

The Asian Treasurer Webinars

Dreaming big: establishing an in-house bank and an FX trading on behalf of structure in Asia Pacific



Presenter

Jarno Timmerman
Head of Treasury SEAP
AkzoNobel



Facilitator

Eleanor Hill
Editorial Director
Treasury Today

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Inhouse bank and FX trading on behalf in restricted economies



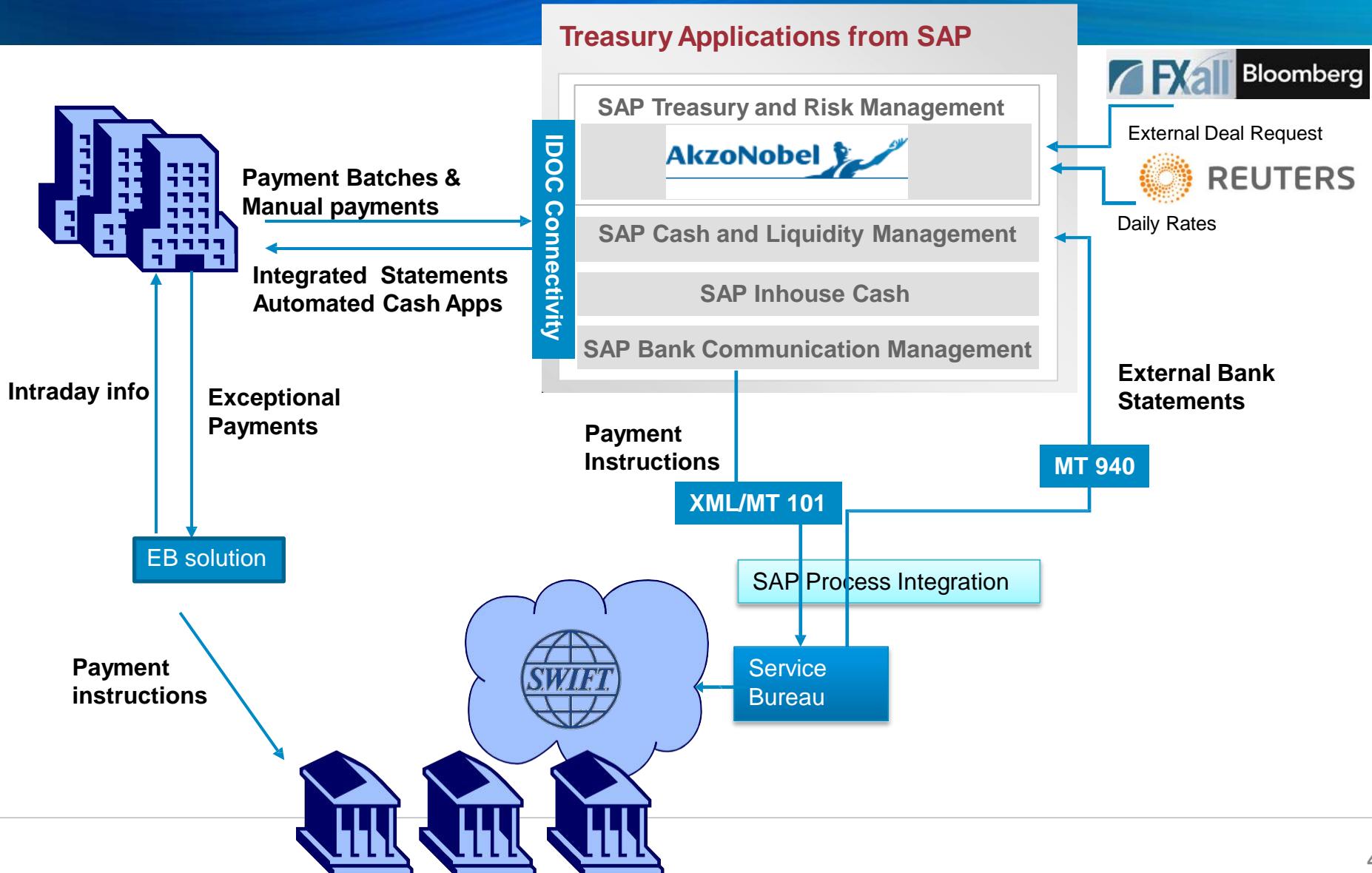
27 May 2015

Jarno Timmerman
Head of Treasury

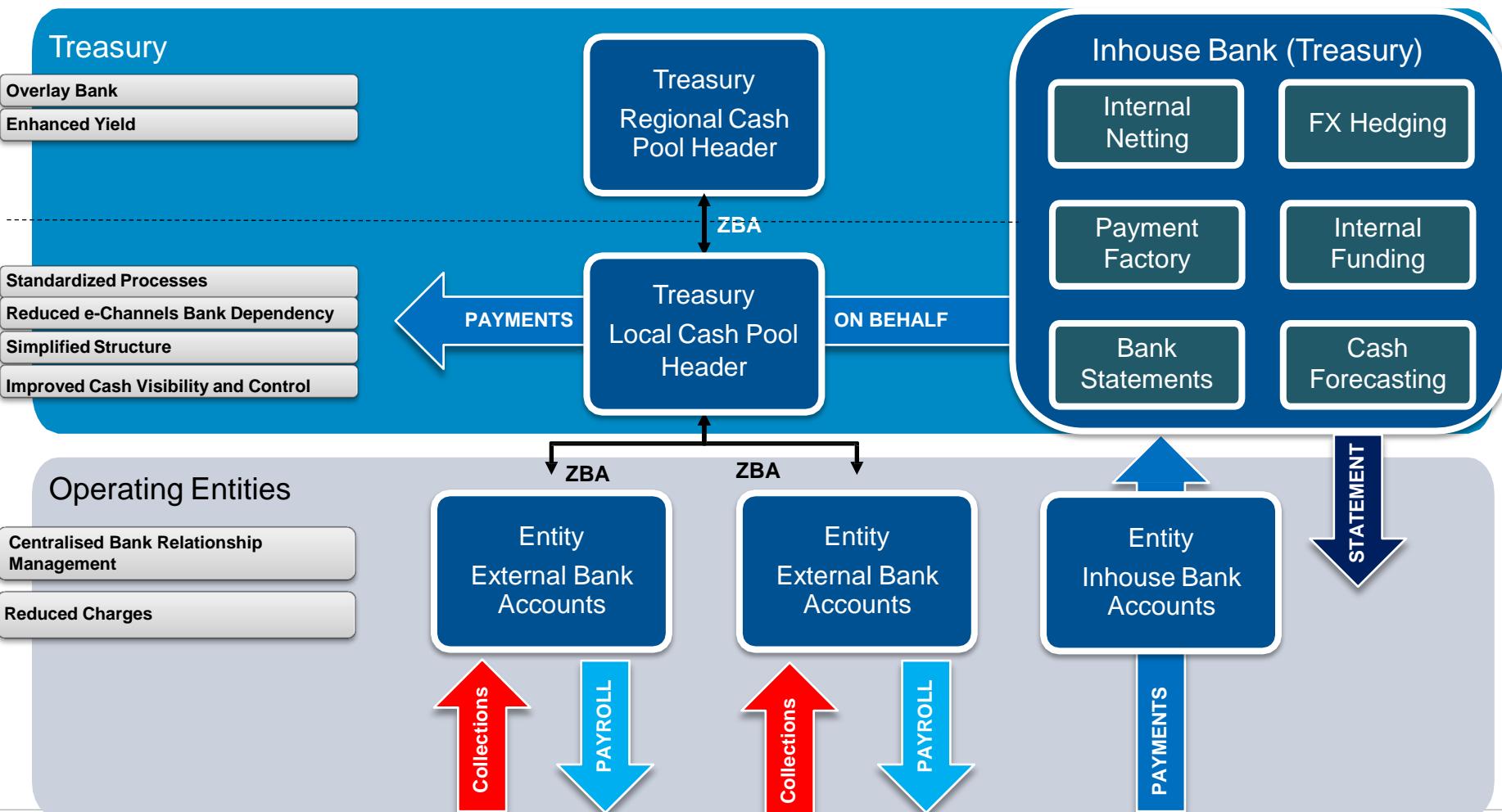
Agenda

- ✓ Inhouse bank concept, structure and system:
 - ✓ Liquidity Management
 - ✓ Payment Factory
 - ✓ Corporate Finance
 - ✓ FX Hedging
- ✓ FX trading on behalf in restricted economies
- ✓ Conclusion
- ✓ Q&A

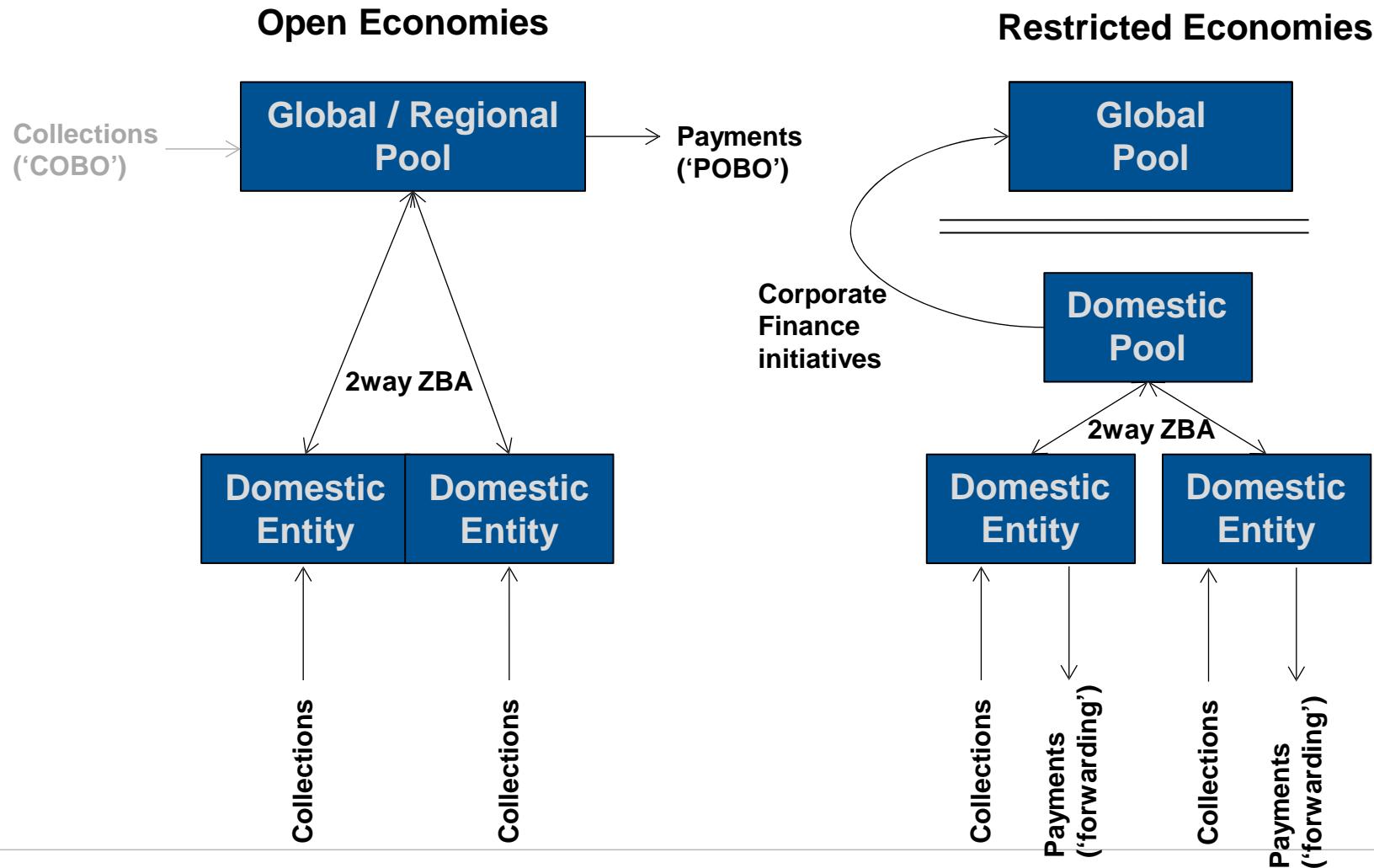
Treasury System Architecture



Global Design Approach to Liquidity Management (open economies)



Liquidity Management in AkzoNobel



Payment Factory (PF)

Due to the regulated landscape of Asia, the region is split into Open and Restricted Economies:

Open:

- **Australia, New Zealand, Singapore, Hong Kong**
- In open economies, it is allowed to ‘**pay on behalf of**’. This means that payments will be paid from an Akzo Nobel NV account, and settled internally (via an Inhouse Bank account in SAP Treasury) from the original paying entity’s account.

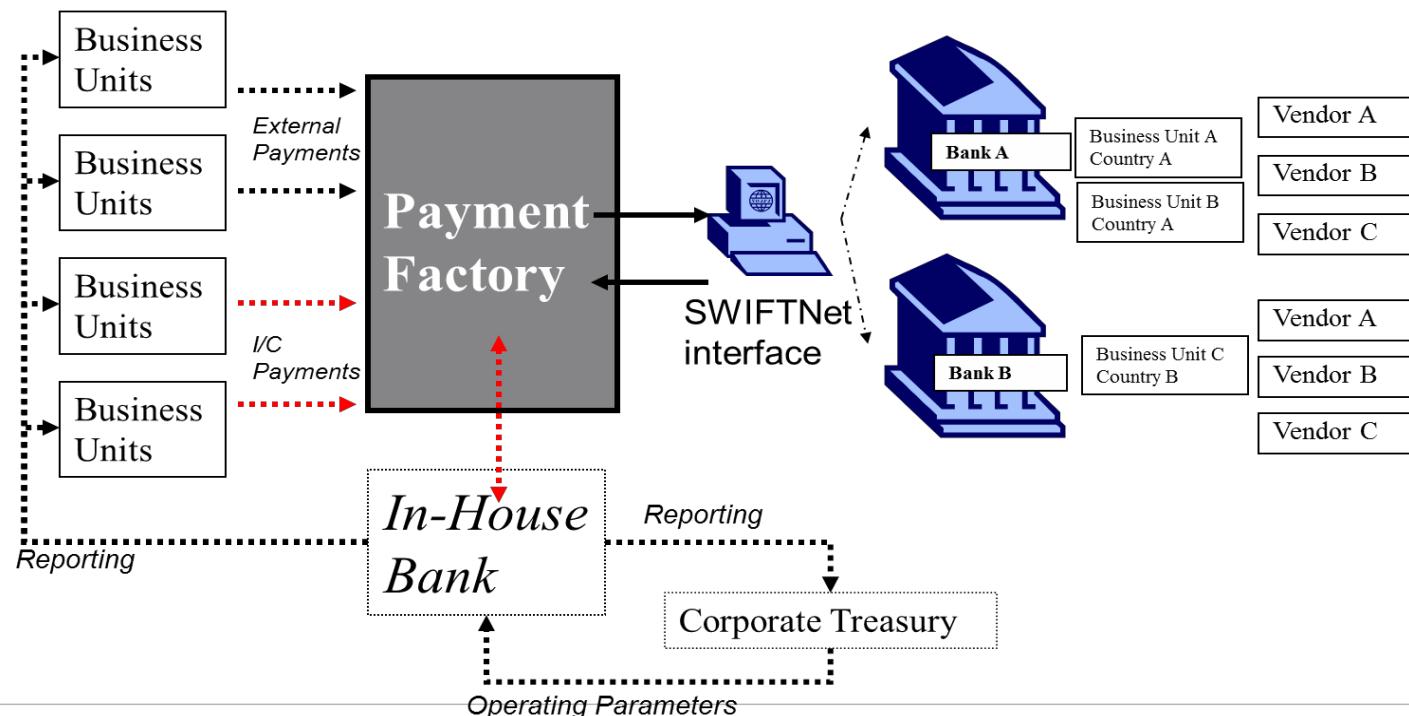
Restricted :

- **China, India, Thailand, Taiwan, Malaysia, Indonesia, Sri Lanka, Vietnam, Korea, Philippines, Bangladesh, Pakistan, Papua New Guinea, Japan ****
- In restricted economies, “payment on behalf of” is either not allowed or highly regulated. In these countries, PF will essentially be payment forwarding. Payments will be made from an external bank account in the name of the local entity and the payments will be mirrored on an internal account in SAP (**‘payment forward’**).

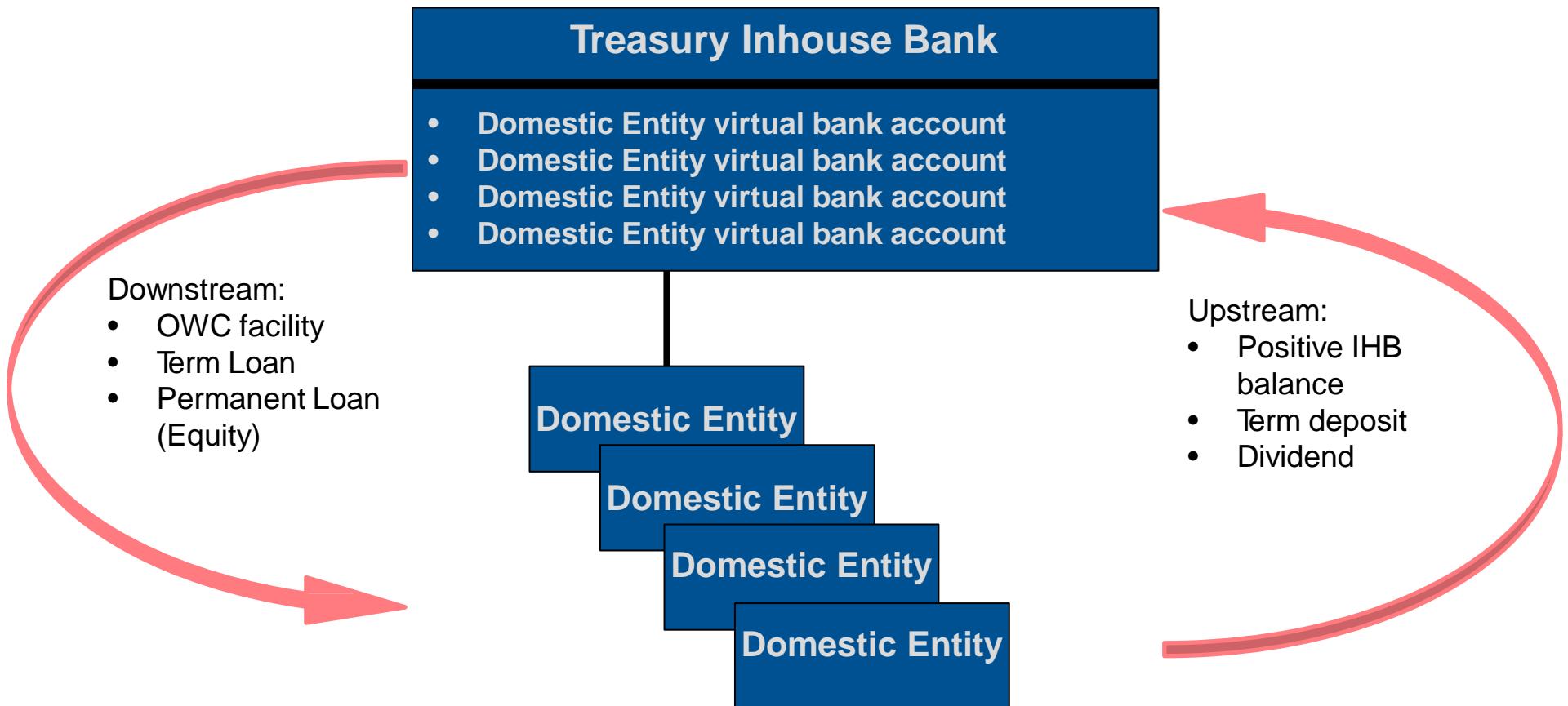
Payment Factory (PF) cont.

- Payment factory functionality allows to **centralize** AkzoNobel's transaction flow and bank connectivity, while keeping the **responsibility** for the individual transactions with the local entities.
- One of the key benefits of PF implementation is enhanced cash management due to more efficient utilization of global currency pools. Other major advantages includes **process standardization, cost savings, flexibility and control of the payment and receipt process (smart routing), including netting and processing of internal payments.**

- Payment factory and collections factory and the ability of payment warehousing will also improve the **ability of accurate short term cash flow forecasting**

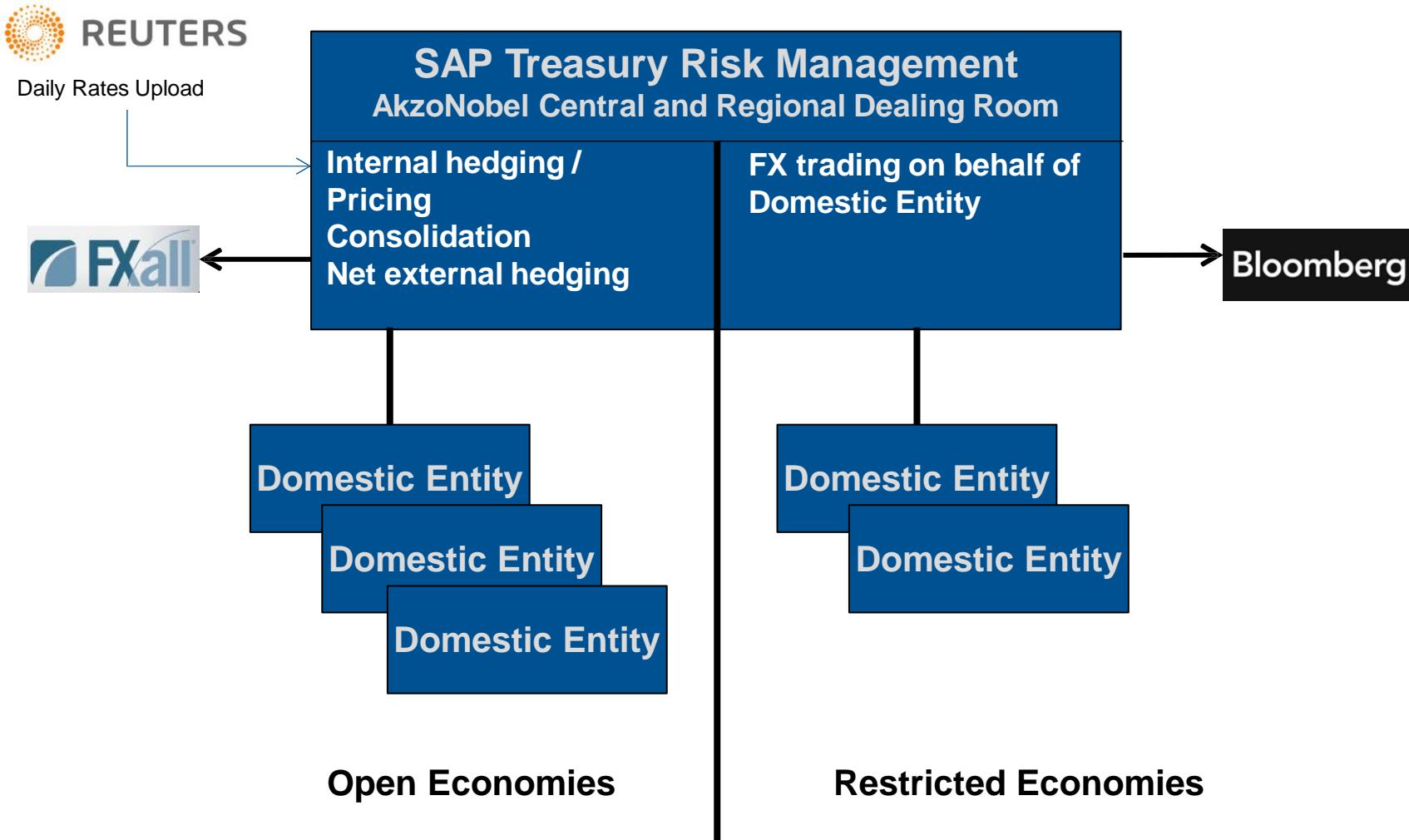


Internal funding / corporate finance mainly for open economies



All in line with 'at arms length'-principle and agreement with tax authorities on transfer pricing, using our intercompany loan pricing model

FX hedging

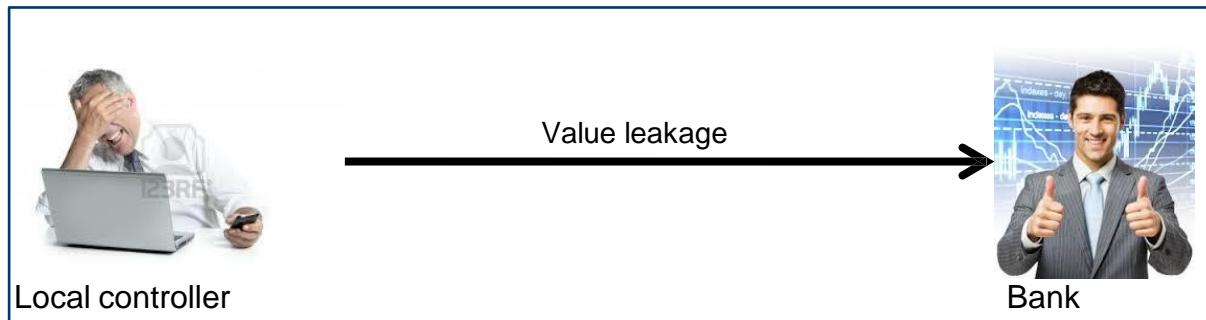


Previous practice for FX hedging execution

The local controller contacts a local (cash management) bank, via phone, email, excel sheet.
The bank can take the whole day to solely price the FX transaction.



- minimal expertise of FX market
- no potential netting or consolidation of group positions
- no central visibility of groups FX footprint
- no price tension
- under usage of global bank relationship group
- no standardization or simplification on a group level
- weak compliance and reporting
- no visibility and standardization of legal documentation



New process for FX hedging execution: 'FX trading on behalf' (or agency trading)

The controller contacts a regional treasury centre by entering the FX order in SAP. Treasury uploads the FX order in Bloomberg FX GO for multi-bank electronic execution. The FX transaction will be executed with the bank that provided *best price* via Request For Quote.

Treasury expertise of FX market, less BU FTE occupied with FX

Potential netting or consolidation of group positions

Better visibility and standardisation of legal documentation

More standardisation and simplification on a group level

Central visibility of groups FX footprint

Usage of global bank relationship group

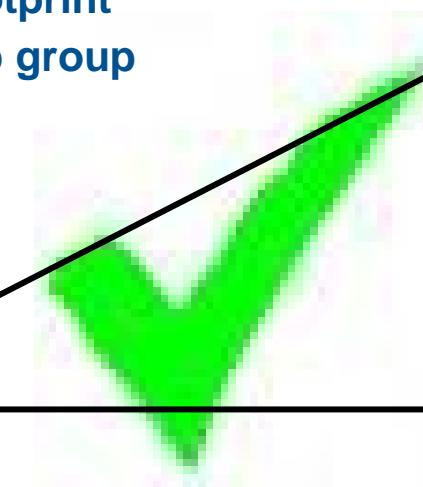
Access to better liquidity

Better compliance and reporting

Price tension



Local controller



Regional

Treasury center



What's in it for us?

Con

Pro

More efficient,
standardised and
expertise process

Full central visibility and
control over global FX
risk

Better utilisation of
global bank group,
access to liquidity

Price tension

Potential more complex
confirmation and settlement
process



What is so 'revolutionary' about the concept

- Fully *automated STP* FX execution over *multibank electronic* trading platform in *restricted countries*
- Empowerment of the *Regional Treasury Centre* to support this process with 'on ground' understanding of entity requirements and the local FX markets in the same time zones
- Agreed with the supporting banks, *no FX facility*, just 'long form confirmation'

Conclusion

The inhouse bank and FX trading on behalf gives:

- ✓ Standardised and simplified processes and discipline
- ✓ Full control, access and visibility over the groups cash, including better cash flow forecasting
- ✓ Full control, access and visibility over FX risk footprint
- ✓ More efficiencies: consolidation, intercompany netting, FX position netting, flexibility in smart payment routing, optimizing corporate finance agenda
- ✓ Cost savings

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Questions

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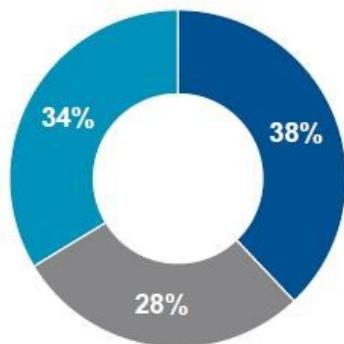
Backup

AkzoNobel today

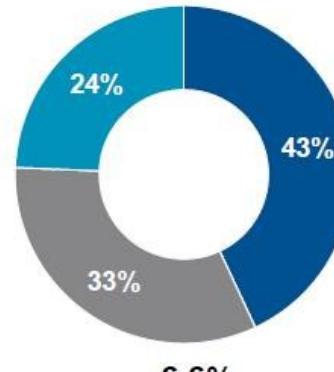
- Revenue €14.6 billion
- 49,560 employees
- 44% of revenue from high growth markets
- Major producer of Paints, Coatings and Specialty Chemicals
- Leadership positions in many markets



Revenue by Business Area

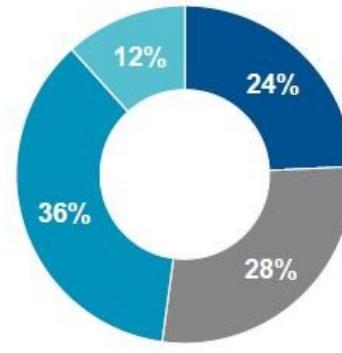


Operating income by Business Area



6.6%
Return on sales
(operating income/revenue)

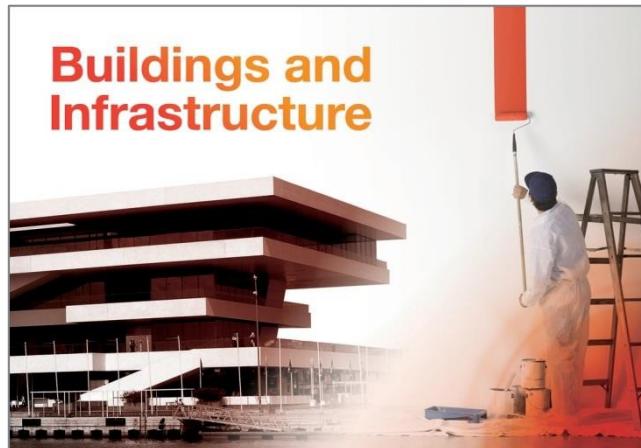
Invested capital by Business Area



9.6%
Return on investment
(Operating income/average
12 months invested capital)

- Performance Coatings
- Decorative Paints
- Specialty Chemicals
- Other

Our end users

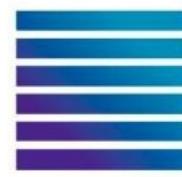


How does Treasury fit into the new group strategy



Strategic focus areas

- Care for the customer
- Reduction of product and process complexity
- Cash and return on investment
- Embedded safety and sustainability
- Diverse and inclusive talent development



Processes

- People, process and product safety
- Operational control cycle
- Continuous improvement
- Innovation
- Procurement
- Talent management



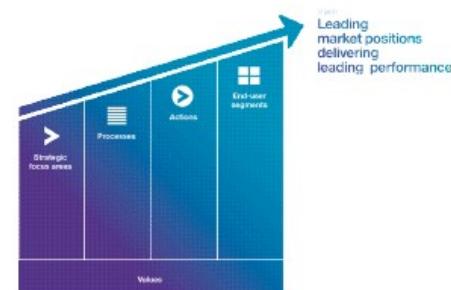
Actions

- Deliver dependably
- Grow organically
- Innovate
- Simplify
- Standardize
- Continuously improve

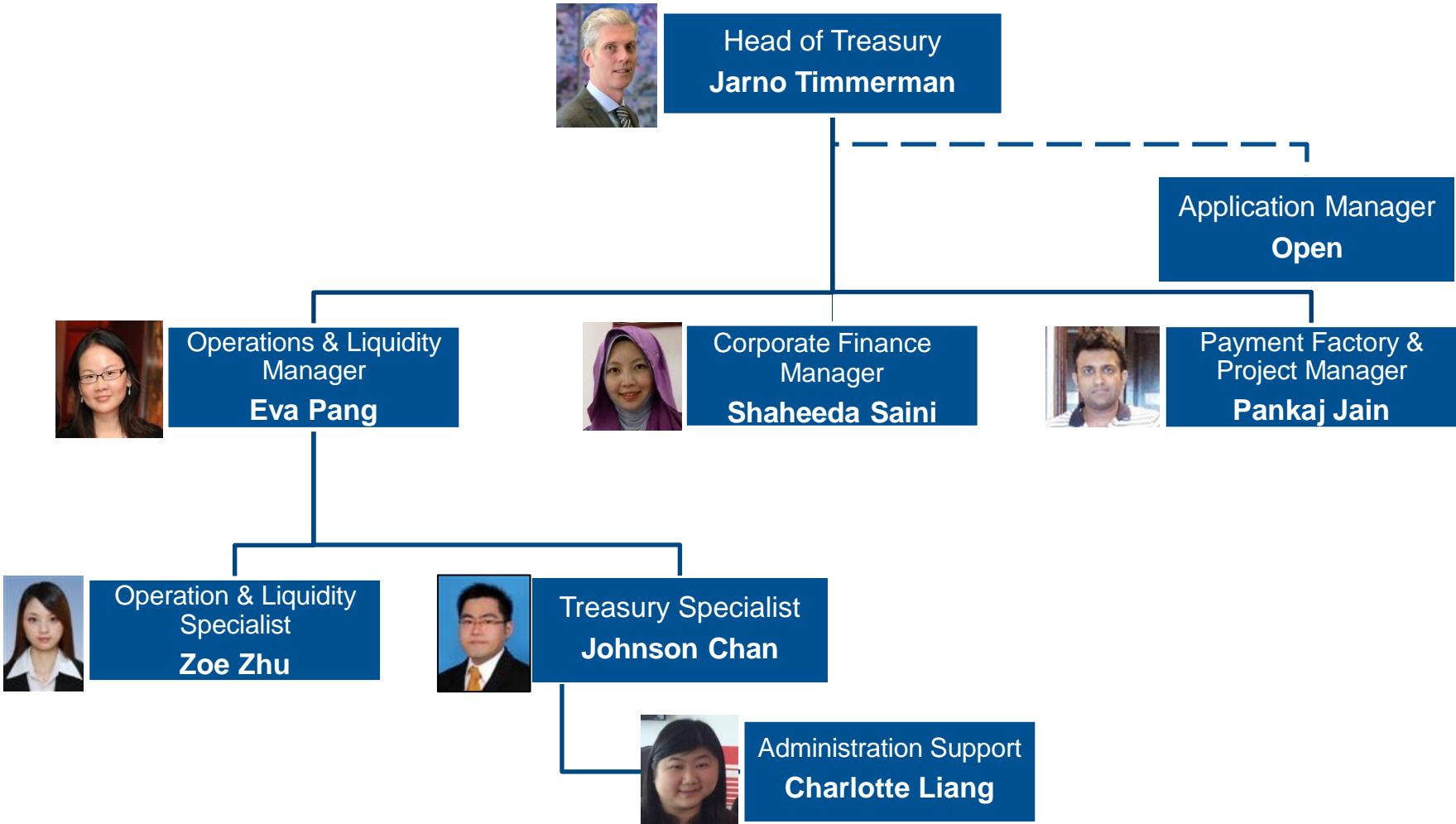


End-user segments

- Buildings and Infrastructure
- Transportation
- Consumer Goods
- Industrial



Treasury team Singapore



Scope

Center of Excellence



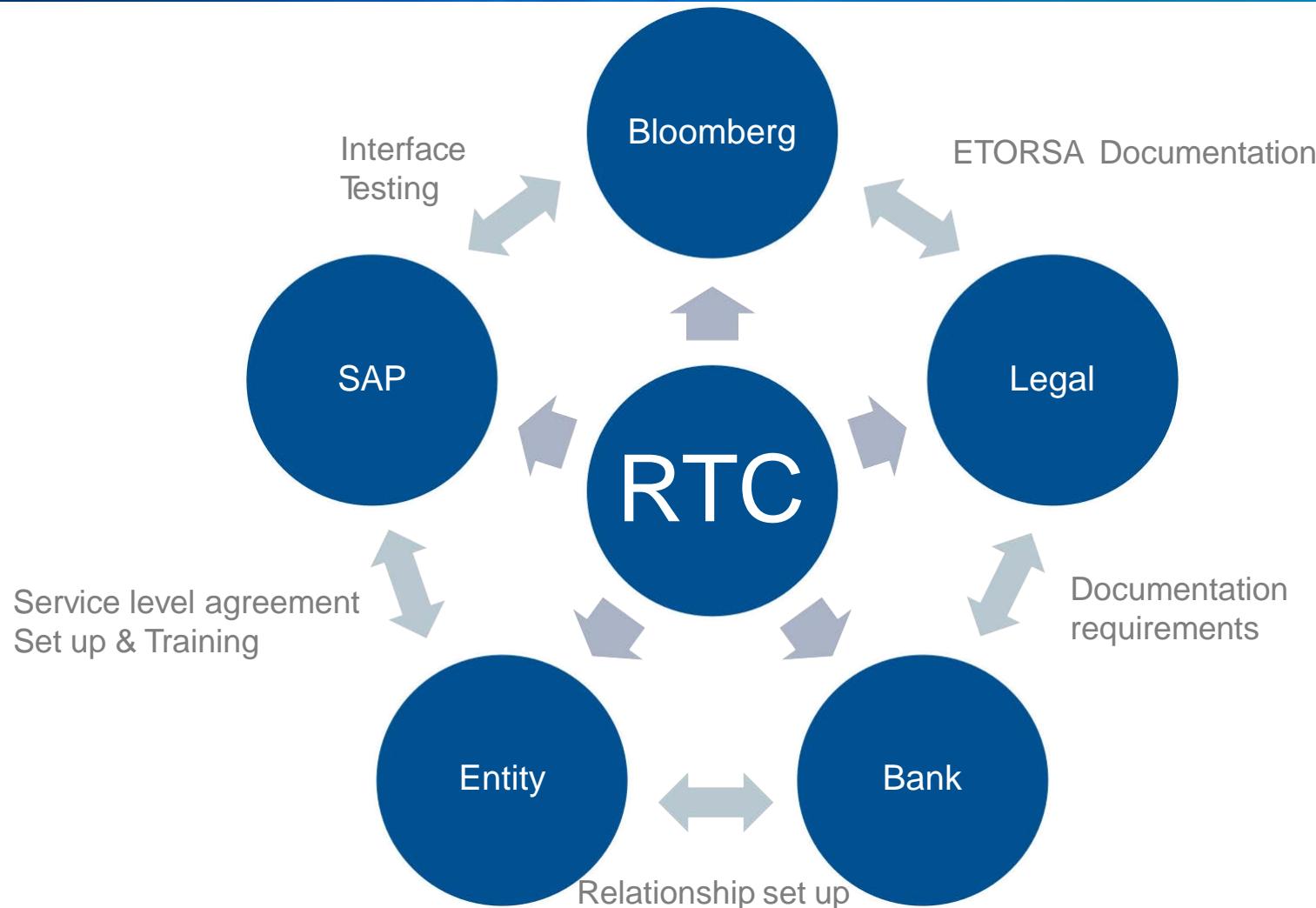
South East Asia Pacific



Including 'new markets':

- ✓ Bangladesh
- ✓ Cambodia
- ✓ Laos
- ✓ Myanmar
- ✓ Philippines

Implementation process



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Thank you all for your participation

This webinar will be available shortly at

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