

Cross-Border Liquidity Management: the Banks' Perspective

Ben Arber

HSBC Global Payments and Cash Management Asia Pacific

▶ Typical Goals Behind Cross-Border Liquidity Management in Asia

- Repatriation of surplus funds
 - Usually to the US or Europe (or related tax-efficient areas)
- To meet long-term debt payments
- Improved return on investment
- To meet local acquisition opportunities
- Balance sheet management
- Freeing of “trapped” cash
- To reduce short-term debt service costs



► Challenges Specific to Asia

- Domestic liquidity management a challenge in most countries
- Multiple currencies and time zones
- Foreign exchange controls / non-convertible currencies
 - Resulting in large amounts of trapped cash
- Regulations governing onshore / offshore accounts
- Where to place a regional treasury center?
- Sarbanes Oxley, Basle II
- Withholding tax, transfer pricing and thin capitalization



▶ Asia-Pacific Cross-Border Liquidity Management Landscape

More Regulated

- Bangladesh
- China
- Central Asia
- India
- Korea
- Malaysia
- Pakistan
- Sri Lanka
- Taiwan
- Thailand



Less Regulated

- Australia
- Hong Kong
- Japan
- New Zealand
- Singapore

Semi-Regulated

- Brunei
- Indonesia
- Philippines
- Taiwan

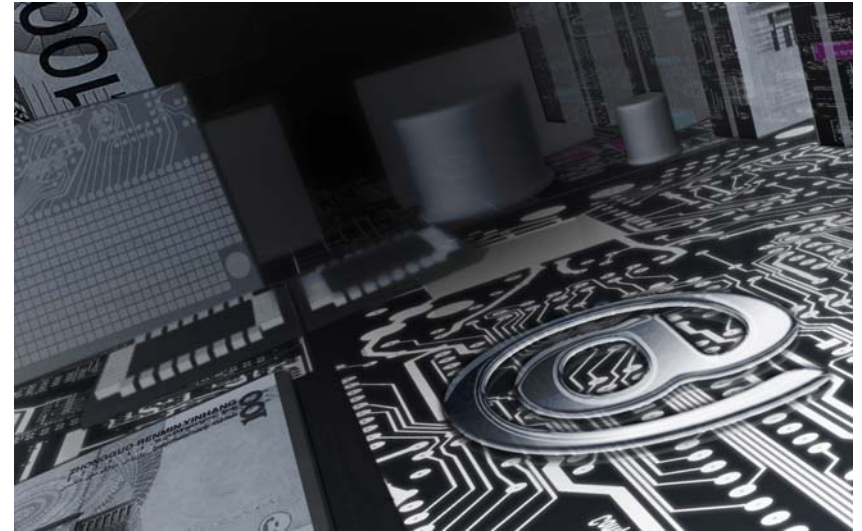
► Overview and Regulatory Climate

- Movement of funds outside originating country
 - Possible in all Asia-Pacific countries for FCY, and some for LCY
 - Only for sales proceeds, trade-related flows, dividends in regulated countries
- Various levels of deregulation for cross-border remittances
 - Indonesia: cross-border cash concentration from USD offshore accounts
 - Taiwan: USD50m per year per entity
 - India: industry-specific regulations
- Automated cross-border sweeping only permitted in “easy” countries
 - Already available with most regional / global banks for some time
- Cross-border notional pooling not possible in Asia-Pacific
- Automated multilateral cross-border netting subject to regulations



▶ Bank Solutions Available

- Three principal banking options
 - The network bank
 - The overlay bank
 - Multiple domestic / regional banks
- Cross-border cash concentration
 - Intra-region or outside Asia Pacific
- Interest optimization
 - Adjustment of debit / credit interest payments depending on in-country balances
 - Depends on bank capability to provide LCY accounts
 - De facto cross-border notional pooling
- Foreign exchange outsourcing
 - Cross-border sweeping including an FX element
 - Regular automated transactions at set margins
 - Only less regulated countries



► Focus on China

- Current environment

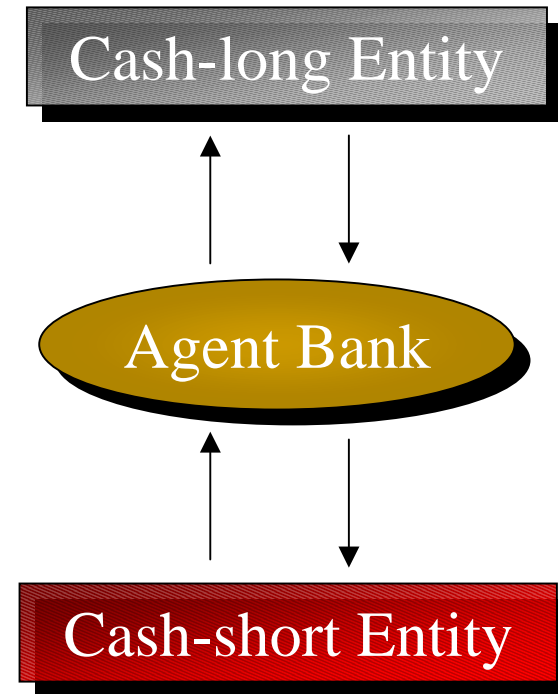
- RMB not fully convertible; interest rates stipulated by People's Bank of China
- Inter-company lending and netting not permitted (other than via entrusted loan)
- No single integrated nationwide domestic clearing system
- FCY transactions regulated by State

Administration of Foreign Exchange (SAFE)

- Cross-border transactions: SAFE approval

- Deregulation is ongoing

- Cross-border entrusted loan
- For multinationals with a China holding company
- Strict criteria to be met



▶ Recent Asia Pacific Trends and Future Outlook

- Importance of an effective account structure
 - To support the centralization of financial processes
- In-house bank support solutions
 - Increasingly widespread: can manage all currency accounts via on- or offshore entities
 - Movement of funds and placement of swaps governed by domestic regulations
- Increasing globalization
 - Asia Pacific is USD-driven
 - Management of liquidity on a global basis
- Continuous Linked Settlement (CLS) for corporations
- Ongoing domestic deregulation
- Currency consolidation
 - A single Asian currency ... ?



Throwing light on cash management



HSBC 
The world's local bank