Latin America Integration into Corporate Pooling Structures

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Treasury and Trade Solutions
Understanding the Landscape in Latin America

A balanced approach of navigating through challenging external factors and opportunities while refining internal disciplines to enhance optimization of liquidity and risk management in Latin America.

Taxes

Regulatory

External Factors

Optimizing Liquidity Mgmt. in Latin America

People, Process, Technology

Internal Strategy

Cash Forecasting and Funding (and Repatriation) Strategy

Risk Mgmt. (FX, Interest Rates etc.)

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Poll Question 1: What is Your Top Reason for Limiting LatAm in a Regional or Global Cash Pool?

Choose the best answer.

A. Regulations and Taxes
B. Organizational readiness
C. Organizational prioritization
D. Other
External Factors: How Restrictive is a Market?

Capital controls take various forms across the countries resulting in differing challenges and methods to consolidate or optimize liquidity.

Mexico
- No exchange controls
- Intercompany lending allowed cross border
- Full range on-shore liquidity options
- Resident participation in off-shore liquidity structures

Colombia
- Exchange controls
- Debit taxes for on-shore liquidity management. Concessions for off-shore
- Central Bank Reporting
- Off-shore FCY account segregation required

Argentina
- Exchange controls and restricted convertibility
- Fiscal taxes for on-shore liquidity management
- Central Bank Reporting
- Off-shore USD account allowed

Chile
- No exchange controls; note reporting requirements
- Intercompany lending allowed domestically and cross-border
- Off-shore accounts for residents in FCY allowed

Brazil
- Exchange controls
- Approvals and Documentation requirements
- Central Bank Reporting
- Intercompany lending comes with a hefty tax cost
- BRL only on-shore

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There are significant tax considerations with any type of intercompany or cross border lending. Seek additional tax advice from your tax advisors.
What is the Tax Landscape?

Diverse tax regimes across the various countries challenge common standardized liquidity management practices. Some form of customization can be expected …

Tax Barriers on Intercompany Repatriation Hurdles Variability Across the Markets

- High WHT on Interest and Dividends
- Transfer Pricing, Thin capitalization, Deductibility
- Limits on foreign tax credits
- Debit and Financial Transaction taxes
- Characterization and CFC Rules
- Lack of consistency

Trends we Observe in Latin America

- Increased dialogue with Tax about what/if possible
- Strategies are dependent on the tax posture of the individual company
- Integration with in tax friendly locations (e.g. Panama) or abroad (e.g. Netherlands)
- Periodic cash conversion and concentration in light of taxes (and regulations)
- More focus on limiting the amount of liquidity in the country …

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Poll Question 2: How would You Best Characterize Your Treasury Structure?

Choose the best answer.

A. Highly centralized global Treasury, with staff primarily at headquarters
B. Regional treasury centers, with reporting directly into global Treasury
C. Confederation of regional treasury and finance centers, perhaps with matrix reporting into Treasury
D. Focus remains on managing treasury and finance locally country by country
What do Companies do? Here’s what we See:

- **Liquidity Management**
  - CF Forecasting
  - A/c Structure
  - Local Pooling
  - Interest Optimization

- **Sub. Funding and Repatriation**
  - Intercompany Funding
  - Dividend Repatriation

- **Working Capital Management**
  - Process Centralization
  - DSO / DPO Opt.
  - Netting Center

- **Trading Model**
  - Mgmt. Fee and Royalties
  - Procurement Center
  - Re-invoicing Center
  - Special Vehicles
  - Renting Liquidity

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Internal Strategy: Developing a Funding Strategy

Strike a fine balance between internal and external, local and off-shore funding by gravitating towards one end or the other depending on the current political, economics and geopolitical situation.

- Objectives
  - Maintain sufficient in-country liquidity to meet obligations
  - Ensure access to sufficient short-term and medium/long-term finance
  - Optimize the use of cash within the location or in a pooling structure (if allowed and cost-effective)
  - Explore changes to trading model to further reduce liquidity on-shore
  - Manage risk appropriately and be as naturally hedged as possible

Trends we Observe in Latin America

- Pooling USD off-shore for liberal and semi-restricted markets
- Alignment with tax/regulatory and reporting/compliance
- Off-shore USD for most markets except where USD is required for local transactions or settlement
- Local financing vs. internal x-border funding
- Encouraging customers to pay in USD (and off-shore if allowed)
- Adopting re-invoicing centers, e.g. Panama

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Internal Strategy: Deploying Cash Forecasting

An effective cash flow forecasting process will translate into better management of positions, placement of available liquidity within policy, and management of risks.

Selecting the Best Approach for Your Company

- **Bottom up**
  - Operating oriented
  - Forecasting commercial flows and incorporating business intelligence from the field
- **Top down**
  - Treasury oriented
  - Forecasting large predictable items
  - Applying statistical and other types of trend analysis

- **Daily**
  - Active position management to minimize overdrafts and other debt
- **Weekly**
  - Most practical for a large global organization to update detailed forecast of cash flows
- **Monthly**
  - Aligned with budgeting process

- **Process**
  - Legal Entity
  - Cash flows by currency
  - Consolidated
  - High level forecast

- **Detail**
  - Next Month/Quarter
  - Short-term outlook for near term cash flows
  - Next Quarter/12 months
  - Longer term outlook for projections and large known cash flows

- **Frequency**

- **Outlook**

Cost/benefit of time and resources to execute the CFF process vs. benefit of higher accuracy and frequency of forecasts

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Poll Question 3: Which Describes Your Bank Relationship Strategy in Latin America?

Choose the best answer.

A. More than one local banking partner per country
B. One strategic local bank per country
C. Core regional bank combined with one strategic local bank per country
D. One bank for the entire region

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Bringing it Together: Banking Rationalization

Companies usually consider banking relationships and arrangements in the context of their longer term business and geographic needs, building in contingency and capability to mitigate new risks.

### Trends we Observe in LatAm
- “The last frontier for rationalization”
- Minimizing counterparty risk to core banks
- Exceptions to maintain required coverage

### Bank Relationship Outcomes
- Clear Communication
  - Company Needs and Appetite vs. Bank Relationship Strategy and Capabilities
- Dialogue to align KYC with KYB
  - Bank perspective on changes and value of business
  - Adequacy of provider returns vs. banking requirements
- Leverage bargaining power across all dimensions

### Know Your Company (KYC)
<table>
<thead>
<tr>
<th>Needs</th>
<th>Appetite</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Funding</td>
<td>• Wallet to allocate</td>
</tr>
<tr>
<td>• Treasury objectives</td>
<td>• Counterparty risk</td>
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<tr>
<td>• Operating services</td>
<td>• Buying model</td>
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</tbody>
</table>

### Know Your Bank (KYB)

#### Relationship Strategy
- Returns
- Wallet share tier objectives
- Balance sheet appetite

#### Capabilities
- Product depth and reach
- Advisory

#### Other
- Coverage model
- Performance evaluation

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Bringing it together: Centralized Management and Execution

Accurate cash positioning (and forecasting) enables the most product use of locally held cash. Treasury and bank tools facilitate centralized management at market pricing.

- Objectives
  - Visibility
    - Streamline providers and processes
    - Local management within global/regional defined policy OR global/regional management
    - Leveraging technology to enable visibility and control prior to execution of:
  - Money Markets/Investments
    - Integration with daily cash positioning and active management of daily positions
    - Segmenting cash portfolio
  - Foreign Exchange
    - Compliance with differing regulations and procedures
    - Management of risk in volatile markets

Trends we Observe in Latin America

- Corporates striving to be more “real-time” and make data more actionable. Pockets of success
- Strives to more effectively manage counterparty risks
- Seeking improved interest rates from core providers
- Exploring other investment instruments beyond bank deposits
- Increased adoption of centralized FX management and electronic trading
- Settlement of USD offshore in FX transaction to simplify liquidity management

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Centralized Liquidity Management in Latin America

Solutions vary by complexity of the market.

- **Liberal**: Possible structure for countries where both LCY and USD are freely transferable e.g. Mexico
- **Semi-restricted**: Possible structure for countries where LCY is restricted, but USD is transferable with differing restrictions, e.g. Colombia
- **Restricted**: Possible structure for countries that restrict transferability of both LCY and USD e.g. Argentina

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Case Study (1): Global Energy Company

Global multi-national corporation operating across a spectrum of Latin America countries sought to centralize cash and liquidity management with one bank while managing from the US.

- **The Challenge**
  - Multiple banks across various markets
  - Limited HQ visibility and control of local operations
  - Trapped liquidity and inefficient use of financial resources

- **Citi Solution**
  - Online, web-portal based solution for centralized off-shore management
    - Cash Visibility, Positioning and Forecasting
    - FX Management and local currency funding
  - Streamlined and automated pooling where allowed
  - Integrated multi-banking where required
  - In-country optimization interest conditions combined with local investments

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**The Results**

- Increased investment income of $250k p.a.
- Significantly reduced local borrowing costs
- Improved risk, controls and financial discipline

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### Centralized Global Visibility and MM and FX Execution from IHB

- Countries: Mexico, Ecuador, Peru, Trinidad and Tobago, Venezuela, Brazil, Argentina, Colombia, Argentina
- Currencies: MXN, USD, PEN, TTD, VEB, BRL, COP, ARS

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Case Study (2): Global Manufacturing Company

Regional Treasury Center in Brazil coordinating activities through the in-house bank incorporated to centralize management of liquidity and foreign exchange.

- **The Challenge**
  - Operating across 10 markets in Latin America
  - Incorporating multiple companies and countries in Luxembourg based In-house Bank
  - Complying with standards and scorecards set by global treasury

- **Citi Solution**
  - Centralized payments processing in IHB and payment factory
  - Consolidation of liquidity for centralized management of investments and FX
  - Consolidated data integrated to IHB and treasury management system

- **Next Steps**
  - Payment On Behalf Of
  - Incorporation of more countries into centralized process and potentially intercompany liquidity management structure

**The Results**

- Reduced working capital
- More effective debt management
- Improved governance and control

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Web-based Decision Support Tools from Citi

Citi Treasury Diagnostics
Global benchmarking platform providing treasury insights based on data from hundreds of multinationals

Bank Rationalization Tool
Project management and data gathering tool to facilitate corporate bank rationalization projects

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Citi works with its clients in greenhouse gas intensive industries to evaluate emerging risks from climate change and, where appropriate, to mitigate those risks.

efficiency, renewable energy and mitigation