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

Drivers
- Costs
- Risks & Control Efficiency

Trends
- Centralization
- Automation
- Standardization

Results
- From Regional to Global Treasury
- Function – SSC / Pyt factories
- Technology – TMS / ERP
- Risk Management
- Bank Relationship Mgt
- Purchasing/Procurement
- Liquidity Management
- FX Management
- Bank Accounts / In-house Banks

Economies of Scale …
Economies of Repetition…
Corporate Cash Management Trends

Drivers
- Costs
- Risks & Control Efficiency

Trends
- Centralization
- Automation
- Standardization

Results
- Removing Manual Processes
- Liquidity Management
  - X-Currency
  - 3rd Party Bank Integration
  - MM Investments
  - I/C loan administration
- Information Reporting
- Invoicing / Paper items

Full Utilization of Technology
Corporate Cash Management Trends

Drivers

- Costs
- Risks & Control

Trends

- Centralization
- Automation
- Standardization

Results

- Interfacing:
  - Format
  - Security
  - Communication (SWIFT)
- Database – IBAN/BIC
- Reconciliation process
- Billing
- Payment Processing / Transactions
- Cash Flow Forecasting

Opportunity to Rationalize..
Facilitating further Centralization..
Corporate Cash Management Trends

Degree of centralization

- Local cash management by subs
- Centralization of liquidity by country
- Centralization of liquidity regionally (In-house banks)
- Payment factories / « on behalf of » payments
- Shared Service Centers

Time
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

<table>
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<tr>
<th>Pre-SEPA Landscape</th>
<th>SEPA</th>
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<tr>
<td>Country-specific payment instruments/banking practices and price levels</td>
<td>Standardized credit transfer and direct debits with harmonized execution and exception timelines</td>
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<tr>
<td>Different local data formats and content (account numbers/reference information etc.) and processing rules</td>
<td>Harmonized format and standards (BIC, IBAN, uniform references &amp; transaction codes) for payments, collections and account statements</td>
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<tr>
<td>Local clearing systems</td>
<td>Pan-European Clearing Houses</td>
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<td>Largely differing payment instrument usage patterns</td>
<td>Increase in electronic transactions</td>
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<tr>
<td>Substantial differences in tax and legal requirements</td>
<td>European Payment Services Directive &amp; Central Bank Reporting</td>
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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

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- 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)

- Cash flows ("two stage" payments and collections process)
  - Internally generated 'ZBA'
  - Local Entity
  - Most payments and receipts occur locally
  - Tenants
  - Vendors
  - Line of Credit
  - Intercompany loans
  - 12 countries, 1000+ entities
  - Local Entity

AFP® Annual Conference
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)

Cash flows (local collections, centralized payments)

- Collections: local
- Internally generated sweep
- Local Entity

Line of Credit

Internal Finance Company

Payments-on-behalf

Vendors

Intercompany loan

Local Entity

Tenants

12 countries, 1000+ entities
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

- Local cash management by subs
- Centralization of liquidity by country
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Degree of centralization

Future?

In process

Time
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
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