

AFP®



Annual Conference

OCTOBER 27-30, 2013 | LAS VEGAS

ORIGINAL → ESSENTIAL → UNBIASED → INFORMATION

Enhanced Global Liquidity through Notional Pooling and Payment Netting

Greet van der Steen
Managing Director
Bank Mendes Gans
Amsterdam
The Netherlands

Jim Keller
Assistant Treasurer
Federal-Mogul Corp.
Southfield, MI

Federal-Mogul at a Glance

Year Founded: 1899

Sales and
Headcount:
(12/31/12)

<u>Region</u>	<u>Employees</u>	<u>Sales</u>
Global	45,100	\$6.6 B
North America	37%	46%
Europe	38%	42%
ROW	25%	12%

Global Locations: 95 Manufacturing and 17 distribution sites worldwide in 22 countries

Research & Development: 24 Globally-networked technology centers in North America, Europe and Asia

Key Industries: Automotive, aerospace, energy, heavy-duty, industrial, marine, power generation, railway

Ticker Symbol: FDML – NASDAQ Global Select Market

FDML
NASDAQ
LISTED



Federal-Mogul Treasury Fundamentals

- **Centralized Control**
 - Strategic Direction
 - **Visibility, Availability, Flexibility & Mobility**
- **Decentralized Execution**
 - Regional & Country
 - Effective control environment

- **Objectives**
 - Maximize resources
 - Ease of administration
 - Control Costs
 - Tax Compliance
 - Acceptable Accounting Treatment
 - Subsidiary Buy-In

It is not your cash, it is the corporation's cash!

Solution: Global Multi-Currency Notional Cash Pool

Bank Mendes Gans at a Glance

- **BMG, a 100% member of ING Bank N.V.**
- **Founded in 1883**
- **Banking license since 1911, supervision by Dutch Central Bank**
- **Niche player in global liquidity management solutions**
 - **Multi-currency Multi-entity Notional Cash Pool**
 - **Multilateral Netting**
- **Operates outsourced in-house bank solutions for 250+ multinationals**

Different Flavors of Cash Pooling

- **Notional (multi-entity) cash pooling**
 - Single currency
 - Multi-currency
- **Zero balance (single entity) cash pooling (physical or actual)**
 - Single currency
 - Multi-currency
 - Reference accounts
- **Hybrid (multi-currency) Cash Pool**
 - Combination of notional & zero balance

Notional Cash Pooling

- Group companies open bank accounts in their own name in local currency at the pooling center
- No inter-company loans are created
- Group companies with credit balances at BMG are deemed bank deposits and group companies with debit balances at BMG are deemed bank overdrafts
- All account balances – both credit and debit – are treated on a net basis
- Interest is bank interest
- Interest rates applied are based on the net position per currency in the cash pool (not traditional bank BID/ASK spreads)
- Treasury can choose interest margins to create revenues for Finance company/Treasury

Zero Balance Cash Pooling

- The Finance company (or other group company) opens accounts in their name at pooling center
- Group companies can put cash on deposit with the finance company or borrow from the finance company
- Inter-company loans are created
- Inter-company loans need to be administered
- Interest is inter-company interest

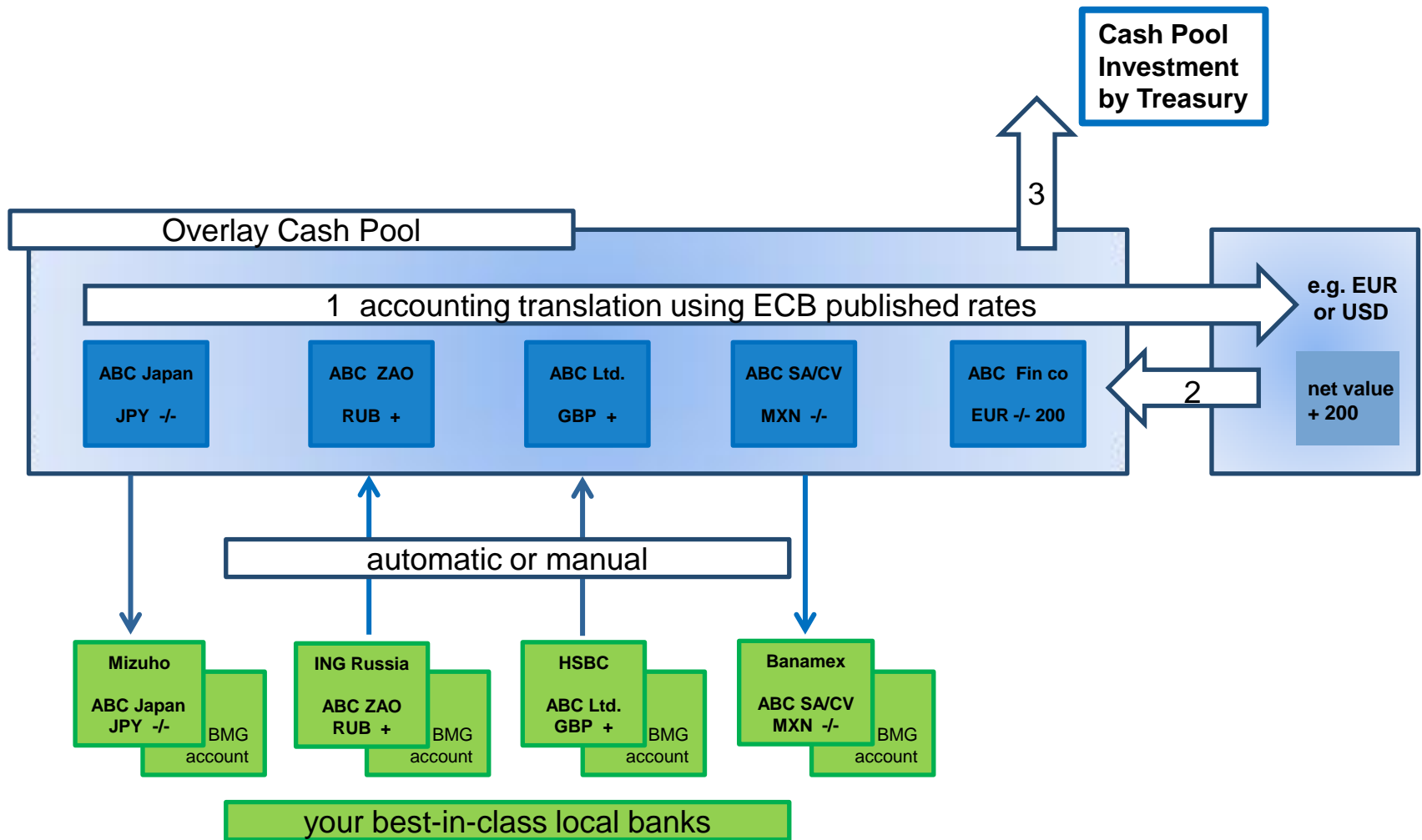
True Multi-Currency Multi-Entity Notional Pool

- Enables multiple group companies in numerous geographical regions to retain local accounts at local banks; “overlay”
- Consolidation is achieved by transferring local balances (both debit and credit) to accounts held by the individual group companies at the pooling center. There is no change of ownership of funds, and no question of inter-company loans
- Offset is accomplished without physical concentration/conversion (FX).

Also:

- One interest rate per currency (no spread between overdrafts and deposits)
- Permits not only concentration of excess cash, but allows overdrafts within the pool
- Full offset capabilities (risk and accounting) for both client and bank
- Operational in multiple time-zones.

Cash Pool in Overview



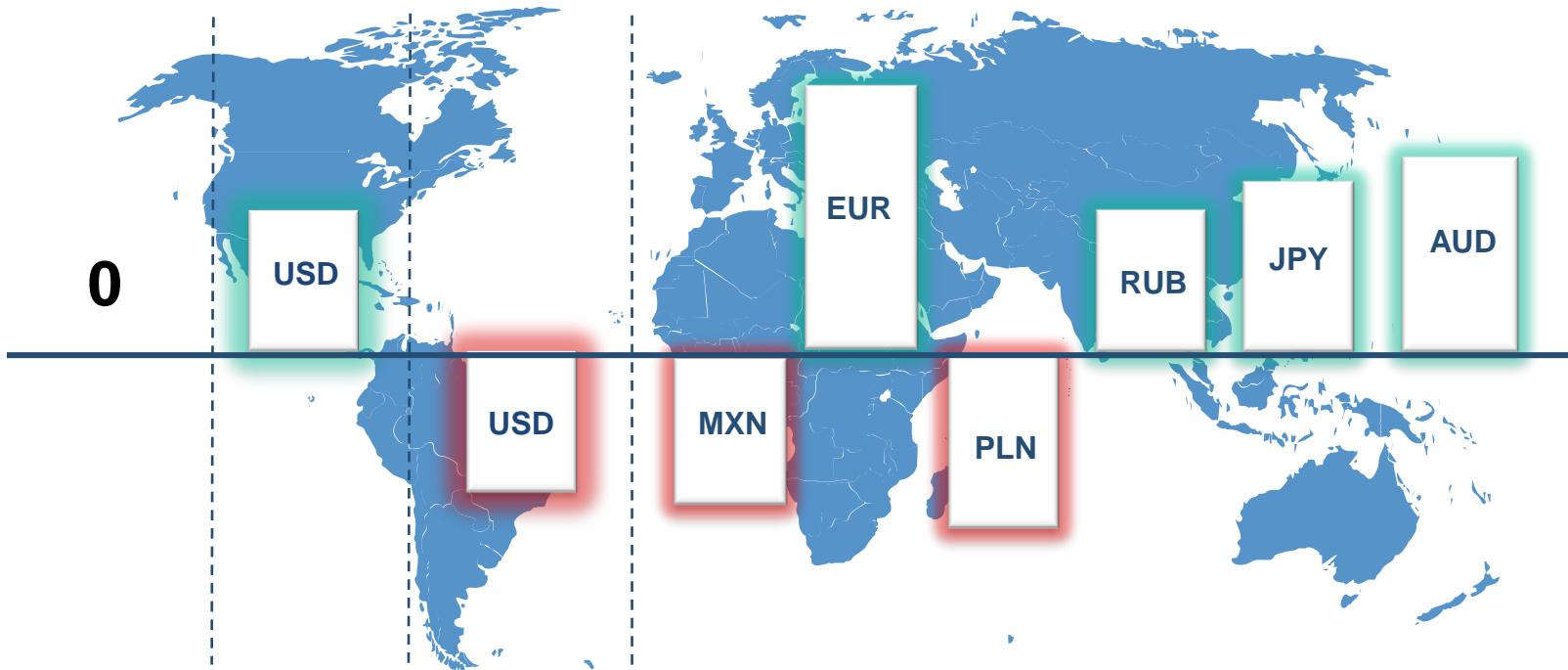
Pooling Global Balances: Follow the Sun

Cash Pool
Balance
(4)

Treasury
Funding
(3)

Cash Pool
balance
(2)

Centralize local group companies' account balances
(1)



Notional Cash Pool & Key Tax Points

Bank Pledge versus Cross Guarantee

- **Notional Cash Pool is based on Pledging of Balances to the bank. Normally cash pools are based on Cross Guarantees which is an unlimited joint resulting in liabilities between related group companies.**

Interest

- **Interest is classified as bank interest (credit and debit). All Cash Pool balances are cash on deposit or a current account overdraft.**

Transfer pricing

- **The bank executes the daily investments and borrowings of the group companies and applies arms length interest rates. Tax can insert interest margins as needed**

Interest withholding tax

- **BMG is domiciled in the Netherlands resulting in no WHT on credit interest paid. In some cases WHT is applicable on interest charged**

Thin cap rules

- **The Cash Pool borrowings are deemed loans/overdrafts from the bank. Thin cap rules are sometimes more flexible regarding bank overdrafts.**

Federal-Mogul Treasury Fundamentals

• Objectives

- Maximize resources
- Control Costs
- Tax Compliance
- Acceptable Accounting Treatment
- Subsidiary Buy-In

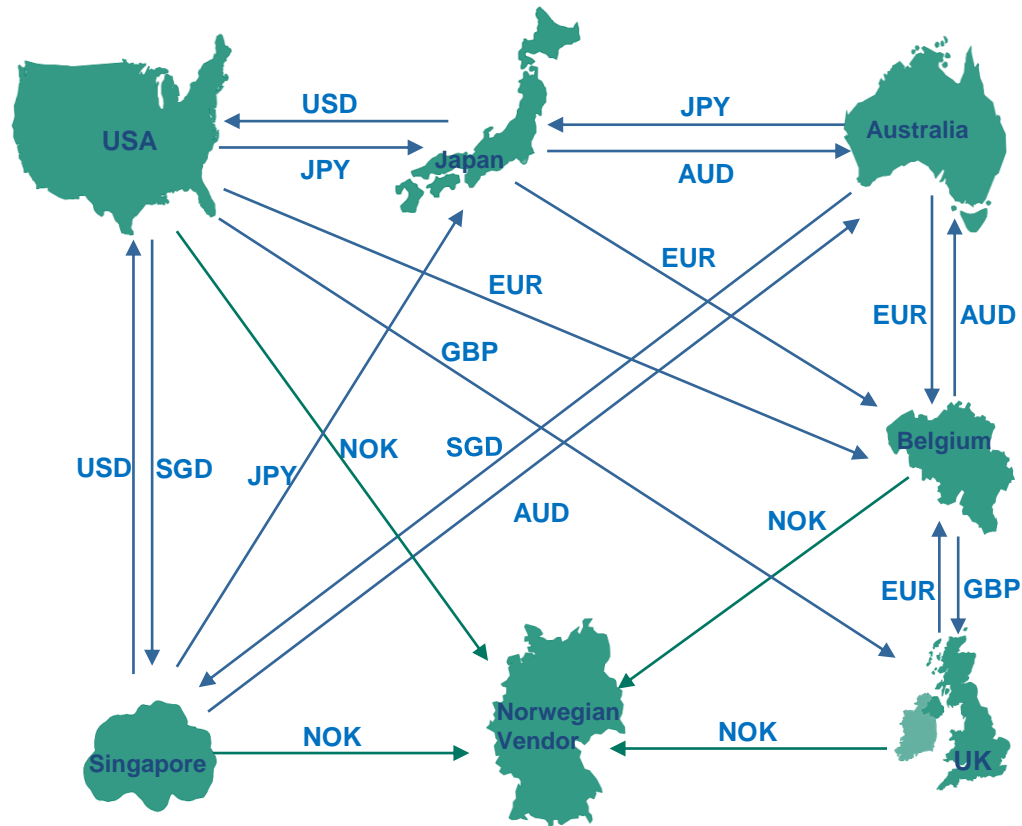
• Problem

- Reconciliation and settlement of I/C balances
- Timing, number and value of cash transfers
- FX exposure management
- Coordinate with liquidity management

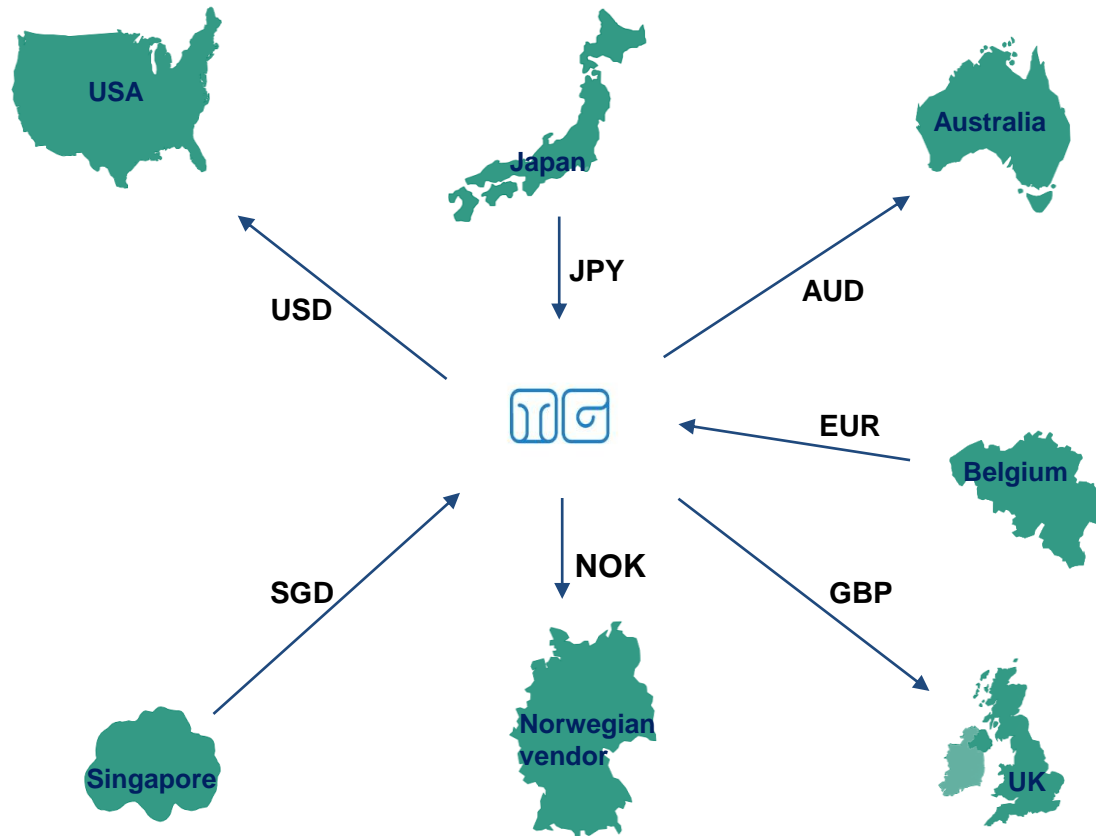
It is not your cash, it is the corporation's cash!

Solution: Global I/C Netting

Flows without Netting



Flows with Netting



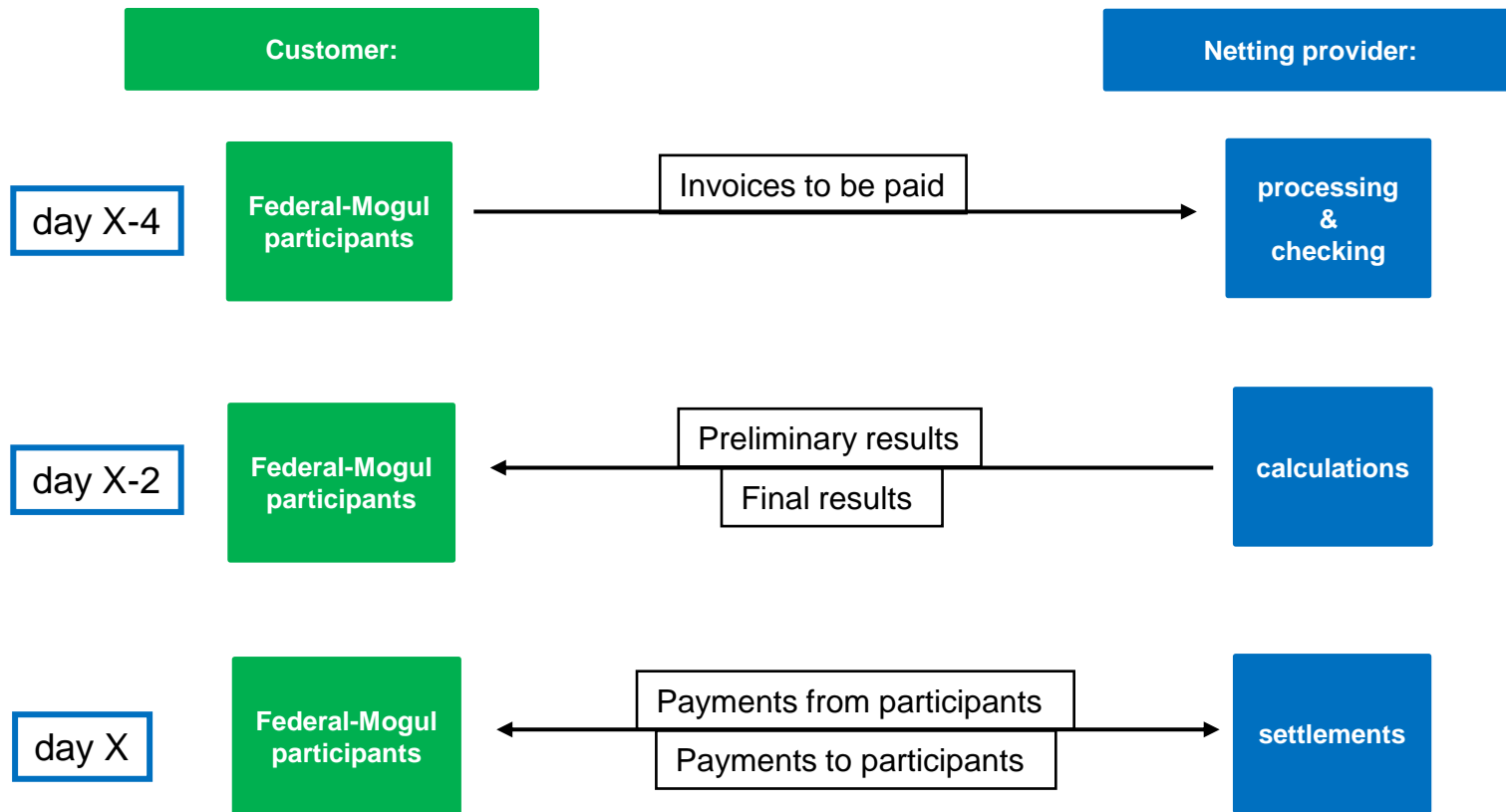
What is Netting?

A process which reduces transfers of funds between Subsidiaries or separate companies to one net amount.

What are the benefits of Netting?

- Consolidates and off-sets payables against receivables between multiple group companies on a global and multi-currency basis
- Reduces the number of inter-company funds transfers
- Minimizes costs of associated foreign exchange
- Avoids the need for group companies to make multiple transfers and execute opposite foreign exchange transactions

The Netting Cycle



Why Implement Netting?

- **Less administrative workload**
 - Netting center can be viewed as corporate treasury back-office
- **Continuity of operational tasks**
 - Funds will be paid/collected with proper/same value date
 - Settlement over existing local bank accounts; no accounts at netting bank are required
- **Increased visibility and control**
 - All netting input and output stored in one database
- **Centralization of FX**
 - Consolidates FX positions
 - Improves FX spread
 - Ability to include FX hedge transactions
- **Flexibility**
 - Settlement can be in any currency required by affiliate
 - Additional run on an ad-hoc basis; quarter end, year end

Questions & Answers