Global Liquidity Management
Increasing Liquidity Through Efficient Global Treasury Structures

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Warner Music Group

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Citi Treasury & Trade Solutions
Treasury Priorities…

…based on Citi Treasury Diagnostics research.

Re-organize treasury structures for continued business growth in emerging markets

Optimize working capital funding strategies for subsidiaries, especially in regulated markets

Globalize operating liquidity management, including IHB models, to release excess cash

Prepare for financial regulatory (e.g. D-F), market infrastructure (e.g., SEPA) impacts

Leverage regulatory changes in key emerging markets (e.g., China)

Leverage converging banking industry standards and corporate systems investment

<table>
<thead>
<tr>
<th>Treasury Impacts</th>
<th>Trends</th>
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<tbody>
<tr>
<td>Governance</td>
<td>Macro</td>
</tr>
<tr>
<td></td>
<td>1</td>
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<tr>
<td>Structure</td>
<td>1</td>
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<tr>
<td>Cash &amp; Funding</td>
<td>2</td>
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<tr>
<td>Risk</td>
<td></td>
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<tr>
<td>Systems</td>
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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.

**Centralization**
- I. I/C Fixed Loans/Deposits
- Cross-entity Liquidity Management—Global
- “Segregated” Liquidity Management (no co-mingling/intercompany loans)
- II. Cross-entity Liquidity Management—Regional
- III. Centralized External Deposits/Investments
- IV. Centralized Cash Flow Forecasting / FX Risk Management
- V. Intercompany Netting Internal—Cashless
- VI. POBO / ROBO External

**Range of Services**

*Improve management of liquidity and FX exposures; returns from greater tax-efficiency; extension to working capital management*

**Some factors driving a company’s placement along IHB continuum**
- Treasury Organizational Structure
- Business Operating Model
- Technology
- 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.
Case Study: Warner Music Group (WMG)
# Warner Music Group Overview

<table>
<thead>
<tr>
<th>Recorded Music</th>
<th>Music Publishing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product</strong></td>
<td>● Recordings</td>
</tr>
<tr>
<td><strong>Artists</strong></td>
<td>● Recording Artists</td>
</tr>
<tr>
<td><strong>Source of Revenue</strong></td>
<td>● Songs/Compositions</td>
</tr>
<tr>
<td></td>
<td>● Songwriters/Composers</td>
</tr>
<tr>
<td></td>
<td>● Mechanical (i.e. physical CDs)</td>
</tr>
<tr>
<td></td>
<td>● Performance (radio, TV, concerts)</td>
</tr>
<tr>
<td></td>
<td>● Sync (movies, video games, ads)</td>
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<tr>
<td></td>
<td>● Digital/Other</td>
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</tbody>
</table>

## Recorded Music Highlights

<table>
<thead>
<tr>
<th>1970s</th>
<th>1980s</th>
</tr>
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<tbody>
<tr>
<td>Layla</td>
<td>Endless Love</td>
</tr>
<tr>
<td>Led Zeppelin</td>
<td>Like a Prayer</td>
</tr>
<tr>
<td>Aretha Franklin</td>
<td>Stairway to Heaven</td>
</tr>
<tr>
<td>Madonna</td>
<td>Macarena</td>
</tr>
</tbody>
</table>

## Music Publishing Highlights

<table>
<thead>
<tr>
<th>1990s</th>
<th>Today</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macarena</td>
<td>American Idiot</td>
</tr>
<tr>
<td>Cee Lo Green</td>
<td>Livin'La Vida Loca</td>
</tr>
<tr>
<td>Bruno Mars</td>
<td>Just the Way You Are</td>
</tr>
</tbody>
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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)

<table>
<thead>
<tr>
<th>Global Treasury Headquarters</th>
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</thead>
<tbody>
<tr>
<td>• Debt management</td>
</tr>
<tr>
<td>• Risk management (FX, interest rate, etc.)</td>
</tr>
<tr>
<td>• Royalty/remittance hedging</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>US Shared Service Center</th>
</tr>
</thead>
<tbody>
<tr>
<td>• US cash management (Treasury operations)</td>
</tr>
<tr>
<td>• Investment portfolio</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>UK Treasury Center</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Global FX netting</td>
</tr>
<tr>
<td>• Inter-company funding and cash pool management</td>
</tr>
<tr>
<td>• Foreign exchange</td>
</tr>
<tr>
<td>• Transaction hedging</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>International Subsidiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Local cash management</td>
</tr>
<tr>
<td>• Local receivables/payables</td>
</tr>
</tbody>
</table>

*Siloed processes*

Existing TMS Utilization

- Core Users, UK Treasury
- Deal Management
- FX, Bloomberg

*FX trades and debt transactions, deal tracking from input to confirmation*

*Siloed processes*

*Limited systems utilization*
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

Legend
1. Intercompany transactions aggregated and settled to the intercompany G/L (cash-less where feasible)
2. Liquidity aggregated and intercompany loans recorded on intercompany G/L; LE’s transact with IHB on arms length basis
3. Net transactions to settle with third parties and management exposures consolidated through IHB

- 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.

<table>
<thead>
<tr>
<th>In-House Bank Benefits</th>
<th>Liquidity Management Constraints</th>
</tr>
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<tbody>
<tr>
<td>• Liquidity Management</td>
<td>• Regulatory Environment</td>
</tr>
<tr>
<td>• FX Management</td>
<td>• Tax Considerations</td>
</tr>
<tr>
<td>• Subsidiary Funding and Repatriation</td>
<td>• Staffing/Technology/Accounting</td>
</tr>
</tbody>
</table>
Liquidity Management Constraints:
The Regulatory Environment

**Liquidity Flows**
- **Free Flowing**
- **Challenged**

**Liquidity Management**
- **Minimally Restricted**
- **Highly Restricted**

**Centralized liquidity through sweeps and notional pool participation**
- Australia
- NZ
- Western Europe
- Canada
- US
- Singapore / Hong Kong
- Japan
- Mexico

**Centralized liquidity through intercompany loans**
- Poland
- Korea
- Thailand
- Indonesia
- Russia

**Liquidity focused on in-country solutions**
- Venezuela
- Philippines
- Argentina
- China
- Brazil
- Vietnam

**Regulatory Environment**
- Western Europe
- US
- Japan
- Mexico
- Singapore / Hong Kong
- Canada
- Australia
- NZ
- Western Europe

**Countries**
- Venezuela
- Philippines
- Argentina
- Brazil
- Vietnam
- China

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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

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Wall Street Journal article, March 28, 2013

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Multi-Entity Notional Pooling</th>
<th>Multi-Entity Physical Pooling (Sweeping)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
<td>• Single net group balance via full notional off-set across multiple currencies and jurisdictions</td>
<td>• Physical movement of funds between accounts, based on client-defined rules</td>
</tr>
<tr>
<td><strong>Benefits</strong></td>
<td>▲ Reduced reliance on bank funding without the need to commingle funds or alter currency exposure ▲ Centralized control while maintaining subsidiary / operating unit autonomy</td>
<td>▲ Reduced reliance on bank funding ▲ Facilitates same-day automated funding and concentration of cash on a domestic or cross border basis</td>
</tr>
<tr>
<td><strong>Intercompany Loans Created</strong></td>
<td>• Historically used to avoid intercompany loans, but subject to pool setup and interpretation</td>
<td>• Yes</td>
</tr>
<tr>
<td><strong>Commingling of Funds</strong></td>
<td>• No (see above)</td>
<td>• Yes</td>
</tr>
<tr>
<td><strong>Withholding Tax Implications</strong></td>
<td>• Historically used to avoid WHT on intercompany loans, but subject to pool setup and interpretation</td>
<td>• Intercompany position generated and subject to WHT if applicable</td>
</tr>
<tr>
<td><strong>Participating Countries and Currencies</strong></td>
<td>• Freely convertible and transferable currencies • Ability for bank to get right of setoff across participating countries</td>
<td>• Freely convertible and transferable currencies</td>
</tr>
<tr>
<td><strong>Interest Calculation Support from Bank</strong></td>
<td>• 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</td>
<td>• 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</td>
</tr>
</tbody>
</table>

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
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

- Cashless Subsidiaries
- POBO, ROBO
- Global Cash Mobilization
- Repatriation Strategies
- In-House Bank: Intercompany Funding
- Visibility to Global Cash: Daily Global Bank Balance Reporting
In January 2007, Citi released a Climate Change Position Statement, the first US financial institution to do so. As a sustainability leader in the financial sector, Citi has taken concrete steps to address this important issue of climate change by: (a) targeting $50 billion over 10 years to address global climate change; includes significant increases in investment and financing of alternative energy, clean technology, and other carbon-emission reduction activities; (b) committing to reduce GHG emissions of all Citi owned and leased properties around the world by 10% by 2011; (c) purchasing more than 52,000 MWh of green (carbon neutral) power for our operations in 2006; (d) creating Sustainable Development Investments (SDI) that makes private equity investments in renewable energy and clean technologies; (e) providing lending and investing services to clients for renewable energy development and projects; (f) producing equity research related to climate issues that helps to inform investors on risks and opportunities associated with the issue; and (g) engaging with a broad range of stakeholders on the issue of climate change to help advance understanding and solutions.

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 & mitigation**