



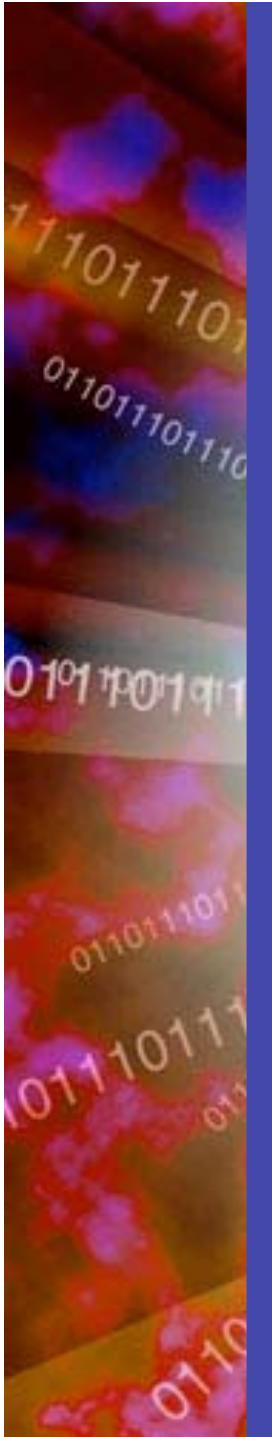
The Power of ExperienceSM

Designing a Regional Liquidity Structure for Europe

New York Cash Exchange 2007

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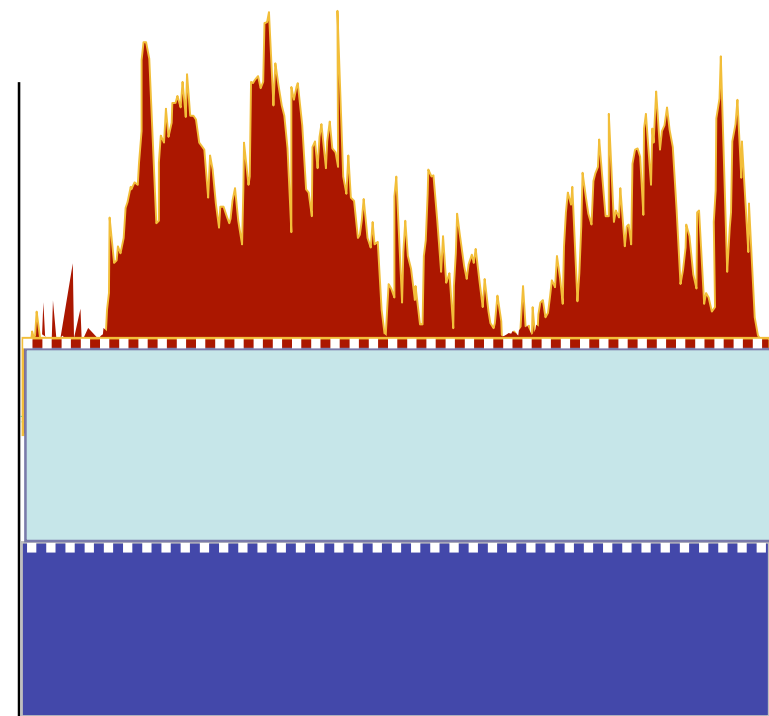
Why Concentrate Cash?

- Reduce interest expense by offsetting deficit positions at subsidiaries with excess cash at other subsidiaries
- Create a pool of “core” cash that can be invested in longer-term, higher yielding instruments
- Combine small, passive bank balances to create a large, professionally managed investment program
- Enhance visibility

Operating
Cash

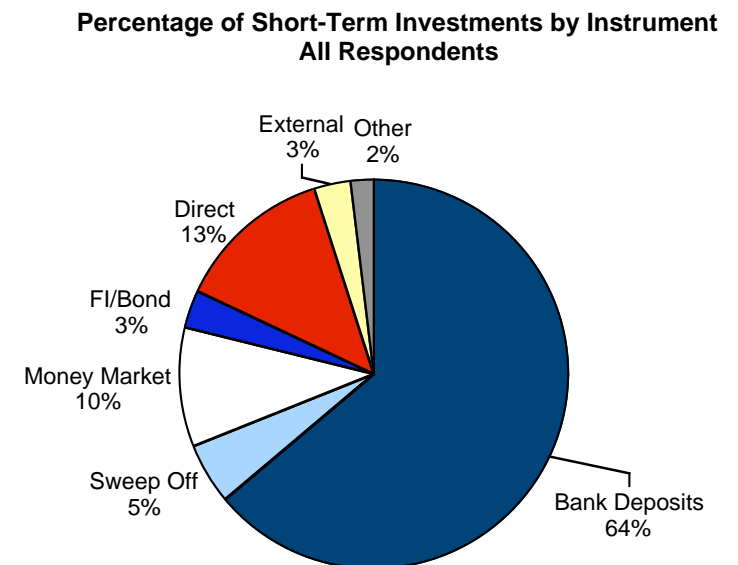
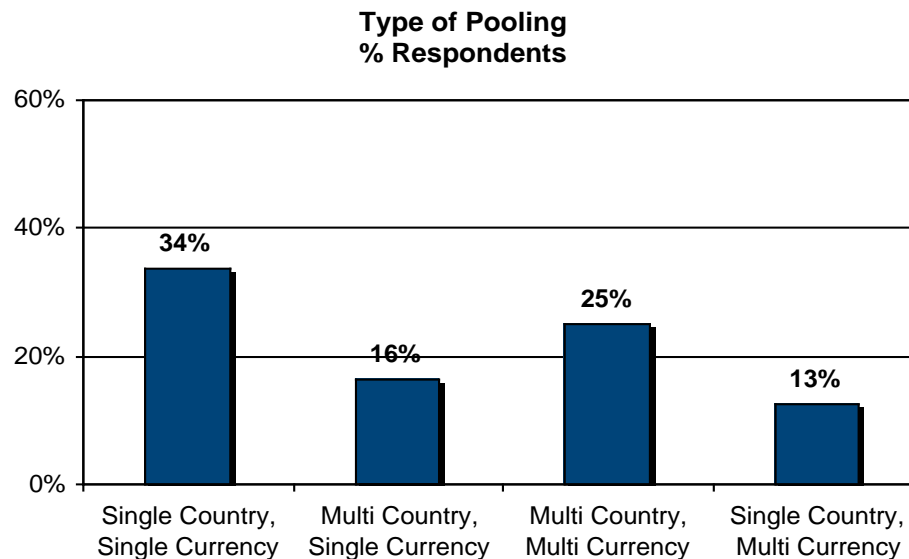
Core Cash

Accumulated
Cash



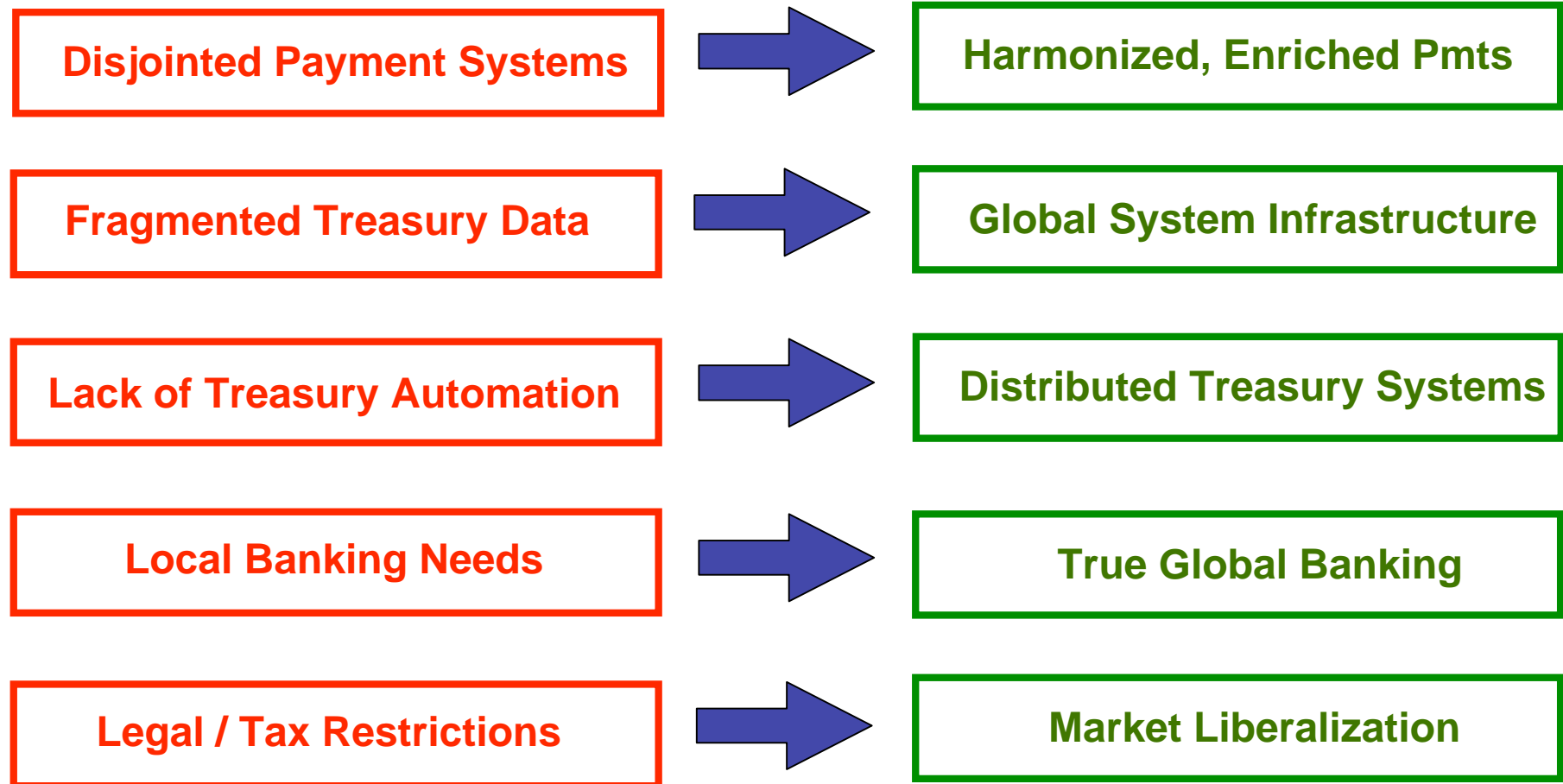
Current Practices in Europe

- Cash pooling is well-established in Europe
- But most companies have yet to take advantage of solutions available



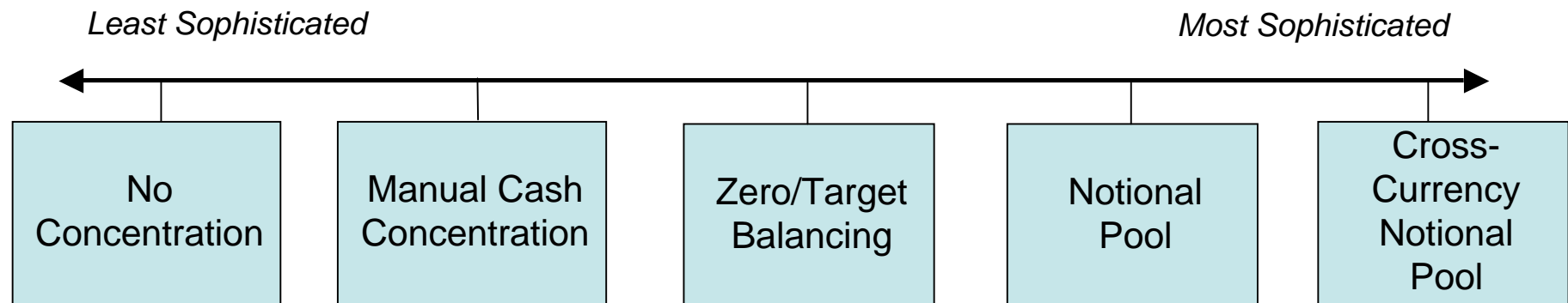
Source: Treasury Strategies Survey of 511 European Corporations

Centralization Challenges...And Solutions



Liquidity Solutions Continuum

Solutions available for concentrating cash in Europe range from very basic to highly sophisticated



- *No Concentration* - Local subsidiaries retain and invest liquidity
- *Manual Cash Concentration* - Concentrate cash through manual, occasional transfers
- *Zero/Target Balancing* - Lay cross-border sweep solution onto local operating accts
- *Notional Pool* - Cross-border sweep solution to mirror accounts, where debit and credit balances are notionally offset
- *Cross-Currency Notional Pool* - Notional pool where multiple currencies are notionally converted to a base currency

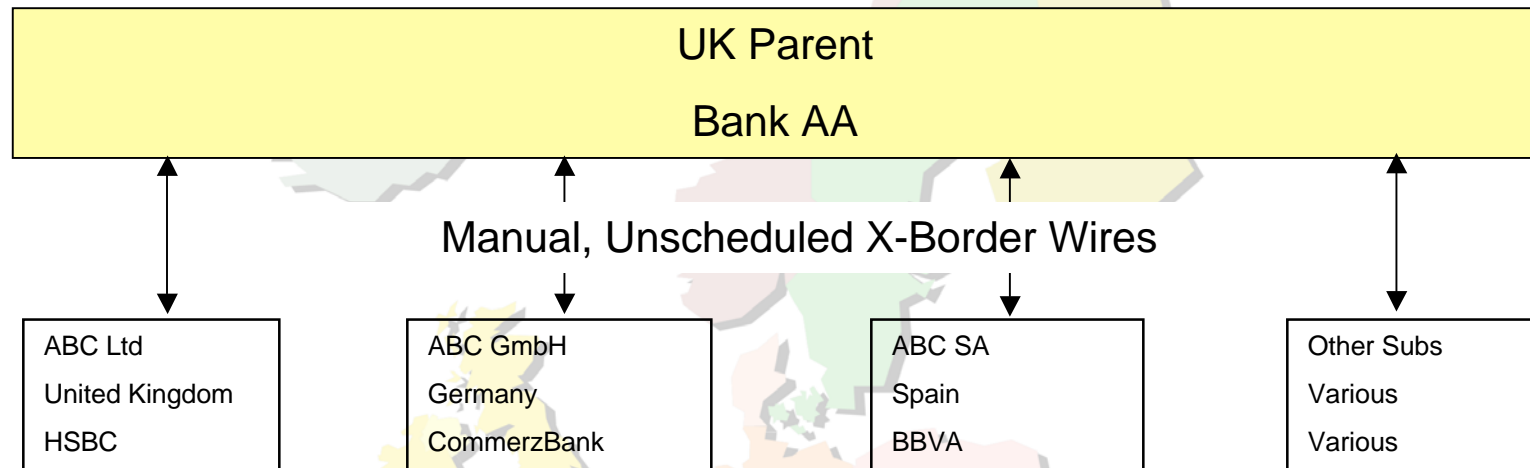
No Concentration



- Each entity is responsible for all of its banking needs
- Cash balances are left at each location
- Balance information may not be directly visible at corporate treasury
- Each entity is operating as a stand-alone treasury

ADVANTAGES	DISADVANTAGES
Local contact with banks	Lower return on investment
	No economies of scale
	Large number of banks
	No centralization of funds
	Limited balance information

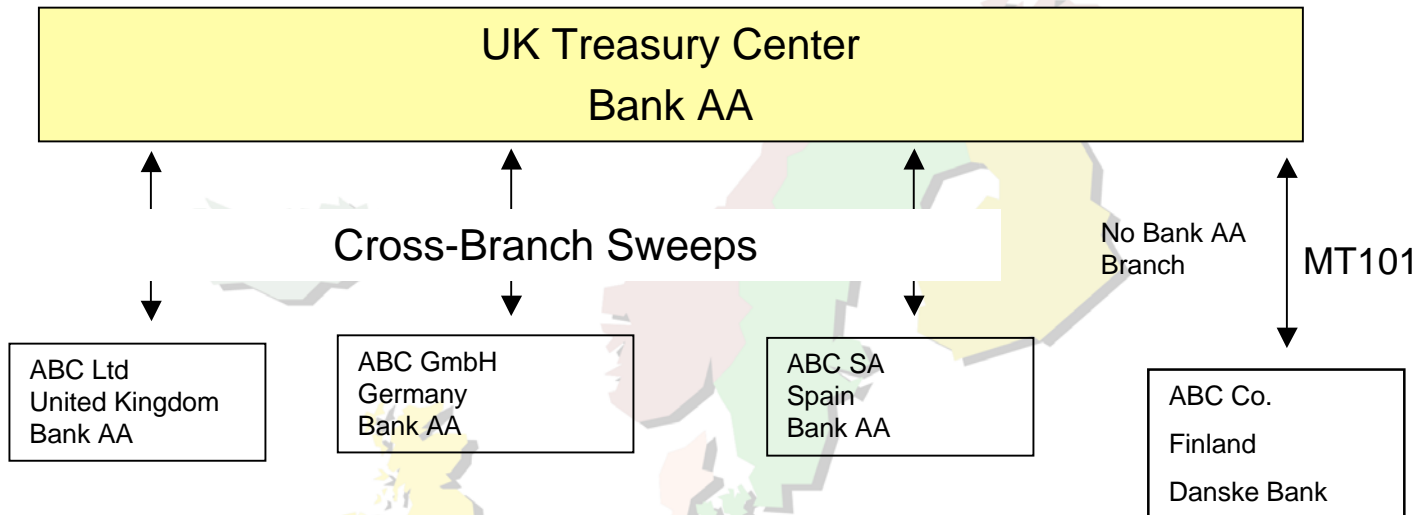
Manual Cash Concentration



- Parent entity periodically reviews subsidiary cash balances
- Remittances occur occasionally when parent and sub agree cash is excess and should be up-streamed

ADVANTAGES	DISADVANTAGES
Local contact with banks	Success in centralizing cash is usually limited due to inertia
Reduces some of the issues with complete decentralization	

Zero/Target Balancing

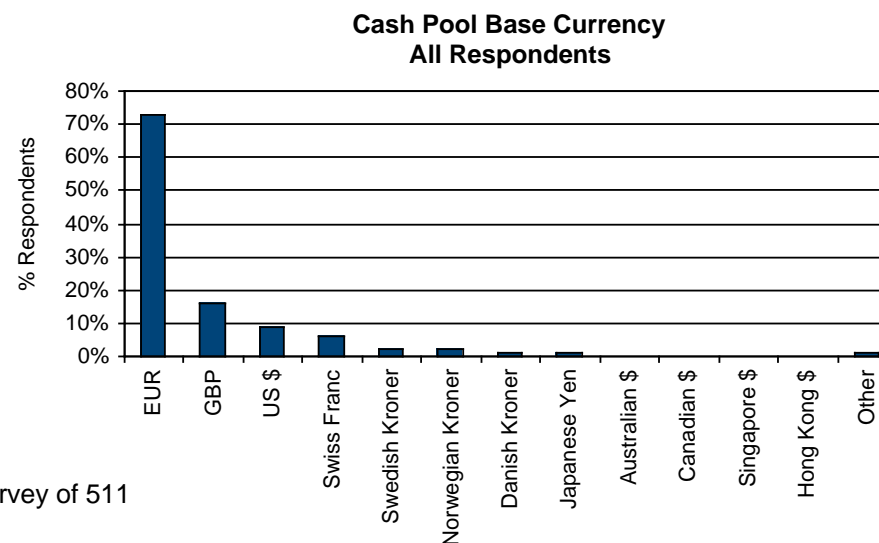


- Funds are concentrated in-country at source accounts with the solution provider
- Funds are same-day swept cross-branch at a specified frequency to a master concentration account at the center location
- Source accounts may be zero balanced or maintained at a target balance to provide more local control
- The treasury center account can invest funds centrally
- Separate header accounts are maintained by currency (balancing may occur through swaps)
- Source accounts at third party banks swept via MT940/MT101, possibly integrated by solution provider

ADVANTAGES	DISADVANTAGES
Achieves regional cash concentration	Creates intercompany loans between center and sub, that must be administered
Automated solution	Legal and tax issues

Sweep Design FAQ


- How do I design the in-country bank account structure?
 - Concentration and funding account flows
 - Country-level staging of concentration
- Which base currency (or currencies) do I pool?
- What sweep frequency (daily, weekly, monthly) do I use?
- Should I use target balancing?
- How will I administer the intercompany loans? Can this be outsourced?
- Where should I locate the treasury center?
- What tax issues should I consider?
- Will I need an overdraft facility?
- What about countries that restrict cross-border sweeping?





Source: Treasury Strategies Survey of 511 European Corporations, 2006

Sweep Regulations: Central Europe

	Hungary	Czech Republic	Poland (1)	Slovakia	Slovenia (2)
Cross border ZBA LCY	Y	Y	Y(r)	Y(r)	Y(r)
Cross border ZBA FCY	Y	Y	Y(r)	Y(r)	Y(r)
Cross border notional pool in USD	Y	Y	Y(r)	Y(r)	Y(r)
In-Country ZBA LCY	Y	Y	Y	Y(r)	Y(r)
In-Country ZBA FCY	Y	Y	Y(r)	Y(r)	Y(r)

 Possible, no restrictions

 Possible, with restrictions

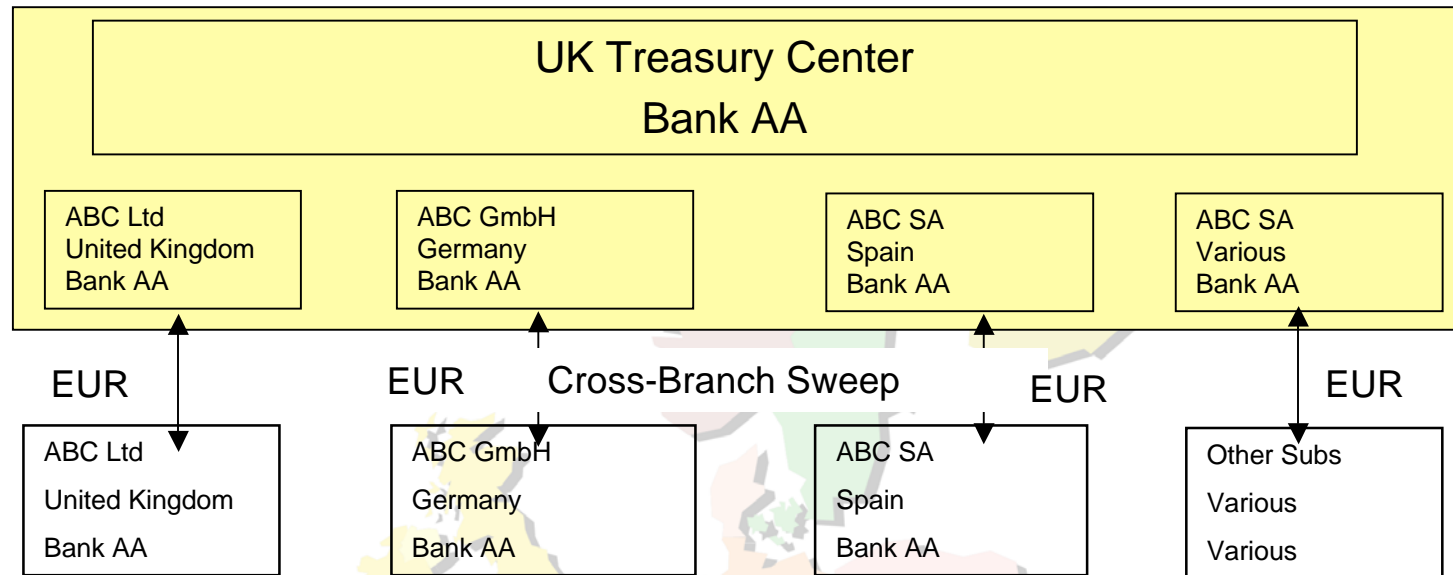
 Not possible

- (1) Restrictions are related to exchange controls.
- (2) Regulatory environment has not specifically addressed certain pooling structures.

Notes: ZBA = Zero Balancing; LCY = local currency; FCY = foreign currency; Y = Yes; N = No; Y(r) = Yes, but with restrictions.

This is what Treasury Strategies understands is possible. Treasury Strategies advises to always seek tax and legal opinions before implementing a liquidity structure in Central Europe

Notional Pool



- Funds are concentrated in-country at source accounts with the solution provider
- Funds are same-day swept cross-branch at a specified frequency to non-resident mirror accounts at the center location
- Interest is paid/charged to the header account on the net balance of the pool with no co-mingling of funds
- Separate header accounts are maintained by currency
- Interest may be reallocated to the source accounts

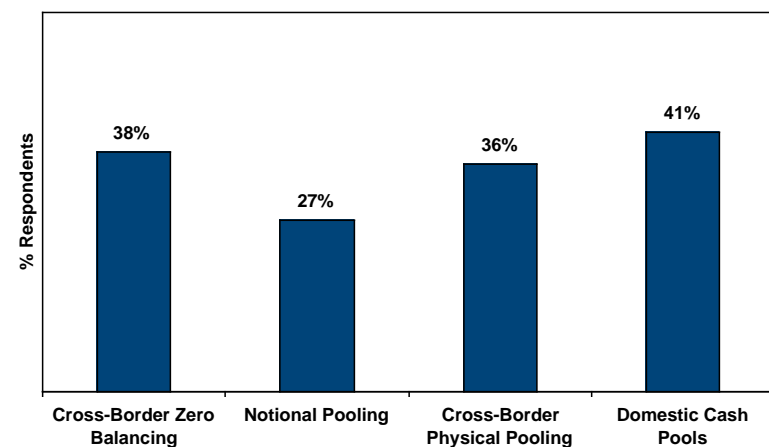
ADVANTAGES	DISADVANTAGES
Achieves regional liquidity regional cash concentration, while avoiding many of the concerns with physically moving funds	Notional pooling prohibited or may be subject to recharacterization in some countries
Automated solution	Requires cross-guarantees

Pooling FAQ

- Are there special legal and tax considerations for pooling?
- How do I reallocate the pool benefit back to the subsidiary accounts?
- How are the pool positions accounted for?
- Which solution - notional or physical - is the best?

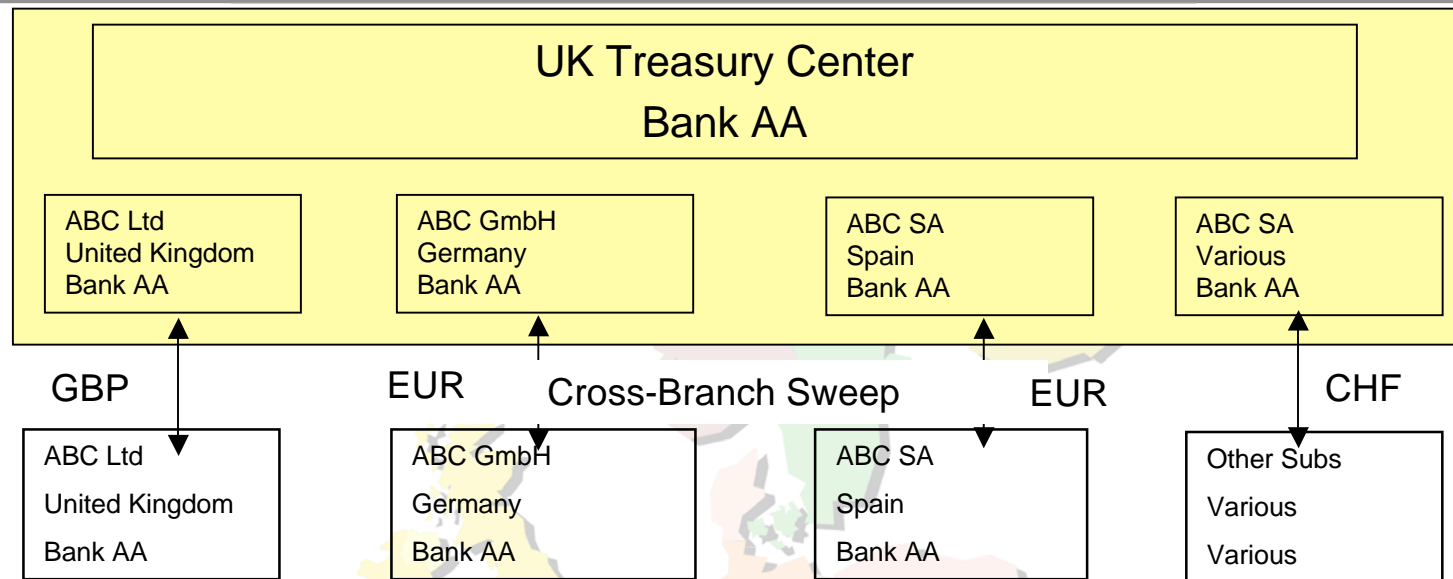
Physical Pooling	Notional Pooling
One concentration account per currency	One pool account for each currency in-country account
Intercompany loan management	No intercompany loans created
Bank interest applied to concentration account only	Interest applied to each participating account, with pool benefit applied to pool leader
	Cross guarantee required

Liquidity Management Structure
All Respondents



Source: Treasury Strategies Survey of 511 European Corporations, 2006

Cross-Currency Notional Pool



- Funds are concentrated in-country at source accounts with the solution provider
- Funds are same-day swept cross-branch at a specified frequency to non-resident mirror accounts at the center location
- Interest is paid/charged to the header account on the net balance of the pool with no co-mingling of funds
- Multiple currencies are swept and notionally converted, with interest based on blended rate reflecting currency mix
- Charges may be reallocated to the source accounts

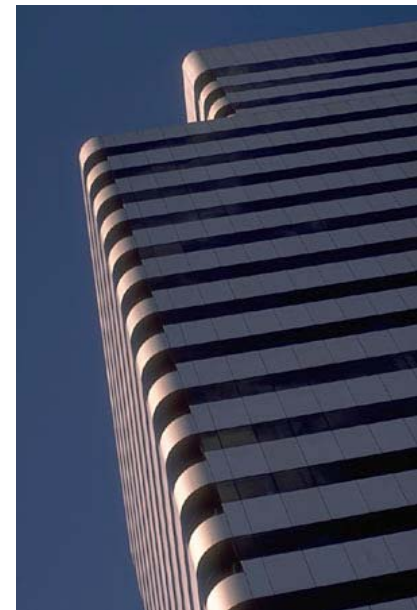
ADVANTAGES	DISADVANTAGES
Brings smaller currency pools into the central pool	Not all currencies are offered
Avoids need for costly conversions and/or swaps	May be overkill if non-Euro balances are small

Opportunities in the Payments Landscape

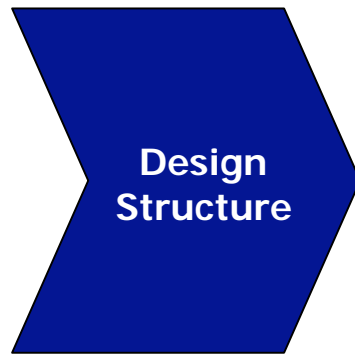
Payment Initiative	What it is in a Nutshell	Why It's Critical
SEPA	<ul style="list-style-type: none"> • EC initiated Payment Services Directive, starts 1/1/08 • Requires pan-European core schemes, consistent standards, harmonized consumer protection laws (credit transfer, direct debit, debit cards) • Milestones through 2010+ for SEPA payment channels 	<ul style="list-style-type: none"> • Pricing transparency • Improved standardization and STP rates • Reduced cost of cross-border payment channels • Further consolidation of payments into payment factories • Further centralization of liquidity
ISO 20022	<ul style="list-style-type: none"> • Universal financial industry messaging scheme • XML-based • SWIFT leadership role 	<ul style="list-style-type: none"> • Global standard for messaging • Goal to permit seamless transmission of payment instructions cross-border from originator to beneficiary • Global in eventual scope
Corporate Access to SWIFTNet	<ul style="list-style-type: none"> • Standardized Corporate Environment (SCORE), launched formally 1/1/07 • Alternative to MA-CUGS • Direct SWIFT communication with banks • Financial Action Task Force restricts participation 	<ul style="list-style-type: none"> • Improved standardization by moving away from proprietary bank gateways • Link directly with virtually any bank in the world • Improve straight-through rates for payments

Bank Selection: Questions to Ask

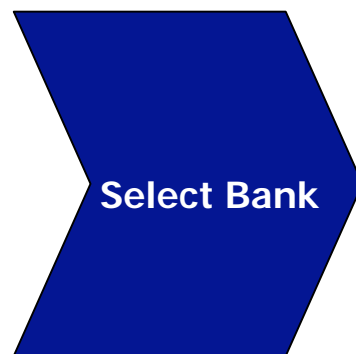
- Do you offer the solution I want in the countries I need it and the currencies I transact in?
- Do you offer the value-added services I need such as outsourcing of loan administration?
- What investment products do you offer?
- Do you have branch locations in my countries of operation and if not how will you provide the service?
- What is the functionality, connectivity, and ease of use of the internet delivery
- When do swept funds become available, both for house and third party accounts?
- How much will it cost?
- What credit support will be needed such as overdraft facility, parent guarantees, and cross-guarantees?
- Are you able to service me as a transaction bank as I collapse the overlay structure?
- Are you able to service me on a global scale?
- What is your customer service model?
- What is your implementation model?



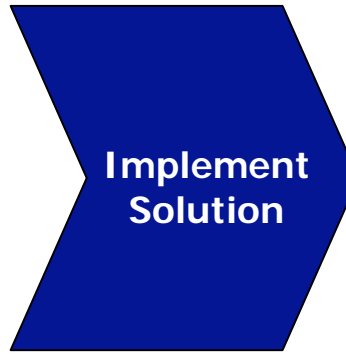
Implementing a Cash Pool



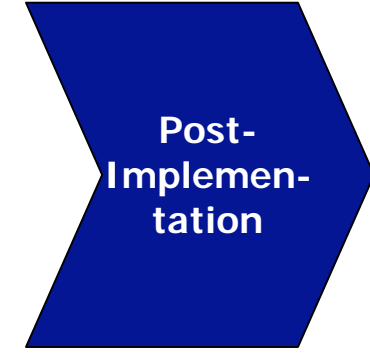
- Collect liquidity data
- Cost/benefit analysis of pooling
- Business requirements
- Tax requirements
- Legal requirements
- Finalize design



- Prepare RFP
- Determine participating banks
- Solicit proposals
- Evaluate proposals
- Select bank



- Assemble team
- Scope and plan implementation
- Complete documentation
- Implement solution
- Test and train
- Go live



- Establish on-going service relationship
- Implement a cash flow forecast for investing
- Convert local accounts to solution provider where optimal
- Measure success

For More Information, Contact



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Thanks!

About Treasury Strategies, Inc.

Who We Are

Treasury Strategies, Inc. is the leading Treasury consulting firm working with corporations, financial institutions, and securities firms. Our experience and thought leadership in treasury management, working capital management, liquidity and payments, combined with our comprehensive view of the market, rewards you with a unique perspective, unparalleled insights and actionable solutions.

What We Do

Corporations

We help you maximize worldwide Treasury performance and navigate regulatory and payment system changes through a focus on best practices, technology, liquidity and controls.

Securities Firms

We help maximize your corporate Treasury product lines, and develop solutions around the design, positioning and delivery channels for your commercial investment and liquidity products.

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