foreign currency accounts held domestically may be transferred abroad freely.

**Maintaining Liquidity, Visibility and Control**

Treasury practitioners will need to ensure they can meet any local central bank reporting requirements. In most cases, banks will report data to Banco Central do Brasil (the Brazilian central bank) on their clients’ behalf, from information collated when processing payments via the domestic banking system. However, resident companies may be required to report details of non-resident related external assets and liabilities.

In common with many countries, there is no single, bank-independent electronic banking standard in Brazil. Banks provide their own proprietary systems to their corporate clients. Treasury practitioners will need to work with both their selected bank(s) and their technology partners to ensure any data feeds are accessible for reporting and control purposes.
Country Profile India

Recent years have seen an attempt to open up the Indian economy to foreign investment. However, despite this, establishing operations in India for the first time poses some significant challenges for the treasury practitioner.

Treasury Structure

The options for establishing operations in India are similar to those available in most other companies. Multinationals seeking to establish an Indian subsidiary will usually establish a permanent establishment in India, typically via a private limited liability company. Multinational corporations can establish a branch or representative office in India; however, these are limited in the range of activities they can perform. Branch offices must be authorized by the Indian central bank – the Reserve Bank of India (RBI) – and their activities are restricted to those which are formally approved. Branches are not permitted to engage in manufacturing, although they are permitted to outsource manufacturing contracts to Indian companies.

The Indian tax system is complex, being criticized by some investor groups for being biased against foreign multinationals. In particular, criticism is directed at retrospective tax legislation of the kind which resulted in a USD 2.6 billion capital gains tax demand against Vodafone, and those which have affected other international corporations doing business in India. (The legislation, passed in 2012, allows the authorities to reopen closed cases.) This makes selecting the appropriate tax and treasury structure difficult for multinational corporations, as future tax treatment is subject to significant uncertainty. However, the recent change in the Indian government has raised hopes that a more attractive regime for international corporations will be developed.

Service tax is applied on some financial transactions, which can also have an implication for treasury structure, as it can be applied on processing charges and fees associated with company borrowing, including leasing and bill discounting.

Unless prior permission has been obtained, exchange controls require the repatriation of export proceeds within nine months of shipment (or 12 months, if the exporter is located in a Special Economic Zone).

Funding

Foreign investment into India continues to be subject to Indian exchange controls.

In most cases, foreign parent companies are permitted to invest freely in Indian-based subsidiaries. Details have to be reported to the RBI within 30 days. However, foreign investment in some strategic industries is only permitted with government approval. Applications are made to the Foreign Investment Promotion Board, with decisions usually made within 30 days.

Exchange controls and Indian banking regulations also have an effect on the way multinationals may finance Indian subsidiaries. In some cases, companies will require government approval to provide intercompany loans. Detail is available from the India country profile.

Funding Indian resident entities via a cross-border liquidity management structure is not realistic because of the impact of exchange controls and withholding tax and tax restrictions on liquidity management. Most multinational corporations are able to pool cash physically on an in-country basis. This is easiest between bank accounts held by the same legal entity, as there are limits on intercompany borrowing and lending, minimum guidelines on interest payments and other tax issues which affect structures including multiple legal entities. Non-resident accounts can be included in structures with resident accounts, but lifting fees may be applied. Notional cash pooling is not permitted in India.

Opening and Managing Bank Accounts

In general, residents may hold accounts denominated in INR or foreign currency in India, and foreign currency accounts abroad. Non-residents can also generally hold accounts denominated in INR in India and abroad, but there is a number of restrictions on non-residents holding foreign currency accounts in India. For both resident and non-residents, restrictions apply to the different types of accounts permitted.

Residents are able to open and maintain foreign currency accounts outside of India for purposes of...
overseas direct investment without obtaining prior permission from the RBI, subject to conditions. Exporters use non-interest-bearing exchange earners’ foreign currency (EEFC) accounts for the payment of trade-related expenses.

Foreign companies not established in India (those without a registered office) typically cannot hold INR accounts locally without specific permission from the RBI, with the exception of banks and financial institutions, shipping and airline companies, companies governed by the Foreign Exchange Management Act, foreign institutional investors, and foreign companies with project offices in India. Firms outside these categories that wish to open INR accounts must seek RBI approval. Non-resident domestic currency accounts are freely convertible into foreign currency.

Maintaining Liquidity, Visibility and Control

Increasing use of ERP systems by companies located in India has helped to increase automation of cash management processes in recent years.

Although the Indian government has sought to increase the volume of exports, regulations on international trade remain complex and onerous. Documentation is required to support foreign exchange payments for imports in excess of USD 100,000.

The treasury practitioner will want to ensure treasury management systems can capture the appropriate level of detail.

Document and information management is also vital to ensure the company remains compliant with the transfer pricing regime, with auditable benchmarking methods in place.

In common with many countries, there is no single, bank-independent electronic banking standard in India. Banks provide their own proprietary systems to their corporate clients. Treasury practitioners will need to work with both their selected bank(s) and their technology partners to ensure any data feeds are accessible for reporting and control purposes.
Country Profile Malaysia

The Malaysian government has provided incentives for international corporations to establish treasury management centers in the country. A number of organizations have done so, allowing them to manage their Asian treasury operations from these centers. As long as the proposed treasury management center is considered eligible under the terms of the Malaysian incentive regime and performs qualifying activities, it will benefit from a 70% exemption of qualifying income for a period of five years. More information is available from the Malaysian Investment Development Authority. To qualify, companies need to establish their treasury management centers by the end of 2016.

In addition, the Labuan International Business and Financial Centre regime permits corporations to establish company management companies to perform a range of treasury processing activities or Islamic advisory services and processing activities. These activities cannot be denominated in Malaysian Ringgit (MYR), and payments to non-residents are free from withholding tax. Profits generated from qualifying activities are taxed at a rate of 3% per year, or via an elective MYR 20,000 annual payment.

Both of these incentives are targeted at international corporations with extensive operations in the region. For a treasury practitioner in a company expanding into Malaysia, these incentives indicate the country is attractive for multinationals in which to do business. However, there are some obstacles to be overcome.

Treasury Structure
Aside from the special entities outlined above, the options for establishing operations in Malaysia are broadly similar to those commonly available in other countries. Most multinationals choosing to establish a Malaysian subsidiary (whether solely a sales office or with wider responsibilities) do so via a private limited company. It is also possible for international companies to operate in Malaysia via a branch, as long as the appropriate documentation is filed with the Companies Commission of Malaysia.

From a tax perspective, Malaysia is an attractive location for a multinational corporation because of the wide double taxation treaty network it has negotiated. Non-resident companies are only taxed on Malaysian-sourced income. If operations are conducted via a branch, no withholding tax is levied on any branch profits when repatriated to a non-Malaysia head office. Although there has been significant liberalization of Malaysian exchange controls, some controls are still applied, which can impact on the ideal treasury structure. Most importantly, any export proceeds earned by a resident entity must be repatriated to Malaysia within six months of the date of export. Note too that quarterly reporting requirements apply if the resident entity exports product with a value in excess of MYR 50 million annually.

If the group headquarters wants to invoice the Malaysian subsidiary in MYR, then any payment by the Malaysian subsidiary to the group headquarters must be made into an external account.

Funding
Resident entities are permitted to borrow up to the foreign currency equivalent of MYR 100 million from non-resident financial institutions and other non-related non-resident entities. If the borrowing is denominated in MYR, the limit is MYR 1 million from non-resident financial institutions and other non-related non-resident entities.

Treasury practitioners may also choose to include Malaysian group entities in an in-country or group-wide liquidity management structure. In-country notional cash pooling is available with BNM approval, as long as the bank accounts are held in the name of the same legal entity. (Multiple legal entity notional cash pooling is not permitted.) In-country physical cash pooling is available, with multiple legal entities able to participate in the same structure. Transfers between resident and non-resident legal entities may attract lifting fees. Some banks also facilitate cross-border sweeping, allowing treasury practitioners to include Malaysian entities in regional or global cash pools. USD-denominated cross-border...
payments can be effected via the Malaysian payment system (RENTAS), which links to Hong Kong’s USD-denominated RTGS system.

Opening and Managing Bank Accounts
Foreign exchange accounts can be held by residents both domestically and abroad. Resident domestic currency (MYR) accounts cannot be held abroad, but are freely convertible into foreign currency. Approval from the Controller of Foreign Exchange (COFE) is needed if the sum total of domestic currency to be converted is above official limits – MYR 1 million per year for individuals, and MYR 50 million per year for companies.

Non-resident bank accounts are permitted in foreign and domestic currency. Non-resident domestic currency accounts, known as external accounts, are freely convertible into foreign currency.

Maintaining Liquidity, Visibility and Control
Treasury practitioners will need to ensure they can meet any local central bank reporting requirements. In most cases, banks will report data to Malaysia’s central bank – the Bank Negara Malaysia (BNM) on their clients’ behalf, from information collated when processing payments via the domestic banking system. However, resident companies may also be required to give details of any receipts from non-resident bank accounts, details of foreign bank accounts held with non-resident financial institutions and payments to non-resident bank accounts. They may also be required to report details of non-resident related external assets and liabilities. Where the resident entity also makes a direct investment outside Malaysia with a value of MYR 50 million or above, this must also be registered with the BNM.

In common with many countries, there is no single, bank-independent electronic banking standard in Malaysia. Banks provide their own proprietary systems to their corporate clients. Treasury practitioners will need to work with both their selected bank(s) and their technology partners to ensure any data feeds are accessible for reporting and control purposes.
About the Author

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