

# AFP® Annual Conference

November 7-10, 2010 | San Antonio



ORIGINAL  
ESSENTIAL  
UNBIASED  
INFORMATION



## European Banking Restructure Project: Achieving New Efficiencies



**Andrew Houghton**  
Vice President, Treasury  
ProLogis  
ahoughto@prologis.com



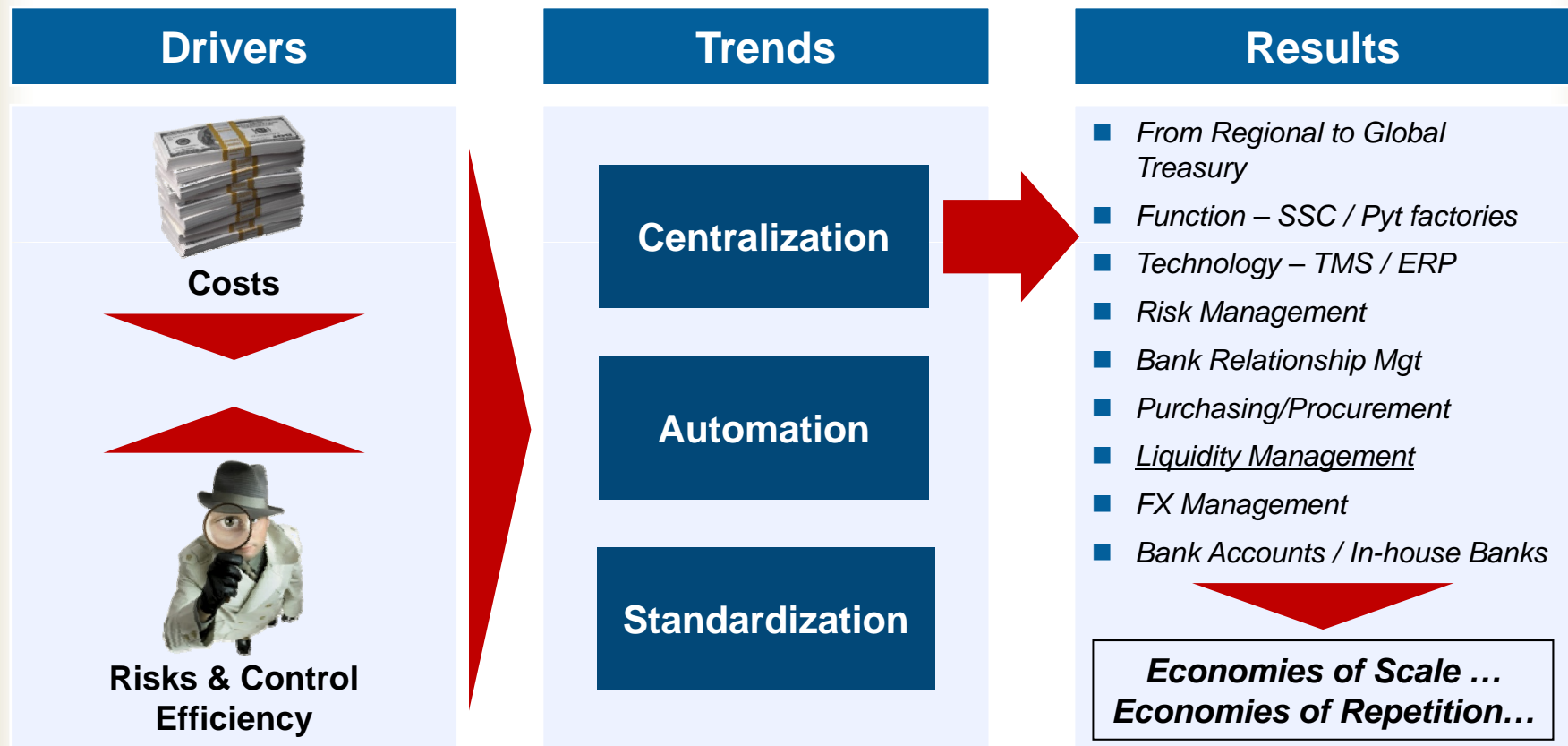
**Dieter Stynen**  
Head of Treasury Solutions EMEA  
Deutsche Bank  
dieter.stynen@db.com

# Agenda

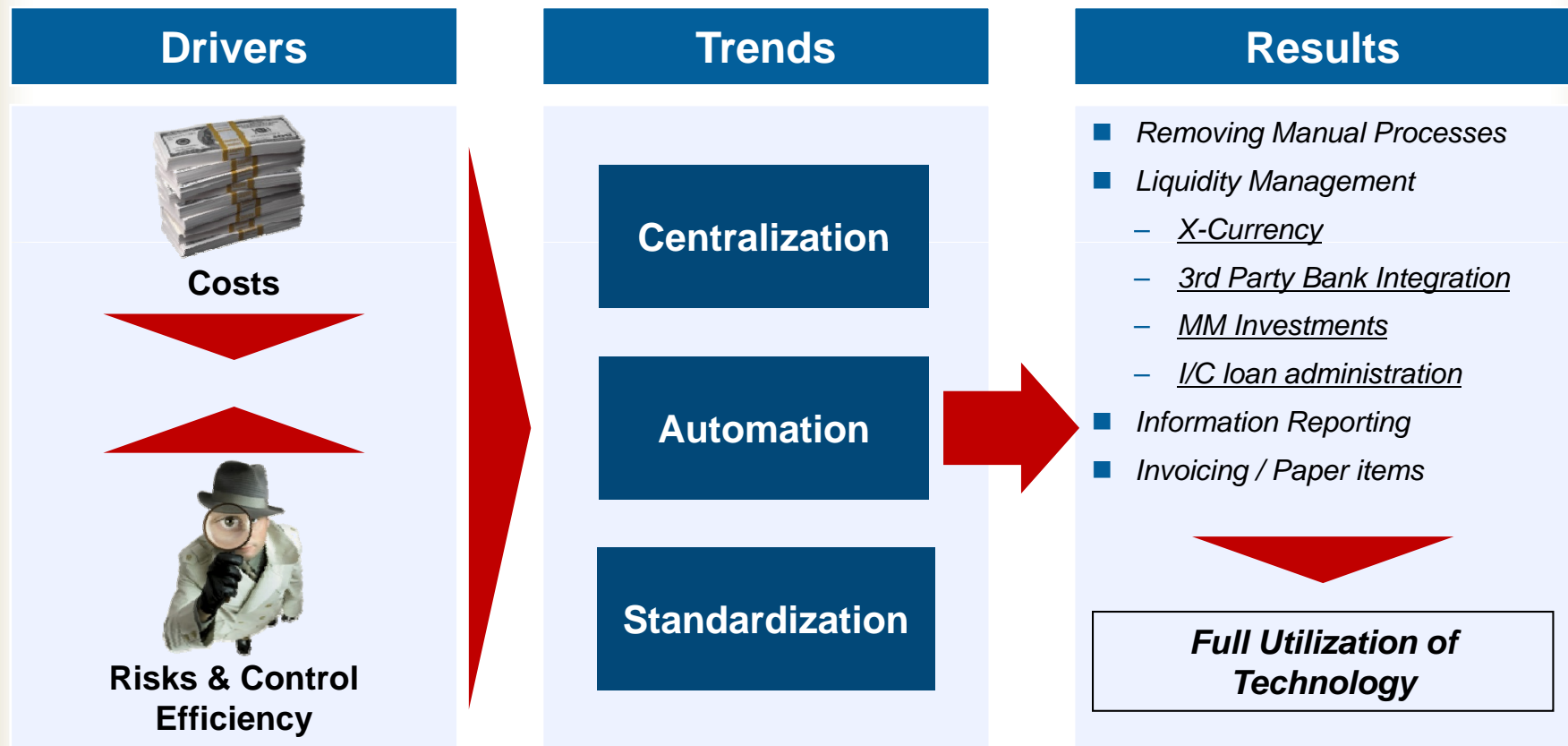
---

- Corporate Cash Management Trends
- Payment Landscape Evolutions in Europe
- ProLogis Case Study

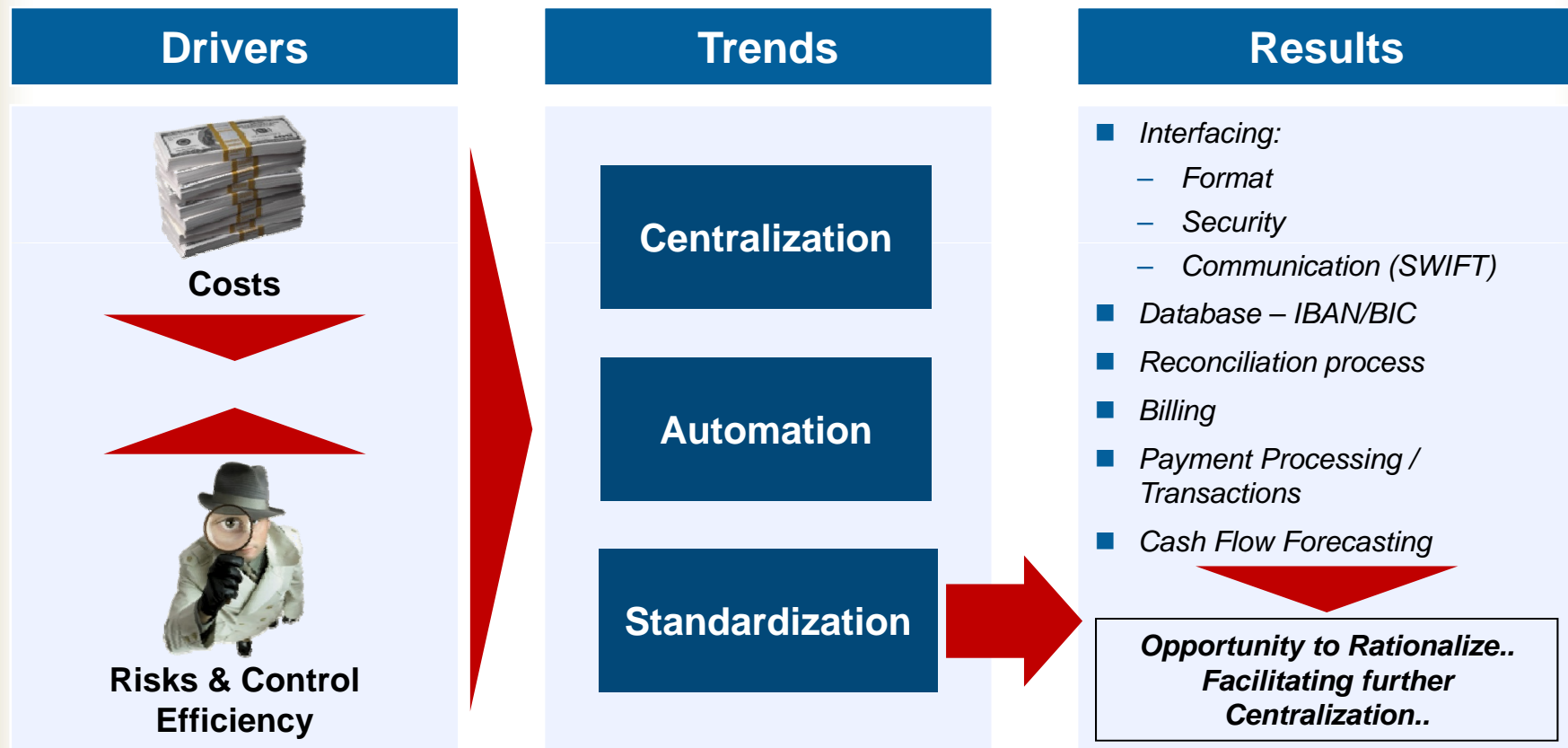
# Corporate Cash Management Trends



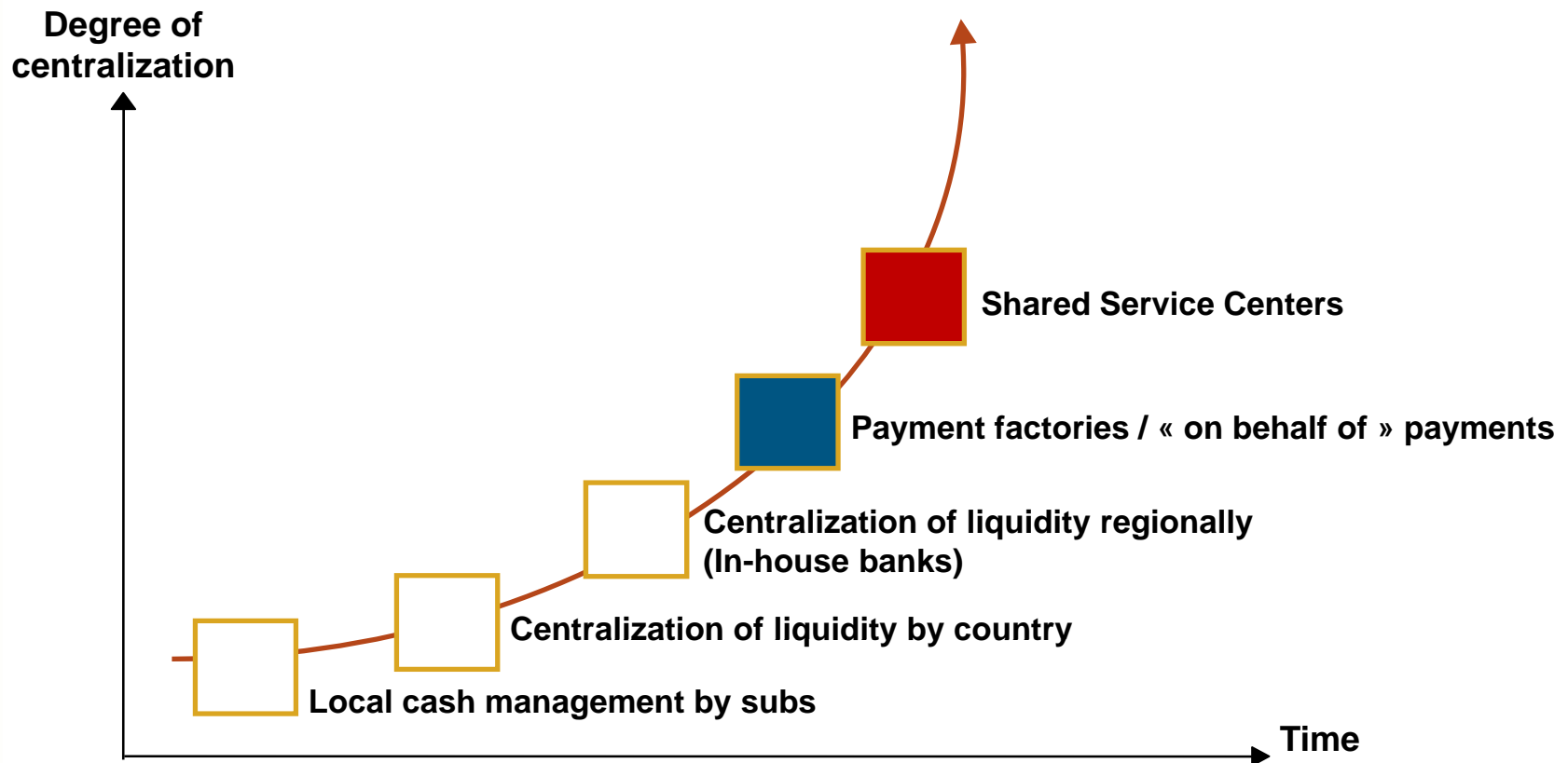
# Corporate Cash Management Trends



# Corporate Cash Management Trends



# Corporate Cash Management Trends



# Agenda

---

- Corporate Cash Management Trends
- Payment Landscape Evolutions in Europe
- ProLogis Case Study

# Payment Landscape Evolutions in Europe

## Making Treasury Structures More Efficient

---

- SEPA
- Payment Services Directive
- XML as new standardized format



# Payment Landscape Evolutions in Europe

## Making Treasury Structures More Efficient

---

### Pre-SEPA Landscape

- Country-specific payment instruments/banking practices and price levels
- Different local data formats and content (account numbers/reference information etc.) and processing rules
- Local clearing systems
- Largely differing payment instrument usage patterns
- Substantial differences in tax and legal requirements

### SEPA

- Standardized credit transfer and direct debits with harmonized execution and exception timelines
- Harmonized format and standards (BIC, IBAN, uniform references & transaction codes) for payments, collections and account statements
- Pan-European Clearing Houses
- Increase in electronic transactions
- European Payment Services Directive & Central Bank Reporting

# Payment Landscape Evolutions in Europe

## Making Treasury Structures More Efficient

---

- The European Payment Services Directive (PSD) presents the biggest impact on the European Payment Area since the Euro!
- Objectives:
  - Ensure consistent customer protection & improve transparency
  - Firmly establish a single payment market in the EU by providing the regulatory framework for such a market
  - Create a level playing field and enhance competition between banks and providers of financial services
- Transposition into national law since 1 November 2009
- PSD applies to
  - 30 jurisdictions – 27 EU and 3 EEA countries
  - **All** EU and EEA currencies

# Payment Landscape Evolutions in Europe

## Making Treasury Structures More Efficient

---

- Transaction Types in Scope:
  - Credit transfers
  - Direct debits
  - Card payments
  - Cash deposits/withdrawals
  - Issuing and acquiring of payment instruments
  - Money remittance
- Core Provisions:
  - Value dating: same day value for incoming transfers
  - Deduction of charges: full payment amount needs to be transferred
  - Liability and refund claims: 8 weeks for authorised payment transactions, 13 months for unauthorised transactions

# Payment Landscape Evolutions in Europe

## Making Treasury Structures More Efficient

---

- XML ISO 20022 as a single financial messaging “language” is designed to replace local standards for worldwide payment and collection types
- XML provides a wider set of enhanced message information to be carried from payment initiation to reporting (payment references, remittance info, charging details) – it facilitates end-to-end automation and reconciliation
- XML covers harmonised data usage across major banks

# Agenda

---

- Corporate Cash Management Trends
- Payment Landscape Evolutions in Europe
- ProLogis Case Study

# Introduction to ProLogis

---

- Founded in 1991 and quickly became a leading global provider of distribution facilities
  - The world's largest industrial REIT
  - More than 475 million square feet of high-caliber distribution space owned, managed or under construction
  - 2,500+ distribution facilities in 105 markets worldwide
  - Nearly \$34 billion in real estate assets
  - Approximately 1,100 associates serve 4,400 customers
  - Member of the S&P 500, traded on the NYSE (PLD)
  - Headquartered in Denver, Colorado
  - Business model: three main income streams
    - Lease revenues
    - Development income
    - Investment management fees
  - About 45% of real estate portfolio is on balance sheet, remainder is owned by several large funds/JV's that are managed by ProLogis
-

# ProLogis' Global Footprint





# ProLogis Treasury Management

---

- Regional 'full service' treasury centers in Denver and Amsterdam responsible for debt issuance/capital markets and cash/liquidity/FX management.
  - Smaller 'limited service' center in Tokyo
- Main IT tool in use in North America and Europe is the PeopleSoft Cash Management module
  - Fully integrated with GL Accounting
  - Automated daily cash positioning
  - Electronic bank statement import and reconciliation
  - Wire issuance
  - In Europe: 100% straight through processing of low value disbursements from AP
  - ACH platform being introduced in North America
- High cash volumes, capital intensive business



## European Cash Management Environment

---

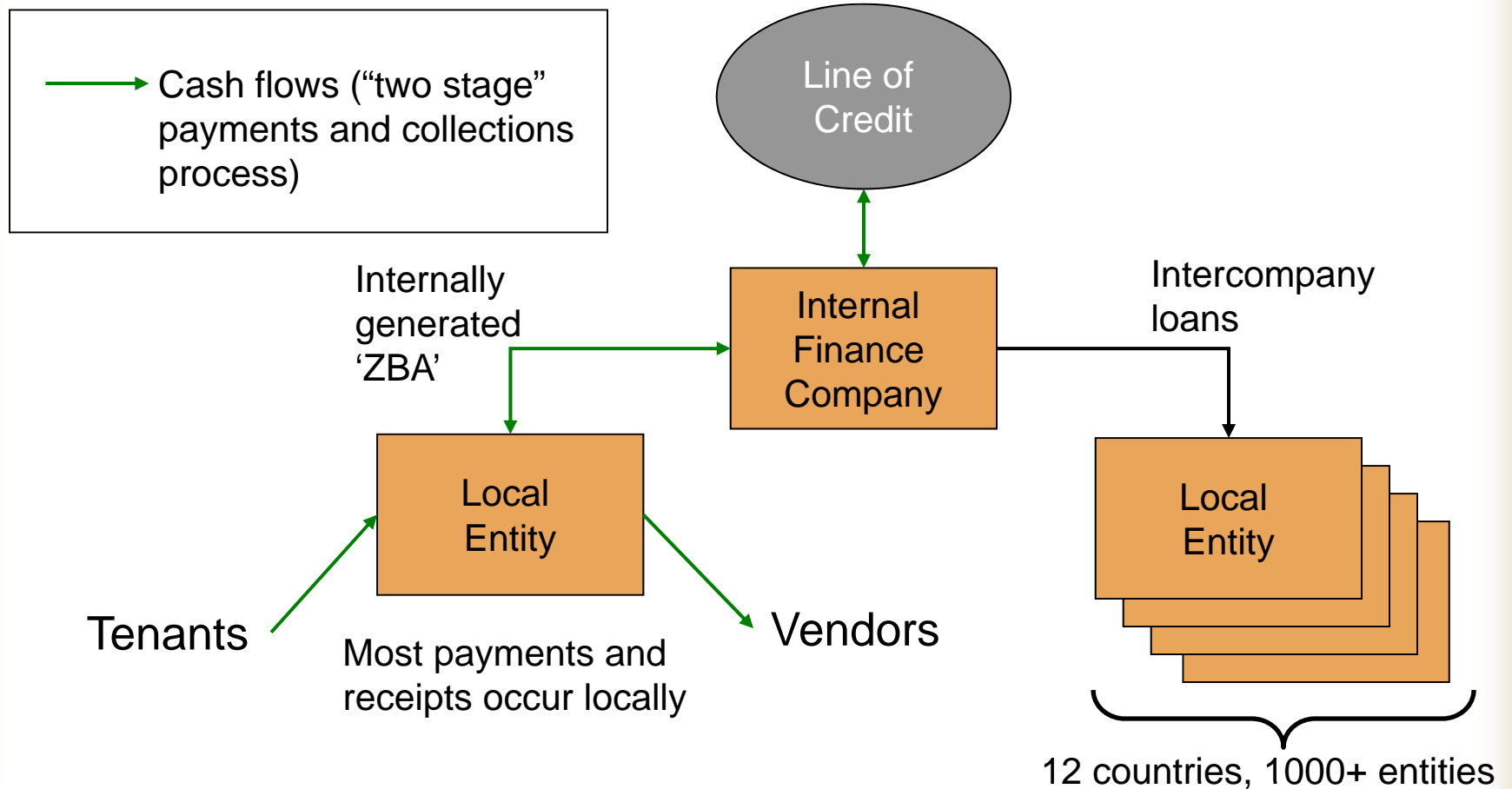
- ProLogis' business model requires a complex legal entity structure (typical in real-estate industry):
  - Extensive use of single-building special purpose vehicles (“SPV”)
  - Multi-layered tax-driven structure requiring several entities for each building
  - Leads to large number bank accounts (1000 +) across multiple jurisdictions
- Actual/perceived legal requirements to make most payments/collections using local entities and local bank accounts (rather than on a centralized basis)
  - Also, historically, high differential cost between local and cross-border payments within Europe

## European Cash Management Environment (cont.)

---

- Requirement to segregate cash between wholly-owned business and fund/JV business
- Complex secured financing arrangements, often involving lender controlled/pledged bank accounts
- US and local tax regulations sometimes create constraints on free movement of cash between legal entities
- FX management issues associated with currencies outside the EUR/GBP zone (e.g. PLN, CZK, HUF)

# Existing Process (Simplified)



## Shortcomings of Existing Process

---

- Local disbursements process contains inefficiencies:
  - “Two stage” payments process incurs additional fees
  - Risk of idle cash balances or overdrafts at local entity level
  - Lack of coordination between local AP teams and centralized treasury function
- Excessive number of FX transactions when financing entities outside EUR/GBP zone
- Requires a excessive number of bank accounts, particularly in non-operating entities

# European Treasury Environment

## Trends and changes

---

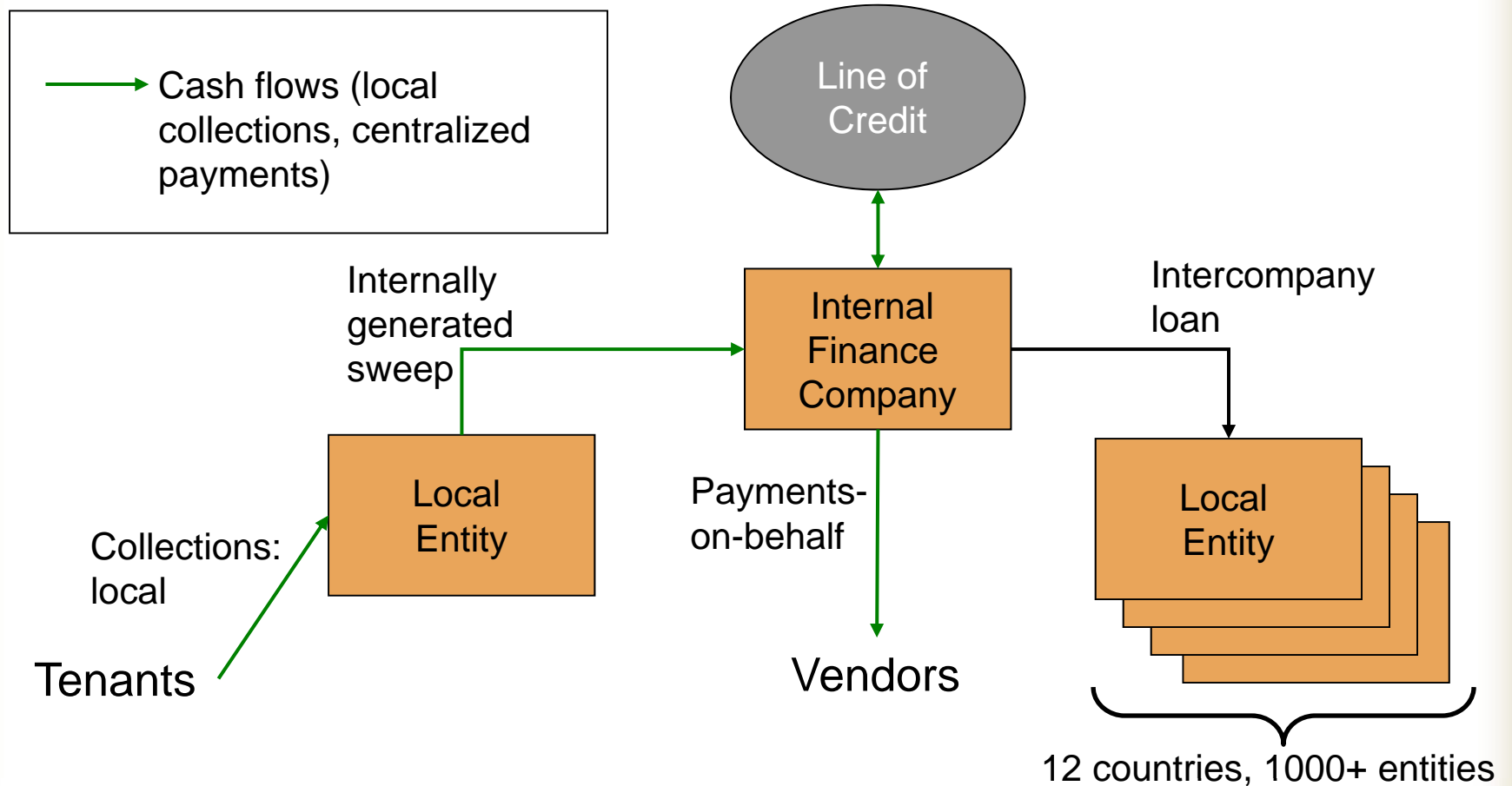
- SEPA and European Payments Directive
  - Reduces cost of cross-border payments
  - Makes centralized pay-on-behalf arrangements more viable
- Evolving tax/regulatory environment
  - Easier to move cash between entities
  - Pay-on-behalf arrangements easier to establish
- Challenging operational and capital-markets environment, driving a need to:
  - Minimize cash holdings
  - Reduce bank fees

# Scope of Current Restructuring Project

---

- Standardize use of pay-on-behalf techniques using centralized finance entities for all disbursements
  - Leverages reduction/harmonization of cross-border transaction fees
  - Facilitates elimination of bank accounts in non-operating entities
  - Eliminates “two stage” payments process, reducing fees
  - Reduces risk of idle cash or overdrafts in local accounts
  - Simplifies payment process by greatly reducing the number of disbursement accounts
- Coordinate payments across Europe through creating centralized disbursements function in Amsterdam
- Re-aligning internal financing structure, especially in Central Europe to permit pooling of ‘exotic’ currencies (i.e. non EUR/GBP)
  - Reduces volume of FX transactions and facilitates consolidation of currency conversion
- Step-by-step process of linked initiatives

# Future Process (simplified)



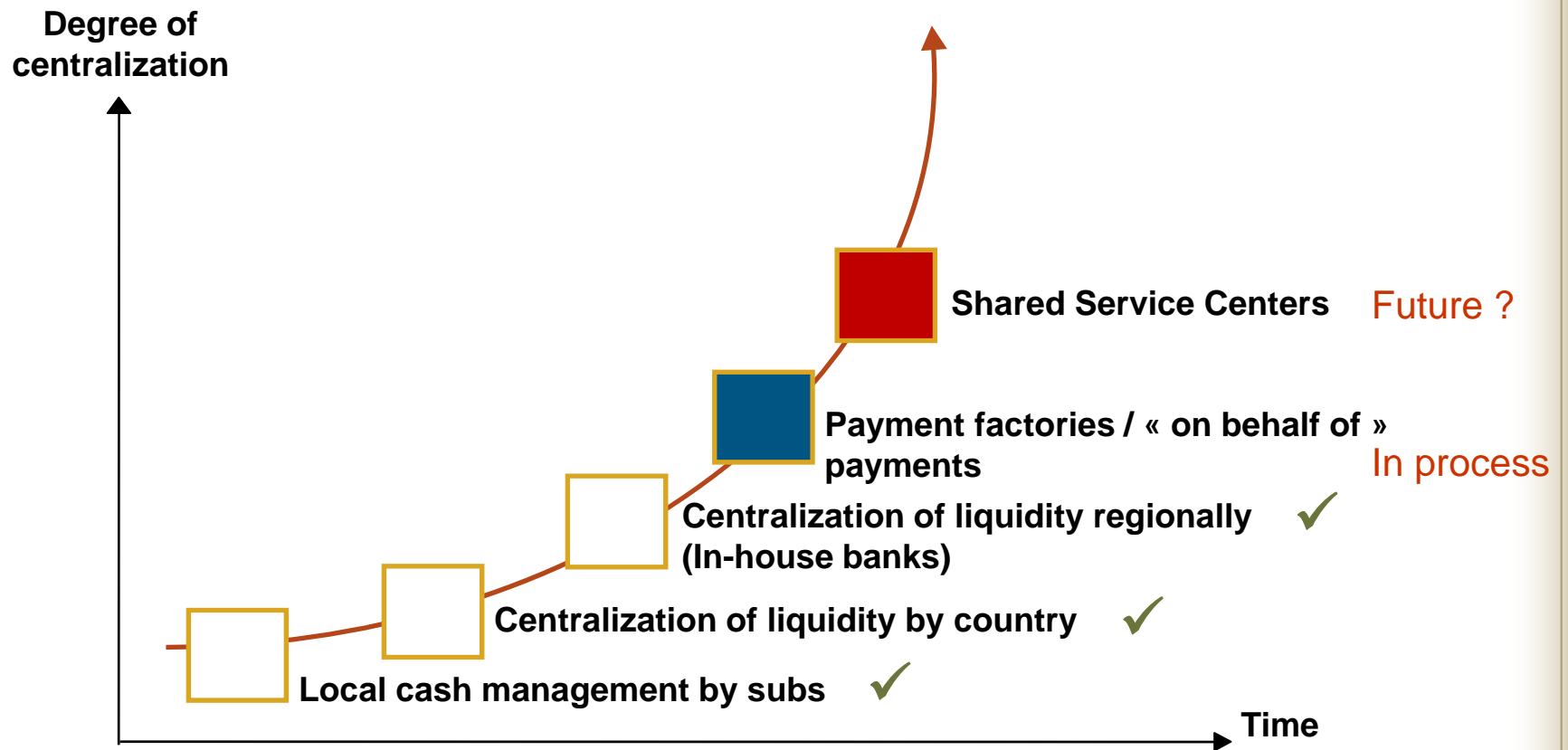
## Potential Future Enhancements

---

- Implement high-level notional pooling for certain funds/JV's
- Adopt xml format for electronic payments
- Move to full shared service center model



# Cash Management Trends at ProLogis



## Summary and Q&A

---

- Centralization is happening, and at an accelerating pace since the financial crisis
- Changes in the payments landscape are providing further support to move to a centralized structure, and further increase the potential benefits of such a move
- Benefits can be achieved via a step-by-step approach, gradually moving up the curve, ie no need for a big bang
- ProLogis is an excellent example of such a process

---

The information contained herein is strictly for informational purposes only and does not constitute and shall not be construed to constitute any contractual or non-contractual obligation or liability of Deutsche Bank AG or any of its affiliates, including Deutsche Bank Trust Company Americas (collectively "Deutsche Bank"), nor shall this presentation or the content herein be construed as advice, an offer or a solicitation of any nature whatsoever nor is this presentation or its contents intended to be relied upon by any person. Deutsche Bank makes no representation as to the accuracy, completeness, or timeliness of such information. Deutsche Bank shall not be held liable for the authentication of or compliance with the information contained herein nor does Deutsche Bank assume any obligation to update any such information. No part of this presentation may be copied or reproduced in any way without the prior written consent of Deutsche Bank. Copyright © 2010 Deutsche Bank AG. All Rights Reserved.

---