And now without any further delay, let’s begin today’s event, “Gain Control of Your International Cash Management: Strategies for Implementing Best Practices.” I’d like to introduce your moderator for today, and that is George Hoffman, Senior Vice President and Manager with International Advisory at PNC. George, the floor is now yours.

Thank you and good afternoon to everyone and welcome to our webinar series on best practices in international cash management. As you heard, I’m George Hoffman and I’m with PNC’s International Advisory Team in Treasury Management.

Before we get started with our presentation, I wanted to highlight some of PNC’s ongoing commitment to providing market insights and new ideas and best practices. Our PNC’s Ideas Thought Leadership Series features a monthly e-newsletter, live webinars like the one that we’re on today, and a dedicated website at, as you can see, PNC.com/ideas. We continue to choose topics based on the input that we get from you, so I would encourage you to take a few moments at the end of the presentation to review and take our survey to give us some feedback on the session and to give us some ideas for future webinars.

And with that, we’re going to start with the event. I’m excited to have Tali Weisberg and Anthony Guide presenting from our offices in Philadelphia, as well as Bill Adams, here with me in our offices in Pittsburgh. Tali and Anthony will address the nature of today’s international cash management challenges, provide some hands-on advice on implementing best practices, particularly at the HQ level, and we’ll ask Bill to intersperse some commentary on some of the key international economies throughout our presentation.

We’ve also asked our speakers to integrate — we’ve received a good number of questions that were presubmitted, and we’ve integrated a lot of those into the session, so you’ll hear us picking up on those. But at the end, we’ll also have a Q&A discussion where, if you had heard earlier, you can submit those questions by looking at the widget found in the lower portion of the screen. So please, throughout the presentation, feel free to submit those, and we’ll tally them together and get back to them at that point.

So without any further ado, I’ll turn over the helm to Anthony Guide. Anthony?

Thanks, George, and good afternoon, everyone. I just wanted to give a quick background on our speakers today. We have with us Tali Weisberg, the Assistant Treasurer for Health and International. Tali has over 15 years of treasury experience with an international focus, and she currently manages the treasury function for Houghton, which is a global leader in delivering advanced metal-working fluids and services. Before joining Houghton, Tali worked for 10 years for Hay Group in Philadelphia, an international HR consulting firm. And she is actually going to be a speaker at this upcoming AFP conference in San Diego in October.

Also on the line is Bill Adams, our Senior Economist at PNC. Bill’s responsibilities include forecasting economic conditions and exchange rates and covering emerging Asia, the Euro Zone, Canada, and Latin America.
And myself, I am Anthony Guide. I am an International Advisor with PNC. I’ve been with the bank for about a year now. And prior to my role here, I actually worked alongside Tali for 10 years at Hay Group in Philadelphia in our Global Treasury Management Division. And it’s a pleasure to be alongside Tali today and working together again. It’s very nice to work with her and her experience and have her experience along this webinar today.

So we’ll move along to the first polling question of our day. It’s really just to get an idea of the audience — actually, take a step back, sorry. We’re going to give a background on Houghton International, and Tali’s going to give a background on what she does today.

Tali Weisberg:

Yes. As mentioned, Houghton International is an international company with various manufacturing plants around the world and with a presence in over 30 countries worldwide. The company is over 150 years old, and the metal fluids industry is our core business. In July of last year, we acquired a small family-owned business headquartered in Ohio, and this year we have signed a definitive agreement to combine with Quaker Chemical, who has been a strong competitor of ours for many years.

I’ve been at Houghton for over a year and a half now, and my main focus areas are cash centralization through tax-efficient repatriation routes, worldwide cash forecasting for entities with various ERP systems, and minimizing FX risks through centralized FX management and the exploration of a netting tool. I’ll touch base on these experiences as we move through the presentation.

Anthony Guide:

Thanks, Tali. And now we’ll go to our first polling question. We’d like to get an idea on the audience today and where most of you are actually operating in your primary regions around the world. So if you could just please answer the question in front of you. And Tali, if you were answering this question as a participant, could you give us an idea on Houghton and where your primary focus is today?

Tali Weisberg:

Yes, for Houghton, our large international footprint is mainly in Europe and China.

Anthony Guide:

Which tends to be the typical case we see on our polling results. So if we look to our answers, we will see Europe first, followed by the Americas, and then third would be Asia. So Bill, given that Europe was first in line in terms of our audience today, could you give us an update on the European market from the economic perspective?

Bill Adams:

Sure, Anthony, and good afternoon to you and Tali and good afternoon, everyone. I forecast the euro for PNC, and I have been expecting the euro to be weakening against the U.S. dollar over 2017 and 2018 as the European Central Bank maintains negative interest rates and as the Fed has been gradually normalizing monetary policy here in the United States. Actually, the euro is quite strong today, and that is reflecting good news in the Euro Area. Economic growth has been above trend. And with that, there’s speculation that the European Central Bank could begin to raise short-term interest rates in the second half of 2018.

Personally, I think that’s a little — I think those expectations are getting a little bit ahead of themselves. The European — the period of negative interest rates in the Euro Area hasn’t been longer than expected, and I think it’s probably going to continue into 2019, but that is what the expectations are there.

In the UK, the economy has weathered the immediate aftermath of the Brexit referendum quite well. And economic growth has slowed a little bit this year, but the job market has tightened, consumer spending has weakened because of the weaker pound, reducing consumer spending power. But overall, the economy has avoided a lot of the most negative downside risks following the Brexit referendum.

So all in all, a pretty strong outlook for the Euro Area, but interest rates continue to be very low. And I think at least through the end of 2017, we won’t see any change in benchmark rates there. Back to you, Anthony.
Thank you, Bill. So the primary areas we see our multinational clients focusing on as it relates to global cash management are in front of you on this slide. Depending on the size of your company and the industry that you’re in, the concepts on this slide will be different for each of your companies and your place of priority order unique to your specific situation. But the general idea remains the same in that these are the primary areas that encompass a robust global cash management operation. And we’re going to actually expand on all of these as we progress throughout the presentation today. But I’ll just touch on a high level, and some of you may be sitting in the audience in a very decentralized environment and lack of control throughout your company and throughout your local offices, but that does not preclude you from being able to gain that control over your subsidiaries, and Tali’s going to touch on that a little bit later.

In terms of an account structure perspective, we run diagnostics with clients all the time. And really, the foundation of understanding and rationalizing global cash management ties back to the bank account structure. And do you have a handle on the number of bank accounts around the world? Do you have a handle on the number of banking partners that you have? And from that information, you can kind of dig in and peel back the onion further and understand, well, what type of visibility do you have in those accounts? If you don’t have visibility, we’ll talk to you about some strategies to get that visibility.

And then continuing further, you talk about the transactions flowing through those accounts from both a receivables and a payables perspective. Do you understand those transactions, what’s happening today, and are they the most efficient way possible to receive money as well as disburse money? And then you can further expand on that more strategically from a liquidity management perspective and then identify and manage your currency exposures.

And then we wanted to talk about kind of your banking partnerships and the global trend of de-risking among many banks around the world, where we’re actually offloading bank accounts for companies, and our clients are getting letters from banks across the globe basically telling them that those bank accounts are being closed because it’s no longer a viable business for their banking partner. And it’s a letter that tells them the account is shutting down as opposed to giving them an option. So the global de-risking is an emerging trend, and it is growing today.

And last but not least on this slide relates to benchmark and measurement. And as it relates to your treasury performance, it’s really important to go back and analyze what you’ve been doing today and really capture that performance and quantify it, because you want to make sure what you’re doing today is optimal for your business.

And I want to pass it to Tali real quick, because I know you have experience in terms of benchmark and measurement from a working capital perspective, so you can give us an idea on what you have experience with.

Yes. In my prior experience, we had a few KPI metrics, one of which was DRO, days receivable outstanding, where we measured the level of cash collections and invoicing per month for each entity. We tied this KPI to bonus incentives so as to promote the finance managers to achieve their targets.

And some other benchmarking measurements, you can have cash management benchmark something as simple as your disbursements out of your accounts — are they flowing through a straight-through processing or are they getting rejected? Are they failing? And even overall treasury efficiency — what percentage of visibility do you have into your accounts? So those are some of the metrics we see measuring treasury performance today. And Tali’s going to talk a little bit about governance and controls and the treasury structure idea.
The first piece of the puzzle here is determining the structure of the company. Are functions headquartered in one location with a single decision point, or are functions regionalized by regional centers? Or are entities acting autonomously without much oversight? The best practice is to establish a centralized treasury center, but it’s not the only answer. At Houghton, we operate by regional centers, and we still manage to have a good amount of standardization for treasury activities. We do this through strong policy writing and implementation, by setting the appropriate tone at the top of the organization, and by establishing a tight delegation of authority policy.

At Hay Group, where Anthony and I worked previously, we had a more centralized treasury team, where we were able to establish sophisticated practices like in-house banking and netting centers.

So Tali, I just want to ask for our audience perspective, who might be dealing with the decentralized nature. How does a company move from a very decentralized environment to a more controlled and centralized one?

In order to move to a centralized treasury system, you need the buy-in from the C-suite as well as buy-in from the regional finance team. It’s often hard for local finance leaders to relinquish controls over cash and other treasury functions, but it is most cost efficient for the company.

At Houghton, I centralized many of the FX functions as well as cash forecasting tools through strong policies and also encouraging collaboration among finance leaders to keep them engaged.

And you mentioned policies, which is a really important point. And one policy I just want to bring up before we move on is a bank account management policy — something simple to tell your local entities that you cannot open more bank accounts unless you go through some type of formal approval process. So something as simple as those policies and procedures really go a long way to establishing that control that you’re looking for.

So if we move on to talk about optimal account structures, when we talk about what is an optimal account structure, we’re back to the first point of understanding your current bank account structure and understanding if what’s happening today is the best option for your company. And Tali, I know you had experience with more of a chaotic bank account structure in your past treasury life, so could you please explain that and give the audience an example of what you’ve dealt with?

Sure. Where we previously worked at Hay Group, we often ran into situations where bank accounts were opened due to a client requiring it. The client wants to minimize their bank fees, and so they only need to do a bank transfer into your account for payments. But this additional bank account for a single client increases your bank fees. You need to decide how important the client is to the business and whether revenues from the client outweigh the annual bank fees.

At Houghton, we also find cases where entities will have an account in foreign currency so they have the funds ready to make foreign currency payments. In fact, they’re parking their cash, which creates an FX exposure for the entity and lowers the potential investment return for the company. We’ve cracked down on these sorts of bank accounts and instead, we now use FX tools and netting to sort these issues.
And when we talk about optimal account structures, there are three main options — obviously, the U.S. dollar-based account. But there’s also the multicurrency account option, which are domestically domiciled bank accounts. And if you haven’t looked into those with your banking providers, please do, because they are a viable option and can alleviate the need to actually go into a foreign country and open a bank account. Because when you talk about comparing the multicurrency account or the domestically domiciled bank account option versus in-country, you have to look at the volume and the currency of the transactions that are occurring today and whether or not those transactions are flowing through the local payment channels, such as SEPA or Canadian EFT, or are they flowing across border? And even look at paper-based transactions, so there’s a mail and clearing float that need to be considered. We tend to see clients in Canada with some mail flow issues and checks taking a long time to reach the final destination, so that’s something you need to keep into mind when you focus on your account structure.

And from the administrative perspective, are you prepared for a KYC process that can be very lengthy? And we can look at a timeline of about 6 to 7 months to open a bank account. Is that something you can accommodate within your company, or would a multicurrency account — something that could be opened relatively quickly — be more attractive?

And Bill, I just wanted to bring you back onboard, because we talked about Canada a little bit here. So could you give us an update on the Canadian market from the economic view?

Sure, Anthony. Canada, I think, is looking the best that it’s looked, I think, probably since the global financial crisis. The Canadian economy had excellent job growth in the first half of this year. The unemployment rate is back down to its lowest since the financial crisis. And they’ve been seeing an increase in investment and investment intentions on the business side as the energy industry has stabilized, and manufacturing output has picked up with the Canadian dollar relatively weak against the U.S. dollar.

An exception there is that the Canadian housing market has started to weaken. Canadian home sales have fallen by double digits through midyear since March of this year. And that follows the Ontario government implementing a tax on foreign purchases of homes in Ontario, covering the greater Toronto region. And there’s a similar tax covering the Vancouver housing market. So housing is a bit of a vulnerability now for Canada. Sales transactions have slowed, although prices are still holding up. But other than that, the Canadian economy looks like it’s doing quite well, and I think the appreciation of the Canadian dollar since the start of this year in part reflects that.

Thanks, Bill. We’re going to turn it over to the second polling question today, and it relates to visibility into your bank account. So we’re going to solicit your feedback. How much effort is required today to obtain your global cash position? Are you currently unable to do that? Do you actually have on-demand, same-day access to that, or would it take several days to compile the global cash position? And it’s really important to have that visibility and to be able to answer the question, “How much cash does our company have?” It seems like a basic question, but sometimes it can be a challenge, especially if you’re operating in a larger organization, especially in a very decentralized one.

So when we look at the polling results, we will see that the audience today has on-demand, same-day access. So the great majority of you have access to the global cash position with minimal effort. And second in place would be several days. So it’s kind of surprising to see that. We typically see the several days option to compile a global cash position as the answer.

And we’re going to talk more about account management and visibility. Tali’s going to talk through that.
The task to rationalize accounts is very powerful, but at the same time, very time consuming. There’s barriers to completing an account rationalization. Some of these barriers can include personal relationships that some local finance managers have with their bankers. Others are country-related barriers, like time zone and language. How can you accurately understand what’s happening in your accounts? You need to eliminate these barriers, establish direct visibility through your bank.

And in terms of direct visibility, the way we talk to clients about this is through more of a multibank reporting aspect than through the SWIFT channel and getting your foreign banking providers to send you account information through the SWIFT network in an MT940, a previous-day reporting file. And you can have that balance information reported into your banking portal, and you can also have transactional information. So depending on the type of visibility you’d like, you can have a very basic balance report, or you can have all the transactions that are flowing through those accounts.

And what that does is it really streamlines your visibility into those accounts into one dashboard central location. So you log onto your bank portal, and you can see account activity for all of your bank accounts as opposed to either directly logging into other banking portals or having to email or contact your local finance staff to get you that information. So it eliminates the time lag to get that visibility, and you can have it right on demand. And from our polling question, we see a majority of the audience today has that capability.

But if you do not, you really should look to getting that, and your banking provider can help you especially establish that connection through the SWIFT channel and get that dashboard capability for the visibility into your accounts.

And we’re going to switch our focus from the operational side of treasury to more of the strategic side and focus on liquidity and working capital. And from a polling perspective, we tend to see two main types of polling options available, and that’s notional polling and physical polling. And Tali, I know you’ve had some experience with both of these options in exploring those. So can you give us an update from you and kind of give your experience around those two options?

Yes. We do use a physical cash polling system for our European entities. The common currency of the euro makes it easier to establish these structures in Europe. We’ve found that notional polling is burdensome from a documentation perspective, and also costly. This would probably work well for larger Fortune 500 companies.

And from a notional polling perspective, it’s more the administratively burdensome of the two options. There’s a lot of paperwork involved, and most countries out there don’t necessarily allow a notional polling structure. So it tends to be the least of the two options. We tend to see the physical polling in most of our clients. And obviously, there’s a physical transfer of cash, but there’s a better way you could do that, and you can actually leverage your domestic banking provider and centralize the funds and poll the cash yourself by initiating an MT101. So leveraging the SWIFT network, initiating a wire request through your banking portal, and actually drawing funds out of your foreign bank accounts if they’re SWIFT enabled. So there’s a way to do that with control and not having to rely on your local staff. So we like to position that with clients and offer that as an option.

And then we wanted to talk a little bit about credit and debit interest, so there’s even countries and jurisdictions that don’t offer credit interest. So you need to be mindful of that when you go into opening bank accounts and establishing banking relationships. And even on the debit interest side, we see the negative rate environment. And Bill, did you want to just touch on that real quick, the negative rates in Europe and where you see that going?
Sure, Anthony. So in the Euro Area, the benchmark interest rate right now is the Central Bank’s deposit rate. That’s negative 0.4%. The European Central Bank has said that they’re keeping that interest rate there well beyond the horizon for when quantitative easing ends. Quantitative easing is the unconventional monetary policy where the Central Bank buys government bonds, local government bonds, corporate bonds, to push down long-term interest rates and stimulate growth.

So the European Central Bank is not going to be done with that very unconventional monetary policy, definitely not by the end of this year, perhaps not until the middle of 2018 or maybe even towards the end of 2018. And then they have to wait until well beyond the horizon, whatever that means, until they actually start raising interest rates. So I think the earliest that we could see an interest rate hike in the Euro Area is 2018. And I think there’s a good chance that interest rates will stay negative in the Euro Area until the current head of the European Central Bank leaves office, which is not until October of 2019.

Elsewhere where we see negative interest rates, I think in other European jurisdictions really have, are under a lot of pressure to follow the European Central Bank. And with euro interest rates so low, it’s very hard for the Swiss National Bank or others to raise rates back into more normal territory.

And in Japan, where the policy rate is negative 0.1%, I think that negative interest rate will stay in place at least as long as the euro negative interest rate is in effect, if not longer.

So if these negative interest rates are a problem or painful, I guess the bad news is that it’s not going to be over this year, and it might not even be over next year. So that is an issue that I think businesses will continue to have to think about.

Back to you, Anthony.

Thanks, Bill. So we’ll move on to the payments side and how you can go about building an efficient payment strategy. And no matter where you are in the world, it’s very important to understand local payment rules, local regulations, and even the payment networks in order to avoid delays and excess costs with your transactions. And as we know, every country has their own banking practices, which can be very different from what we are accustomed to in the U.S. Practices such as value dating may delay funds availability. So there are just some things we need to think about, operating in those local jurisdictions.

From a check perspective, checks and paper systems are declining as electronic payments become more efficient and even more secure and easy to use. And there’s a very large movement worldwide today. Countries are upgrading their payment systems and evolving toward the real-time payment processing, which was spurred on by the Faster Payment Service Initiative, which started in the UK in 2008. So there’s a huge demand for expedited movement of funds, and countries are reacting to that demand.

And in terms of payment modernization, I’ll just touch on Canada. They’re actually in the middle of their Payments Modernization Project, which is actually going to include a new clearing and settlement system. So they’re building a brand-new payment rail to replace the current two in place. And the many benefits of this project will include those faster payments as well as expanded and standardized information to accompany these payments and also transparency throughout the payment process. So for those in the audience familiar with the Canadian EFT, or the ACH equivalent, as we call it in the U.S., those payments in Canada today have very limited addenda information. So typically, we see companies having some supplemental feed of information alongside of an ACH to ensure that the reconciliation process is easy for the beneficiary. And with this payment modernization, it’s actually going to enhance that EFT process and add that addenda information to make reconciling more easily. So in terms of a benefit to the audience, this Payment Modernization Project in Canada, it’s very positive.
And then we’re going to touch on China, because it’s always important to talk about China. And we have, actually, a few questions leading up to today regarding China and the ability to get money out of the country. Over the last few years, the Chinese government has undertaken an extensive process to liberalize and also internationalize its currency. They’re slowly relaxing rules to become more equal trading partners with other developed countries. And this includes expanding the use of the renminbi for global trade settlement and encouraging a robust offshore renminbi environment as well as an onshore renminbi environment.

And Tali, I know you had some experience in benefiting from this liberalization and internationalization of the renminbi. So can you touch on that, please?

Tali Weisberg: We did. We have used the PNC Rep Office in China to facilitate an intracompany loan through the Bank of China using the Free Trade Zone, where we opened a bank account in the Free Trade Zone with the aid of the PNC Rep Office there.

Anthony Guide: Thanks, Tali. And I think that came down to timing, because that Free Trade Zone has opened up and we just learned about it. So again, back to the concept of market knowledge and staying up to date in the countries that you’re in. It’s really important, because when things like that happen, you will be able to move money and benefit from that.

And then we’re going to talk about from a payment perspective, how to centralize those payments, and Tali’s going to lead us off here.

Tali Weisberg: If you can centralize a good part of your payments, there are efficiencies to be gained from it. At Houghton, we are currently using PNC FX Platform for all of our FX payments. And this allows us to negotiate better rates with our banks due to the volume of transactions. We also use a direct transmission with our local bank to effect Canadian dollars and USD payments from the U.S. headquarters.

Anthony Guide: And there’s another way you can actually centralize payments, and that’s using the SWIFT channel and becoming a SWIFT for corporate, and that will give you a single point of access to communicate with all your banks and effect those payments. And one point to note here is that if you are becoming a SWIFT for corporate or interested in that, you need to make sure your banking partners support SWIFT. So that’s kind of the first step in the process, because becoming a SWIFT for corporate does not necessarily mean you can access all of your banks if they’re not enabled to do so.

And then the last thing on centralizing international payments, I want to just touch on the account rationalization concept that we talked about. And if you find through that rationalization exercise that you have several countries making cross-border transactions in a similar currency, you can centralize that activity, and you could actually think about implementing a payable-on-behalf-of structure, centralizing those payments, utilizing the local payment system to effect those payments and eliminating the cross-border wire activity.

So, for example, if you find that you have several countries making cross-border euro transactions that are not in the Euro Zone, you can centralize those payments in a euro country, effect them through, say, the SEPA system, eliminate the need to cross-border that money from the payable-on-behalf-of structure. And when you eliminate those cross-border, obviously, you’re saving on banking charges and you’re streamlining the process and centralizing those payments and just adding efficiency to the workflow that you’re using today.

We’re going to turn from payments now and talk about the important practice of forecasting and staying on top of where your strategic cash is heading within your company, and Tali’s going to talk to us about that.
I find that cash forecasting is always a tricky process. When you have a company whose entities are all on the same ERP system, it’s relatively easy to extract data to form a cash forecast. The problem starts piling up when you are dealing with multiple disconnected ERP systems and several banking partners. Ideally, a treasury management system can help form a consolidated cash forecast. And Anthony I have implemented two of these already, and they do improve forecast accuracy.

For most companies, a treasury management system may be out of reach cost-wise, and they are relying on spreadsheets. If Excel is your only answer, try to pair this with some bank connectivity, or even a downloaded CSV file from your bank. You can also build macros behind the scenes so you could combine different spreadsheets for a worldwide cash position. But this requires that all templates are standardized. This is currently what we’re doing at Houghton. It’s working well, as we have the buy-in from all of our regional finance managers.

And in terms of best practices for forecasting, we’re going to go back to the visibility concept. It’s really important to have direct visibility and an accurate beginning point for your forecast. So establishing a global cash position upfront will be the best starting point for your forecast. Because if you don’t have an accurate cash position to begin that forecast, the rest of the forecast is going to be off.

And Tali mentioned Excel, and it does have some limitations, but it can be your friend if you lock down the Excel sheet and add the macros, as she mentioned. And we also like to mention at the end of this, analyzing your forecast against your actual cash flow, capturing those variances, continually refining the forecast, challenging your local entities who are actually completing the forecast to keep upgrading them and keep refining them and making sure they’re paying attention to them.

And Tali and I, in our day back in Hay Group, we’ve had several instances. We did a monthly forecasting process, and just the input errors that we had locally because they’re not paying attention, they’re just doing it haphazardly. But if you do that analysis every month and push them and let them know that they’re continually off on their forecasts, it’s going to improve slowly and maybe gradually, but you’ll get to a point where they know what they’re doing and you don’t have to worry about those excess variances around the world.

Tali’s going to talk to us a little bit about the intercompany aspect of treasury.

Intercompany management can create a lot of FX exposure if it’s not managed correctly. You don’t want to run into a scenario where entities are moving cash around without putting through an FX trade, and then they’re being hit with a large FX rate by the receiving bank. You also don’t want entities to hold currency that’s not in their functional currency, as this creates exposures, too.

Adopting rules and policies around the management and the payment of intercompany transactions is key. At Houghton, to prepare for the payment of intercompany transactions and as part of our cash forecasting process, we collect data on what entities are paying to other entities, and we try to match the payee and the payer. This helps to plan for the disbursements and avoid untimely cash requests.

Tali touched on forecasting again, which is why it’s so important. And then we had dealt with several situations back at Hay Group where we would get a request for cash from abroad, a local subsidiary saying they need money. And then we’d cross-check it against their forecast, and it’s just not even accurate. So we used that leverage to improve the forecast and make sure they’re paying attention to that. Because if you’re dealing with intercompany lending around the world, you want to get a grasp on that, especially if you’re in a company that doesn’t necessarily have surplus cash to be sending around as frequently as possible.

And then we’re going to just touch on netting real quick, and Tali’s going to expand on that, the intercompany netting side of the equation.
**Tali Weisberg:** Netting is an important option to consider when you have many intercompany flows between various intercompany partners. In the first diagram to the left, you see that, for example, the Australian company is receiving funds from Mexico, the UK, Sweden, Germany, and Japan. All of the funds are in local currency, so there are five different exposures to worry about here. They’re also paying the Swiss entity in Australian dollars, which creates a sixth exposure.

A better way to manage these flows is to have a netting center, and this could be a bank or an in-house central bank, where the netting center distributes or receives one payment to or from each entity. The Australia entity, for example, no longer bears the burden of the foreign exchange fluctuation. When using a bank as your netting center, you’ll likely cash settle all of the transactions. If using an in-house bank as your netting center, you have the option of creating intercompany loans between the in-house bank and the netting participants or cash settling the transaction.

**Anthony Guide:** Tali, you brought up a good point regarding an in-house bank. And if that’s something you’re looking to do within your company, really stay on top of your internal and external tax partners to make sure that in-house bank is located in an optimal place from a tax perspective. And once that is in place, it really does facilitate the intercompany process. And if you do establish that as a netting center, it can add efficiencies and eliminate the chaotic intercompany side of things. The left side of your slide there is kind of the chaotic environment, and you’re looking to get toward that right side of the slide.

And we’ve kind of flipped through a lot of the best practices, so we’re kind of just going to summarize it here. And again, the priority for each of your companies is going to be different depending on the situation you’re in. But you should really prioritize all of these areas and focus on things that you think would be very important to get a handle on today.

And we tend to list control at the top of our list because, really, we see many clients that are decentralized. They don’t have control. Their local entities are acting autonomously. So establishing some type of control is really a best practice to get a handle on things and prevent any chaos in the future. And then from there you can go back and kind of look and rationalize at all of your processes that we talked about today in this presentation.

And in terms of market knowledge, and we can’t stress this enough, just staying on top of the markets that you’re in, leveraging your banking providers, doing your research. And the AFP Country Profile Reports with PNC as the sole underwriter are really in-depth analysis on many of the countries around the world, and 32 country profiles. And it’s an in-depth report that will give you some information that you might not already know. And again, staying up to date on those countries that you’re operating in can only add value to your treasury organization.

And Bill, we do have some economic resources. Do you want to touch on that real quick in terms of what we have available?

**Bill Adams:** Sure, thanks, Anthony. So PNC Economics provides forecasts for major economies outside of the United States as well as a national economic outlook for the United States, which is updated 10 times a year and includes forecasts for U.S. dollar interest rates, short-term and long-term interest rates, as well as for growth and inflation here in the U.S.

We also have regional economic forecasts covering the metro areas in PNC’s core footprint. So we have lots of different economic resources that are useful for clients. That is available on our website at pnc.com/economic reports, or if you’d prefer to get those in your inbox, contact your relationship manager at PNC or your other business contact at PNC, and they can forward on your request to the Economics Division, and we’ll be happy to add your email address to our distribution list.
PNC also provides investment strategy research for institutional investment and wealth management. And that is published on PNC’s Investment Corner. And the easiest way for me to find that website is I just search in my favorite Web browser for PNC Investment Corner, and it pops right up. So we have a monthly investment outlook and many other publications that are a useful view on global capital markets.

**Anthony Guide:** Thanks, Bill. We actually have quite a few questions coming through, so we’re just going to take some questions now. And George, can you pass them off to us?

**George Hoffman:** Sure. Thanks, Anthony. We just want to remind everyone that if you have a question, please use the Q&A window located on your screen, or you can also simply click on the widget that says Q&A on the bottom of the lower central part of your screen. And with that, yes, there are quite a few questions. Let me try to prioritize them, and let’s start off with this.

There were some discussion, and I know you had alluded to this, Tali and Anthony, on technology solutions for international cash management. So let me try to word this. You had talked about deploying technology, whether it be a workstation, ERP, how about software as a service to improve the different aspects of cash management. Do you have some additional thoughts or recommendations in this area for the audience?

**Tali Weisberg:** Yes. When Anthony and I worked on Hay Group, we did go through a rigorous RFP process to decide on which treasury work stations suited our needs the most. While we were going through it, I would highly suggest that you insist on a demo from your top choices, using your own data. We found this to be very helpful. Also keep in mind that work stations have different focuses. Some are best for hedging activities; some focus more on netting. You need to find one that’s a good fit for your organization.

The implementation process also took us a while. It took us about 6 months, and that was considered quick at the time. So be aware that this is a process that takes time and takes internal resources as well. So it depends on how you’re going to use your internal resources and dedicate them to the project.

**Anthony Guide:** And Tali made a good point there in using your own data. And in the demo process, it’s really important to have them show you beginning-to-end workflow and show how it will work in the system. We kind of went through some of the demo process and saw some of the providers only showing us fragmented demos in certain aspects of the workflow, and we never saw full end-to-end. So being able to see that in a demo environment will establish that they can actually handle your processes today, and when you do actually implement that work station, it’s kind of a seamless transition. So it is important, that demo process, and don’t be afraid to ask for several demos because we did that, and it kind of got old after a while, but it was very important to do. So the stress, sitting through those demos over and over and making sure that you’re comfortable with that system before actually adopting it and implementing it.

**George Hoffman:** Anthony and Tali, there was a follow-up that came in while you were speaking, asking, “Would the treasury work station help with global visibility?”

**Tali Weisberg:** Yes, I actually think that one of the main reasons that we did implement the treasury work station was to gain visibility. We used the treasury work station to pull in files from all the different banks. And once those files were compiled into the work station, we were able to put them in different categories and different buckets by entity, and each entity was able to then go in and fill out their forecast. But they already had that base data from the bank feed, which included actual data. So that helped a lot in terms of visibility for your current day positions as well as working towards a forecast. Some treasury work stations also keep track of historic data that you can use to trend.
And in terms of forecasting, we saw a tremendous improvement when we implemented the work station, because you have your local finance managers logging on to just the website and seeing their information from an actual perspective. And being able to look at that, use that to forecast, it really does improve the level of forecasting that we had, which we were using Excel spreadsheets prior to that, and they only can go so far, especially when you’re comparing things and trying to consolidate and roll things up at the headquarter level.

Thank you, Anthony, there’s a couple of questions that popped up on SWIFT. One, on a SWIFT for corporate, is there a minimum size to use SWIFT for corporate? And then there was also another question with regard to some of the developments that have been coming out with SWIFT as of late.

Okay, so I’ll touch on that, the first one. In terms of the size recommendation and who is eligible or who is a good candidate, SWIFT has two main options for connectivity. So you can be a SWIFT for corporate through a hosted solution, which is kind of the Cadillac model, where it will be hosted on your environment. But they also have a lighter version also, called Alliance Lite2, so kind of a cloud-based SWIFT connectivity. So there are two options available. And we tend to see companies as small as having five global banking providers leveraging the SWIFT network. But typically we’ve seen that SWIFT was reserved for top, large corporate, billion-dollar-sized company with many countries, many bank accounts. But we’ve seen as little as five banking partners connect through SWIFT. So there really is no size requirement. It’s just a matter of what you’re trying to do through SWIFT. And if you’re trying to centralize transactions and if you have the volume behind that to rationalize and justify SWIFT, then it could be viable for your company.

In terms of the innovation side, SWIFT is actually undergoing, and they’re in the middle of an innovation, the GPI Initiative, which we look at it as kind FedEx tracking on payments. So I’m sure a lot of you in the audience today have sent a wire across border, and that wire either took so long to get to the beneficiary, or it ended up at the beneficiary with fees taken out. You don’t know why those fees were taken out, and the beneficiary of those funds was not necessarily happy that fees were deducted. So this GPI Initiative is really a push to add some type of tracking capability so remitters can see a full, end-to-end workflow of the transaction as it goes throughout the correspondent banking network and gets to that beneficiary, as well as transparency on fees. So SWIFT is moving towards that solution and is actually working with banks today, and some have already adopted the GPI. So it is coming, and it’s going to add that transparency behind cross-border transactions.

Thanks, Anthony. Here’s an economics one. Bill, I’m going to turn to you on this one. It’s on NAFTA. And that, obviously, is quite timely and all of the headlines we’ve been seeing lately that the negotiations have been kicked off. And what was asked was if you could discuss some of the impacts, potential business flows, currencies or the different economies — Canada, the U.S. and Mexico — if there are changes to NAFTA. So if you could address that.
Sure, George. So I think the way I think of the issue of NAFTA right now is contrasting the situation where we stand today in late August with where we stood in January of this year, when the U.S. government said that it was going to — or the position was they wanted to totally rewrite NAFTA or unilaterally withdraw from it if they couldn’t get a total rewrite that would reduce the U.S. bilateral trade deficit with Mexico.

Since then, I think the position of the Mexican and Canadian governments, and in particular the implicit threat that they could — those governments would reduce market access for American agricultural exporters to those countries — has caused the U.S. government to soften its tone a bit on these negotiations. So I think if we were going to unilaterally withdraw from NAFTA, my guess is that it would have already happened. It seems much less likely now than it did at the start of this year.

I think we are in the middle of renegotiation, and there are parts of the trade agreement that will likely be updated. But I think it’s more likely to be an update rather than some sort of wholesale restart with how those trading relationships work.

In terms of what it means for currencies, the dollar has depreciated significantly since January, that period of uncertainty I mentioned, which is another way of saying that the Mexican peso and the Canadian dollar are much stronger against the U.S. dollar now. And that is in part because financial markets are pricing in a lower likelihood of the U.S. walking away from NAFTA, some massive change in trade policy. And it’s also because financial markets are factoring in a lower likelihood of a major fiscal stimulus out of the U.S. government.

Thanks, Bill. So there’s a question that came in on trying to manage payments centrally and recommendations for clients — for countries, that is — that still require checks. So let’s talk about that. I’ll address it, actually. So in fact, and I’ll do it from both the payments and the receipts perspective.

So on the payments end, obviously, many of the developed economies and even emerging markets are moving to electronic payments. So it’s becoming a lot easier to manage payments electronically. There are also means to do it — for instance, if you look at Canada and certain other markets, there’s a way to work with banks where you can send them a file transmission, and they will generate the checks directly and drop them into the mail system. So that is available in a number of markets. In certain instances, I’ve heard of banks accepting a FileAct, which is a specific type of file if you’re a SWIFT member, with that type of data in it, and then opening it up and creating those checks. So on the payments end, it’s a little bit more complicated to manage that centrally. But if there is that capability in the local market, that is definitely something you could explore.

On the receipt end, on the incoming end of payments, obviously Lockbox in certain markets is still an option. For instance, we have many clients in Canada that use Lockbox. There’s still quite a bit of paper in that market on the B2B space. We see FOs in the U.S. dollar and the Canadian, which there are dual clearing up in Canada. And in certain European markets, we still see Lockbox, electronic Lockboxes, that compile both paper and receipts.

Plus remote deposit solutions and check truncation solutions are starting to pop up everywhere. The Canadian market, obviously, has started to introduce that, and that’s coming on, we know, in the UK and Australia and certain other markets. There are remote deposit solutions that are coming on. In most instances, a caveat there is that they want you to use those remote deposit solutions in the country of operation due to compliance and other things. If it’s going cross-border, that may cause complexity. And those are, of course, issues we could talk to you more about if you want to discuss that more offline on a country-by-country basis.

I’ve got another question here with regards to — Bill, I’m going to ask you this again. We had a few questions on China. I know that Anthony was talking a little bit about the systems, and there’s so many changes going on in the China market. Could you give us an economic perspective of what you see for China?
Sure, George. So Anthony and Tali gave a great discussion of what’s going on in terms of liberalization of the currency over the last few years. The only thing that I would kind of add to that is that financial system reform in China is often two steps forward, one step back. And 2017 has been a year of one step back in China, where at the beginning of this year, the Chinese government implemented a number of restrictions on capital outflows, including quotas on individual payments made overseas by Chinese nationals. Recently, they gave instructions to large state-controlled and state-influenced companies that they should be less aggressive in making overseas acquisitions, which would use up the country’s foreign reserves, and similar steps to reduce the outflow of cash from the Chinese economy and reduce the rundown in their foreign reserves.

Foreign reserves peaked at $4 trillion in 2014. Now they’re down to $3 trillion U.S. They sort of tread water this year because of those tighter capital outflows. So that change in the high-level macroeconomic policy is, I think if you’re trying to take a forward-looking perspective, I, and I think most macro economists, if you say, “What’s the outlook for Chinese capital markets 15 years down the road?” we’d say, “Well, probably by then China will have free flows of capital across its border, more or less free flows similar to what you have in more market-oriented emerging markets.”

I think where we are in 2017 is we’re making slower progress towards that 15-year-off goal than it looked like we would in 2015 and 2016, when China was opening its stock market and its bond market to foreign investors. So those restrictions on capital outflows, I think, do in some ways affect the environment for American companies as they’re thinking about what payments can they get out of China, and how can they do it, how fast can they do it? But in terms of the overall economic outlook, I think it’s one reason why China’s probably going to stay on a stable keel in economic growth terms in 2017 and why the exchange rate is probably going to be relatively stable against the U.S. dollar going forward.

I think if we see the Fed continue to raise U.S. interest rates, we could see some modest depreciation of the yuan against the dollar in the second half of this year, or I guess the fall and winter of the closing months of this year. But I think the sort of precipitous depreciation of the yuan of 10% or 20% in a one-off move that seemed like it was a risk in early 2016 really looks like it’s extremely unlikely in the near term.

Thanks, Bill. We had a couple of questions. I’m going to try to summarize them, because they’re all pointing towards the same direction, pretty much, on treasury structures. So Anthony and Tali, I’m going to address these to you. The questions basically say, asking — one of them was, “How do I start to build an international treasury function?” And also another one would be, “How do I better manage a current treasury structure that is decentralized?” So those are on the structure for expanding and building that function out as well as getting their arms around to put more controls or centralization in one that is highly decentralized.

Thanks, George. I’ll take that one. So what we have done, we’ve run many diagnostics with our clients, and those diagnostics really dive into each of the areas we talked about today in the presentation. And as you peel back the onion, as I mentioned, you uncover more information and more inefficiencies that are happening today, and you can work towards correcting them. So I think the best first step is to really do that rationalization exercise on what’s happening today. And then from a control perspective, we talked about tap policies and procedures, and Tali gave some information on how she approached the policy aspect in getting those policies in place to stem any future kind of chaotic activity that you don’t want to happen. I would recommend those to be kind of the two first steps to get a handle on a decentralized world and moving towards more of a centralized, or more, even, of a hybrid kind of structure.
Thanks. So I think with that, we’re going to start to wrap up here. We’re out of time. I wanted to thank again Tali and Anthony and Bill for providing their insights and perspectives on international best practices. I want also to say that we had a number of questions that we really couldn’t get to. In fact, there were a couple that were on Brexit and what the companies are looking at to do. And I just wanted to point out that on October 27, we’ll have Courtney Roberts from our London office of PNC, along with a number of other team — I’m sorry, on the 26th; I was mistaken — speaking on Brexit and the impact to companies and what you need to be thinking about and planning. So please, you’ll get an announcement on that. Stay tuned for what you’ll learn there.

A PDF of today’s presentation, as well as a CTP certification credit, is now available to you to download. You can look at the green resource list file folder widget, which is in the lower left portion of your screen, so you can download that from there.

Also, as I said earlier, we have a short survey. There’s a link to that on your screen. If you could kindly spend a few moments to give us some feedback on how we did today and on some other future topics, we would truly appreciate that.

And with that, this will conclude our presentation, and thank you very much for joining us.