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Annual Conference

OCTOBER 27-30, 2013 | LAS VEGAS

ORIGINAL → ESSENTIAL → UNBIASED → **INFORMATION**

Global Liquidity Management

Increasing Liquidity Through Efficient Global Treasury Structures

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Citi Treasury & Trade Solutions

Treasury Priorities...



...based on Citi Treasury Diagnostics research.

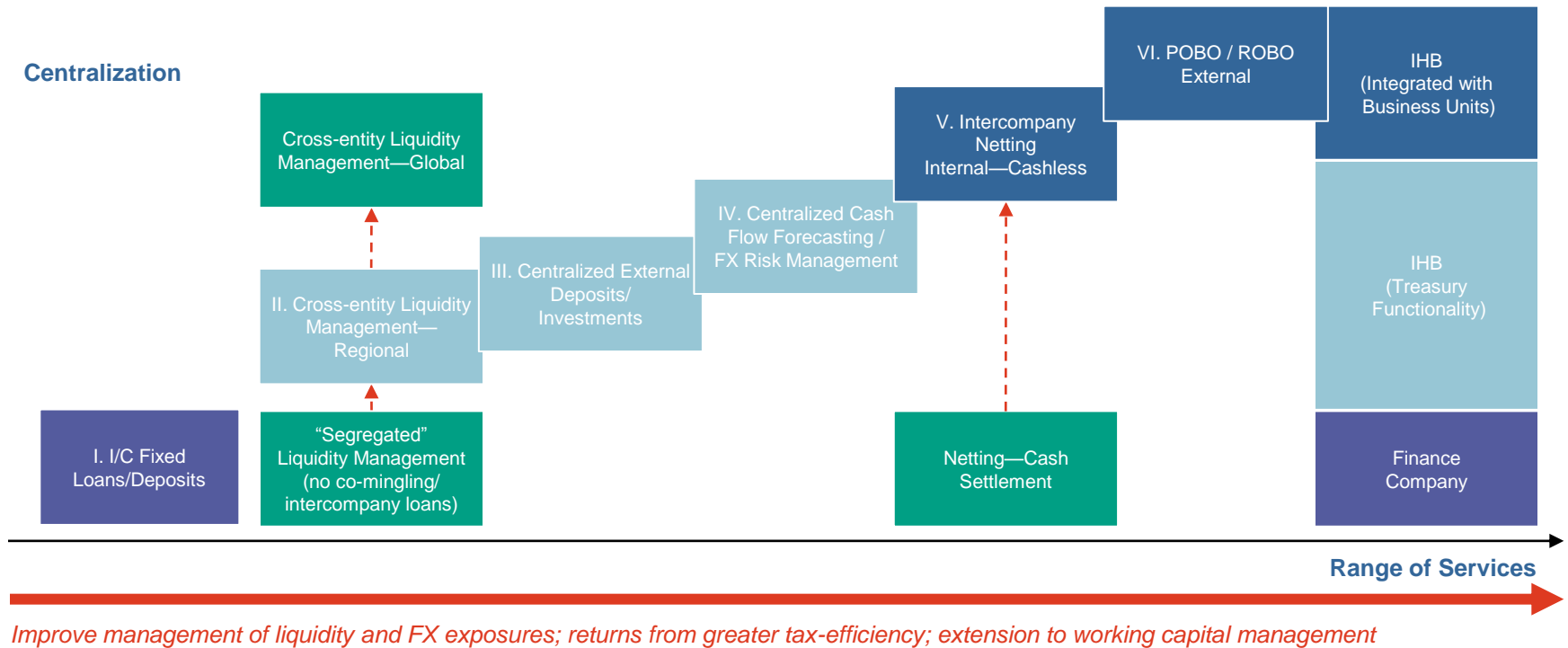
- 1 Re-organize treasury structures for continued business growth in emerging markets
- 2 Optimize working capital funding strategies for subsidiaries, especially in regulated markets
- 3 Globalize operating liquidity management, including IHB models, to release excess cash
- 4 Prepare for financial regulatory (e.g. D-F), market infrastructure (e.g., SEPA) impacts
- 5 Leverage regulatory changes in key emerging markets (e.g., China)
- 6 Leverage converging banking industry standards and corporate systems investment

		Trends				
		Macro	Regulatory	Technology		
Treasury Impacts	Governance	1	4	3		
	Structure	1	4	5	3	6
	Cash & Funding	2	4	5	3	
	Risk				3	
	Systems				3	6

Treasury Efficiency Constructs: In-House Banks



An IHB is an evolutionary process that includes numerous functional areas. The defining aspect is whether there is an aggregation of (some or all) liquidity and risks through a legal entity that faces off with external banks.



Some factors driving a company's placement along IHB continuum

- Treasury Organizational Structure
- Technology
- Business Operating Model
- Regulatory and Tax Considerations

In-House Bank Benefits



An IHB reduces FX and cash transactions, improves net interest, and increases control from centralization.

Liquidity Management Benefits

Centralized Investment

- Higher return from investing surplus cash in larger quantum or for longer tenor
- IHB earns a return on investment higher than the interest it pays on deposits received

Intercompany Funding

- IHB earns spread between deposit-taking and lending among participants
- Use of virtual accounts to record participant positions minimizes subsidiary-level external bank accounts
- Simplified cash flows
 - Reduced volume of external financial and cash transactions, bank charges
 - Fewer reconciliations

FX Management Benefits

Netting

- IHB nets FX transactions (of the same currency pair) between subsidiaries, reducing volume and cost of FX transactions with external banks while earning a spread
- Netting lowers the volume of same-currency pair spot FX transactions, reducing transaction fees and processing errors
- IHB profits from quoting a larger bid-ask spread to participants than what it receives from external bank (transfer pricing needs to be justified)

Subsidiary Funding and Repatriation Benefits

Subsidiary Capital Structure

- IHB may offer an efficient vehicle for optimization (e.g. conversion of equity at subsidiaries to debt in form of IHB loans)
- Retained earnings are repatriated (where feasible and practical) and replaced with LT debt from the IHB, within country thin cap limits to allow tax deductibility of interest

Note: Jurisdictions with limitations on currency transferability and/or convertibility restrict achievable benefits.

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Case Study: Warner Music Group (WMG)

Warner Music Group Overview



Recorded Music



Music Publishing



Product	<ul style="list-style-type: none"> Recordings 	<ul style="list-style-type: none"> Songs/Compositions
Artists	<ul style="list-style-type: none"> Recording Artists 	<ul style="list-style-type: none"> Songwriters/Composers
Source of Revenue	<ul style="list-style-type: none"> Physical CDs Digital downloads, streaming, cloud services Expanded Rights: Merchandising, branding touring/ticketing, film, TV, advertising 	<ul style="list-style-type: none"> Mechanical (i.e. physical CDs) Performance (radio, TV, concerts) Sync (movies, video games, ads) Digital/Other

Recorded Music Highlights



Music Publishing Highlights



WMG Challenges and Opportunities



Treasury/Liquidity Characteristics

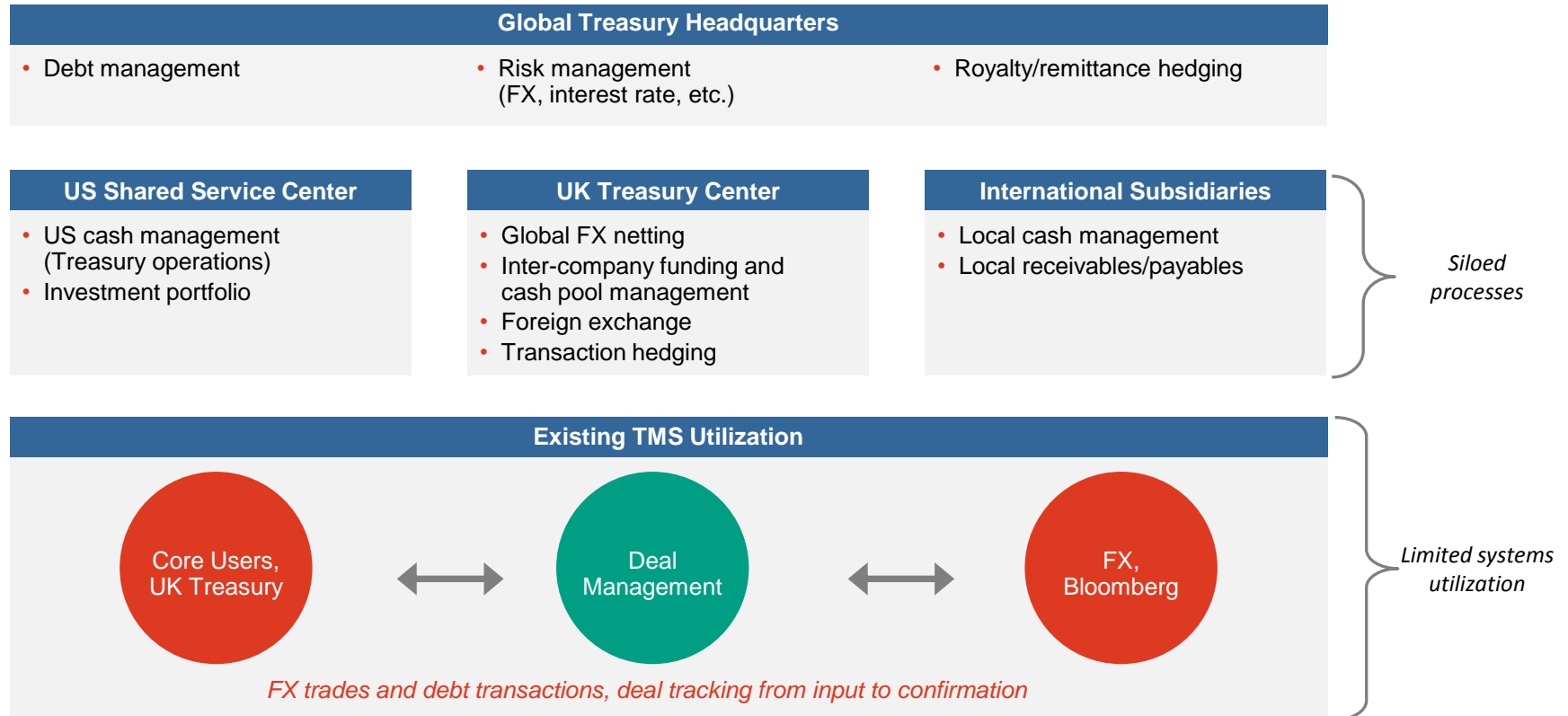
- **Decentralized Operations**
 - Operations in 50 countries, 75+ operating entities
 - Fiscal 2012 Revenues of \$2.8 billion, 40% from US
- **US Based Multinational**
 - \$2.9 billion total debt
 - Recent Acquisitions—£487 million EMI European Entities (Parlophone)
 - Recent Refinancings
 - US Artist and Repertoire (A&R)
 - US Headquarters
- **Repatriation and Liquidity Mechanisms**
 - Favorable US Tax Attributes
 - Intercompany Royalty/Distribution Agreements
 - Tax efficient repatriation
 - Inter-company Cash Management/ Loan Portfolio

Legacy Treasury Organization

- **Control and Visibility of Cash**
 - 450+ Bank Accounts
 - Legacy System—weekly aggregation of Excel spreadsheets
 - Primarily concerned with GL accounts, not bank accounts
 - Treasury Management Systems
 - Upgrade to latest version of ASP service

WMG Challenges and Opportunities, cont.

Treasury Technology Landscape (2009)



WMG Treasury Focus Areas



Treasury needs to constantly evolve to support and align itself with Global business.

- Execute global bank balance reporting, bank rationalization strategies and increase technology use
- Create efficient liquidity structures and focus on cash/liquidity management
- Develop overall risk management framework and exposure management processes

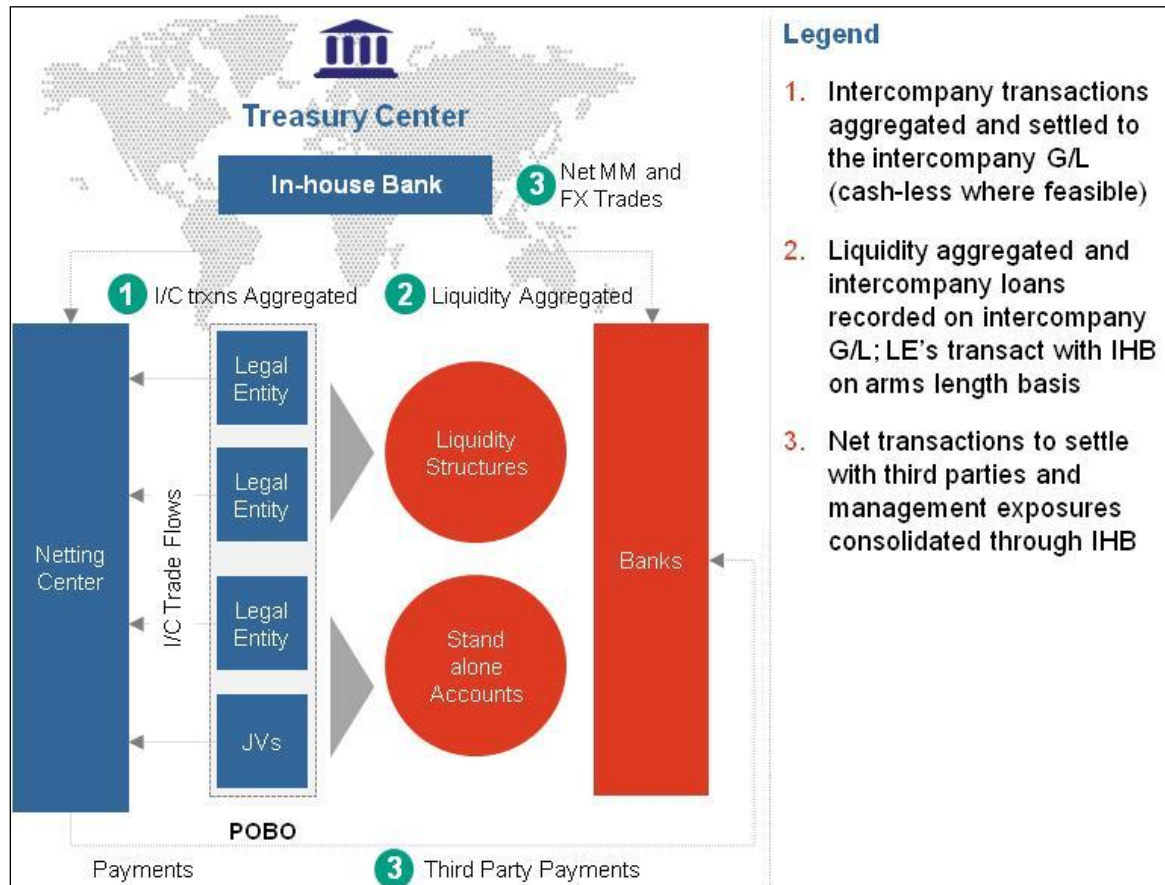
Foundational Capabilities to Managing Global Liquidity



Global Control and Visibility of Cash

- **Global Bank Inventory and Mapping**
- **Treasury Management Systems**
(system upgrade to latest ASP version)
 - Treasury Optimization Plan—2009
 - Expand beyond deal management
 - SWIFT gateway capabilities, payment initiation and bank file import functionality
 - SWIFT connectivity for Bank Balance Reporting
 - Central tool for elimination of spreadsheets and double entry
- **Daily Global Cash Balance Reporting**
 - Real-time, centralized control and review of cash
 - Replaced legacy weekly excel file submission from affiliates
 - Banks mandates
 - Establishing and validating TMS bank accounts and mapping each to electronic reporting
- **Centralization of Treasury function to NY HQ**
 - Transition of treasury HQ operations; established NY Operational capabilities
 - Built out treasury team
 - Centralized bank relationships and FX trading to NY
- **Cash Forecasting**
 - Transitioned from quarterly, to monthly, to weekly methodology
 - Established global reporting methodology
 - Developed tool for daily liquidity evaluation

In-House Bank Centralization of Liquidity & Risk



- Netting Center
- Intercompany Loan Portfolio
- Liquidity Concentration
- Next Generation:
 - Cashless Loans and Transactions
 - Third Party Pay-on-Behalf-of (POBO) and Receive-on-Behalf-of (ROBO)

Source: Citi

In-House Bank Centralization of Liquidity & Risk, cont.



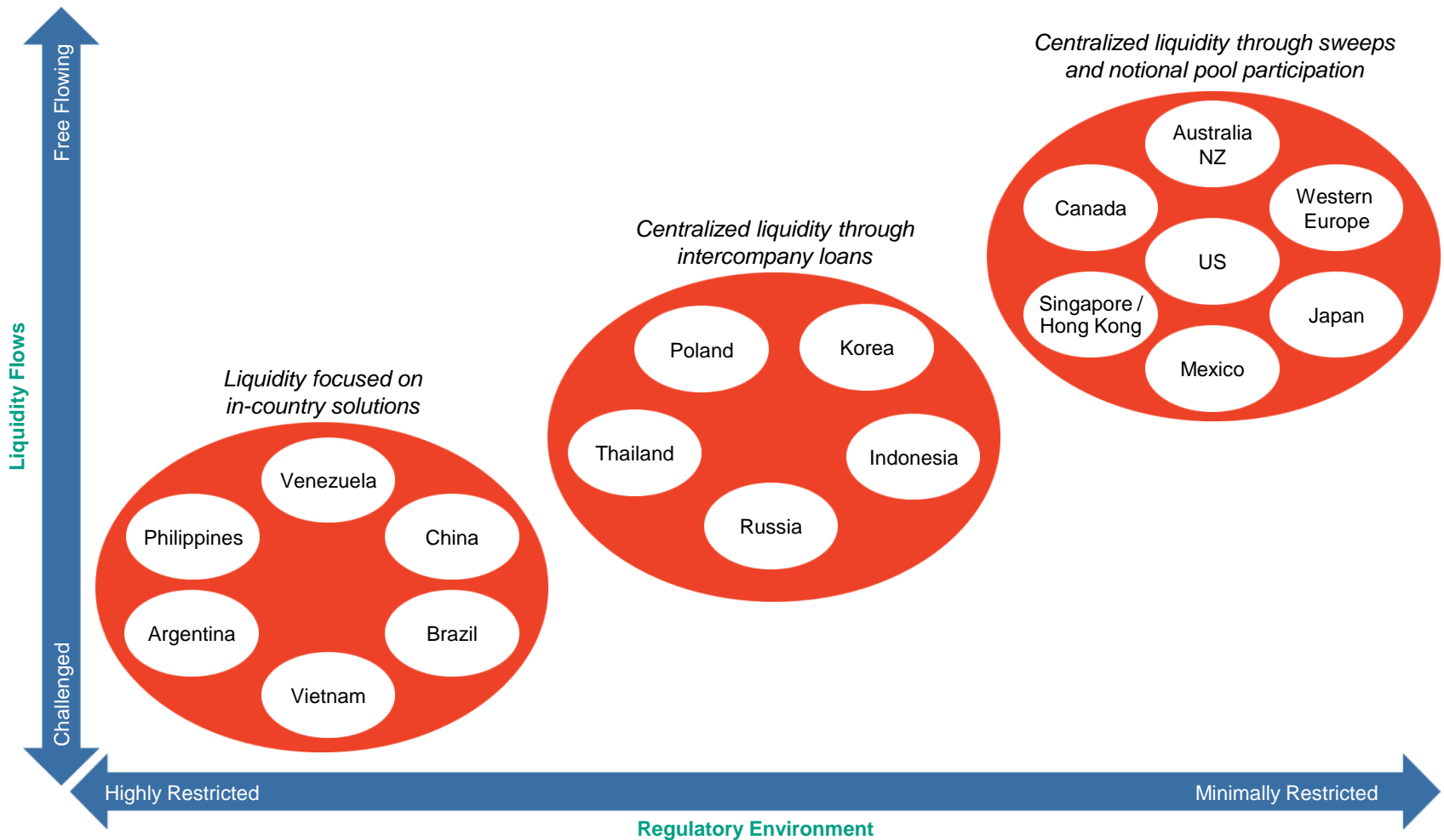
In-House Bank Benefits

- Liquidity Management
- FX Management
- Subsidiary Funding and Repatriation

Liquidity Management Constraints

- Regulatory Environment
- Tax Considerations
- Staffing/Technology/Accounting

Liquidity Management Constraints: The Regulatory Environment



Liquidity Management Constraints

- **Staffing, Technology, and Accounting**

- Restructured international treasury function

- Centralized function to NY, previously managed through WMI in London
- Automated Loan Register, eliminating manual spreadsheets

- Replaced outsourced treasury and accounting functions

- Leveraged technology to in-source Treasury execution and accounting reconciliation of loan transactions
- Developed new reporting and reconciliation capabilities through TMS
- Implemented automatic GL posting

- **Tax**

- US Tax Code - Section 956 Event-Deemed Dividend

- End of Quarter

- Withholding Tax Treaties

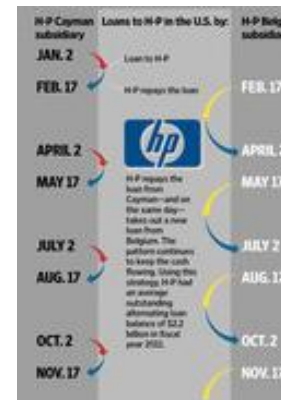
- Australia, Canada

- Thin Capitalization

BUSINESS | March 28, 2013, 10:55 p.m. ET

How Firms Tap Overseas Cash

U.S. Companies Can Borrow Millions of 'Trapped' Funds From Foreign Units if They Follow the Rules



Cash in Cash out—
Consecutive Loans to use
overseas cash without
paying US taxes

Wall Street Journal article, March 28, 2013

Pooling Structure Comparison



To address questions often raised regarding Notional and Physical pooling differences, the following table outlines the key considerations and differences between the two models.

	Multi-Entity Notional Pooling	Multi-Entity Physical Pooling (Sweeping)
Description	<ul style="list-style-type: none"> • Single net group balance via full notional off-set across multiple currencies and jurisdictions 	<ul style="list-style-type: none"> • Physical movement of funds between accounts, based on client-defined rules
Benefits	<ul style="list-style-type: none"> ▲ Reduced reliance on bank funding without the need to commingle funds or alter currency exposure ▲ Centralized control while maintaining subsidiary / operating unit autonomy 	<ul style="list-style-type: none"> ▲ Reduced reliance on bank funding ▲ Facilitates same-day automated funding and concentration of cash on a domestic or cross border basis
Intercompany Loans Created	<ul style="list-style-type: none"> • Historically used to avoid intercompany loans, but subject to pool setup and interpretation 	<ul style="list-style-type: none"> • Yes
Comingling of Funds	<ul style="list-style-type: none"> • No (see above) 	<ul style="list-style-type: none"> • Yes
Withholding Tax Implications	<ul style="list-style-type: none"> • Historically used to avoid WHT on intercompany loans, but subject to pool setup and interpretation 	<ul style="list-style-type: none"> • Intercompany position generated and subject to WHT if applicable
Participating Countries and Currencies	<ul style="list-style-type: none"> • Freely convertible and transferable currencies • Ability for bank to get right of setoff across participating countries 	<ul style="list-style-type: none"> • Freely convertible and transferable currencies
Interest Calculation Support from Bank	<ul style="list-style-type: none"> • For Single-Currency Notional Pools, calculated on net notional balance of the pooling structure. For Multi-Currency Notional Pools, calculated at prevailing rate per currency minus a bank spread on total pool • Support for clients' arms-length compensation of pool participants – includes calculations and reallocation postings to support earnings and charges 	<ul style="list-style-type: none"> • Calculated on consolidated position at the header account • Support for clients' arms-length compensation of pool participants – includes calculations and reallocation postings to support earnings and charges

Note: Informational only – this cannot and may not be construed to imply tax advice. If advice is required, legal, tax or otherwise, you should consult your own advisors.

Cash Mobilization

Implementing Efficient Liquidity Structures



- **In-Country Pools**
 - Physical – Intercompany Loans
 - Notional – Interest Allocation
- **Cross Border Sweeping Structures**
 - End-of-Day physical sweeps creating Intercompany Loan Transactions
 - Automatic reconciliations and posting
- **Multi-Currency Notional Pools**
 - Intercompany Loans Aggregated at In-House Bank
- **Multi-Entity / Multi-Currency Notional Pools**
 - Entity Deposits Aggregated and Drained by In-House Bank

Cash Mobilization

Implementing Efficient Liquidity Structures, cont.

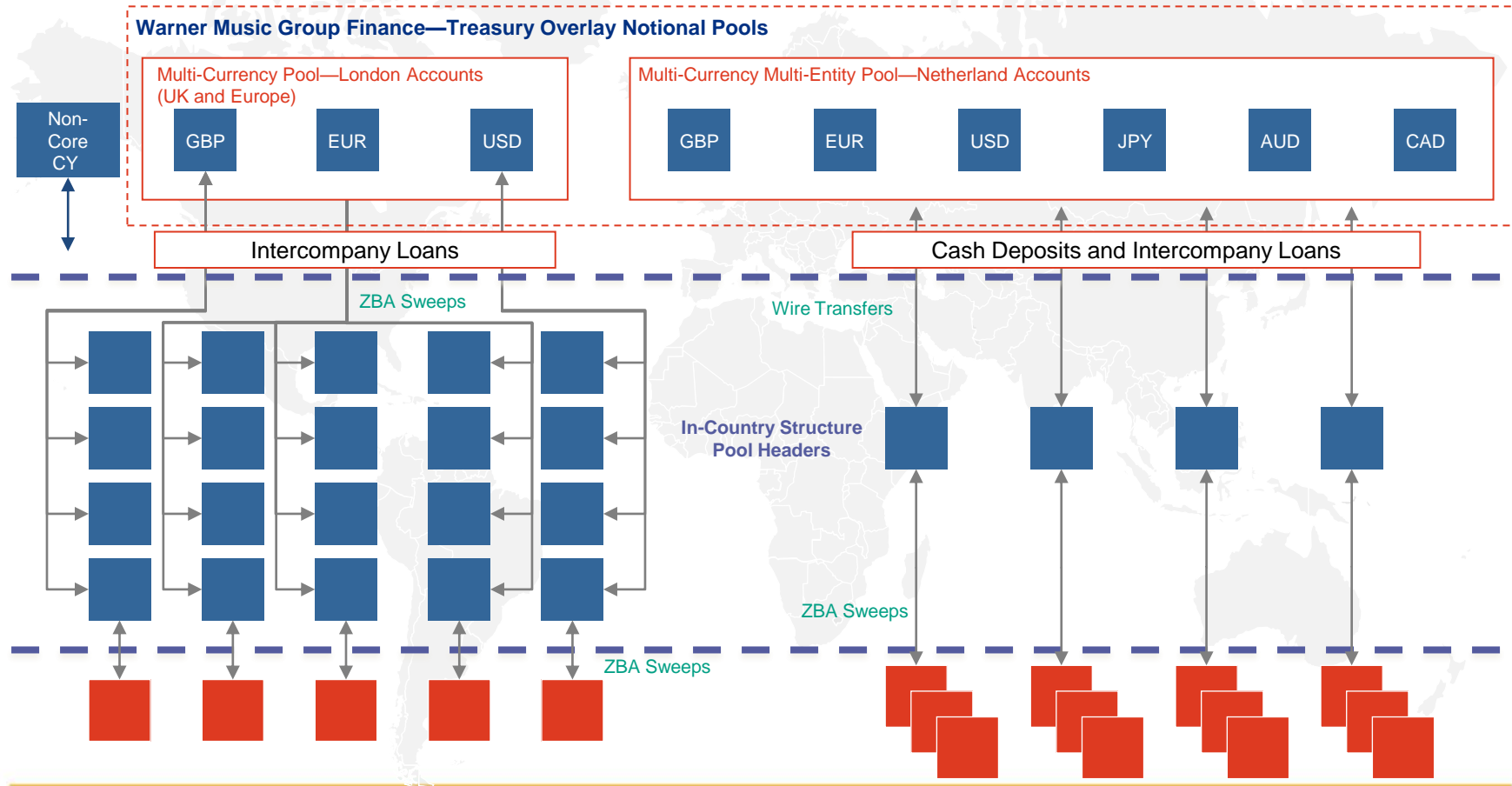


- **Cross Border Sweeping Structures**

- Optimal solution to manage subsidiary bank account balances
- Daily bank account balances sweep to zero End of Day
- Sweeps EURO, GBP to/from In-House Bank automates subsidiary funding process
- Automated subsidiary cash balance concentration
- Automated transaction reconciliation and GL posting
- Combined with Notional Pooling creates the optimal liquidity structure

WMG Liquidity Structure

US Concentration

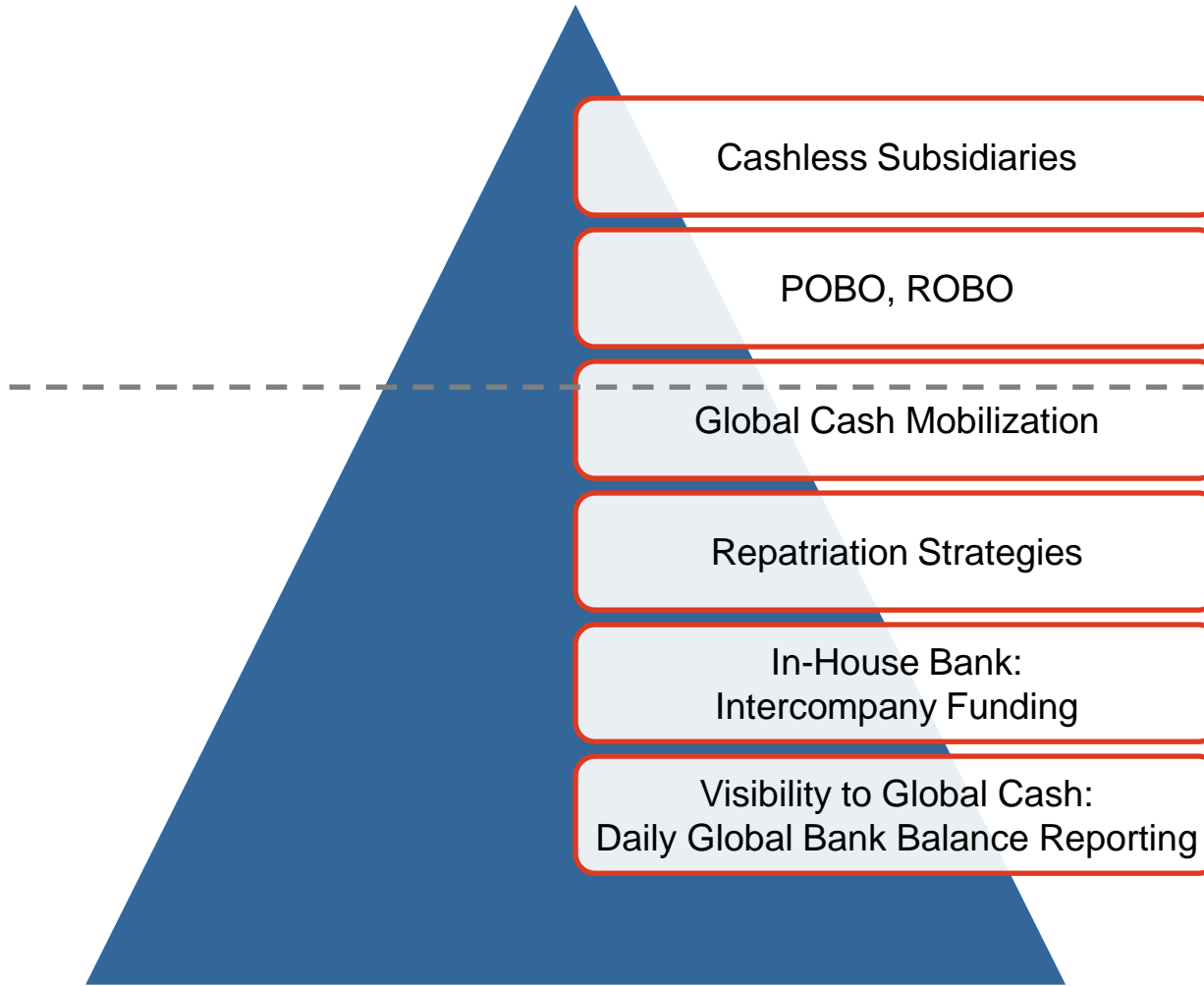


Liquidity Structure Benefits

Benefits

- ▲ Increased liquidity to reduce debt or increase investment
- ▲ Improve efficiency of both Treasury and subsidiary operations through automation
- ▲ Decrease bank fees through rationalization and scale
- ▲ Decrease sovereign risks

Global Liquidity Pyramid



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efficiency, renewable energy & mitigation