THE Asset BENCHMARK RESEARCH

Treasury in practice

Risk management, netting and outbound M&A

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Asset Benchmark Research
Asset Benchmark Research conducts in-depth, product-specific surveys on Asia's financial markets. Part of the group that publishes The Asset magazine, the research team specializes in accessing senior corporate decision-makers and institutional investors to provide accurate quantitative and qualitative data to assist in management decisions.

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Asset Publishing and Research Limited
Suite 1203-05, 12th Floor
Chinachem Exchange Square,
1 Hoi Wan Street, Quarry Bay
Hong Kong SAR, PR China
Tel: +852 2573 6078

Bank of Communications Limited Head Office
188 Yinchengzhong Road
Shanghai 200120
PR China
Tel: +86 21 95559

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BANK OF COMMUNICATIONS

Contents

Major findings

- Foreign exchange (FX) risk is the most important financial risk among Asia-Pacific corporates in the treasury risk management survey, followed by financing risk and liquidity risk
- Chinese respondents rank liquidity risk as their most important financial risk followed by FX risk and financing risk
- The most common products/strategies being employed to hedge FX risk are forward contracts and swaps. The others include natural hedging, money market hedging, currency options, risk shifting and currency risk sharing
- The most preferred method of hedging FX risk in external markets is phone-based broking. The other notable methods are bank proprietary web-based systems and multi-dealer electronic platforms such as Currenex, FXall and Hotspot
- In terms of the internationalization of Chinese treasury units, 85% of the China-based respondents have no plans to set up treasury and finance departments outside of China. Only 7% has plans to do so, while 8% plans to expand its existing functions overseas
- In Asia, Hong Kong is the most preferred region by 68% of the respondents when given a choice to pick where they want to set up their overseas treasury and finance units outside of China, followed by Singapore (36%). Another 7% picked Europe, 4% Australia and 4% North America
- Hedging market exposure is regarded as the most important task of offshore treasury operations, followed closely by funding overseas operations and providing overseas trading partners with a more convenient payment account
- Increasing overseas business is acknowledged by 58% of the Chinese corporates as the primary factor that will make them reconsider their plans about setting up an overseas treasury and finance presence, followed almost equally by tax incentives in offshore locations for treasury entities, complete capital account liberalization in China, greater interest rate differential with onshore China interest rate and better advice from banks and other service providers
- A separate survey on netting among multinational corporates with entities operating in mainland China, most of them with group turnover of over US$1 billion in 2015, shows that half of them say they do not operate a global netting centre (GNC) for their intercompany receivables and/or payments, while 38% operate a GNC and 12% are not aware if they do the activity or not

Hedging market exposure is regarded as the most important task of offshore treasury operations

- Lower operational costs are the single greatest benefit of operating a GNC as cited by 78% of the respondents, followed by lower transaction banking fees (56%), centralized FX risk control (44%), improved cash visibility (44%) and higher yield on idle funds (11%)
- Another survey on Chinese corporates shows that 23% of them have acquired a non-related company outside of mainland China during the past 12 months with the average transaction size of US$150 million
- In addition to bank loans and debt capital markets (DCM) from overseas, the Chinese respondents say they fund their deals from internal resources, using their retained earnings from their overseas operations

Partner business overview

Treasury in Practice – Risk management, netting and outbound M&A provides valuable references for corporate treasury management. This study is fully supported by Bank of Communications.

Bank of Communications (China) Co., Ltd. is one of the top five state-owned commercial banks in China. It was listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange in 2005 and 2007, respectively. Bank of Communications is committed to becoming a first-class financial group, refocusing on market-leading wealth management products and financial services as a long term strategy. Currently, Bank of Communications possesses various licenses and has become a financial group focusing on banking and cross-market business. Its business covers commercial banking, investment banking, securities trusts, financial leasing, fund management, insurance, offshore financing, etc.

Bank of Communications' market capitalization is among the best in the global financial industry and was ranked 13th with respect to Tier-1 capital in global banking industry. The bank was also given an 'A' rating by the top three international credit rating agencies.

Over the past few years, Bank of Communications has been committed to providing customers with a full range of treasury management services. By continuing to promote cash management products and services, and by integrating the treasury system platform, it is actively building a capital management solution that balances both liquidity and profitability.

With respect to cash management, it provides the customers with market-leading customized Renminbi cash pool products and services, innovative global cash management services, unique bill pool managem ent and e-billing services, mobile payment services in all channels, and automated investment and financial management functions. Customers are able to experience satisfying and professional treasury management services through e-channels such as online banking, bank-corporate direct system connection, and interbank funds management platforms from over 3200 subsidiaries and overseas branches of Bank of Communications.

About the respondents

The survey has identified the financial risks CFOs and treasurers face and how they address those risks

The treasury risk management survey takes a rigorous approach to determine what the corporate CFOs and treasurers consider as the most important treasury objectives during the next 12 months and the risks that they are facing in running their businesses.

We reached out to a total of 1,123 corporate CFOs and treasurers through an online questionnaire that follows the structure of the formal interviews (93% of the respondents) and through phone interviews (7% of the respondents).

Of the total respondents, 46% are from China and 54% from the rest of Asia-Pacific. In terms of the companies' annual turnover, 58% of respondents have turnover of less than US$250 million annually. Twenty-one percent have turnover of between US$250 million and US$1 billion and another 21% with over US$1 billion.

Through this exercise, the survey has identified the financial risks CFOs and treasurers face and how they address those risks. The survey also covers how FX exposure impacts P&L statements and how much corporates hedge their FX exposure; which products/strategies they employ to hedge their FX risks; and what their preferred methods of hedging FX risks are in external markets.

In addition to the core respondent group, we contacted 24 multinational corporates with entities in mainland China for a separate survey on cross-border netting practices, and surveyed another 26 Chinese large corporates regarding the risks and financing activities relating to overseas M&A.

CHART 1
Respondent distribution by geography

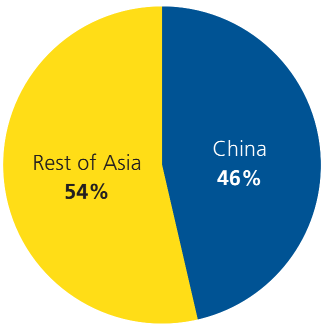
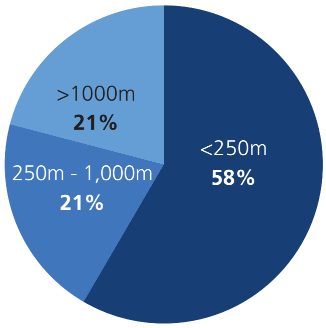


CHART 2
Respondent distribution by company annual turnover (US$)



Treasury risk management

Doing business can be fraught with risks and even more so in emerging markets where opportunities abound. FX volatility is foremost among the concerns of CFOs and treasurers in the region in view of the divergent policies of the central banks and other factors such as fluctuating commodity prices and a stronger US dollar.

In Asia, much of the focus on FX volatility during the past year was on the renminbi following the surprise devaluation of the currency on August 11 2015 amid Beijing's shift to a more flexible exchange rate regime. In an unexpected move, China's central bank, the People's Bank of China (PBoC), abolished the way it had fixed the renminbi exchange rate for years, moving to a more market-oriented scheme that takes cues from movements in many other currencies. The immediate aftermath in the form of a near 2% devaluation within just one day (and an additional 2% in the weeks that followed) rattled corporates, irrespective of how market-oriented the decision was.

> *At present, the renminbi depreciation is being largely driven by the strength of the US dollar , which is a challenge to the PBoC FX policy*

The global markets reacted to the sudden shift in the exchange rate regime and FX policy, resulting in depreciation across the emerging market currencies. It eventually triggered a broad sell-off in risky assets and fuelled an increase in capital outflows from Chinese corporates and households. This also brought about a decline in the country's FX reserves as the PBoC had to defend the renminbi and the tightening of the regulation over some cross-border capital outflow channels.

But despite the market turmoil, the PBoC remains committed to a broader liberalization objective, as illustrated by the opening during the third quarter of 2015 of the China interbank bond market (CIBM) and FX market to official investors such as central banks and supranational agencies. As of late February, all international institutional investors have access to the CIBM.

The deregulation is considered crucial in the decision of the International Monetary Fund (IMF) to include the renminbi in the Special Drawing Rights basket on October 1 2016. The renminbi thus joins the US dollar, euro, Japanese yen and the British pound as the IMF's reserve assets. This also represents another step in the internationalization of the Chinese currency.

At present, the renminbi depreciation is being largely driven by the strength of the US dollar, which is a challenge to the PBoC FX policy. While capital outflows picked up in September, an HSBC flash note says the net renminbi payments abroad are not necessarily motivated by FX considerations or converted into US dollar offshore.

A key solution to currency volatility is hedging. And since hedging aims for stable margins, corporates, at least from an FX perspective, will be better off to hedge the full duration of their commercial pricing cycle.

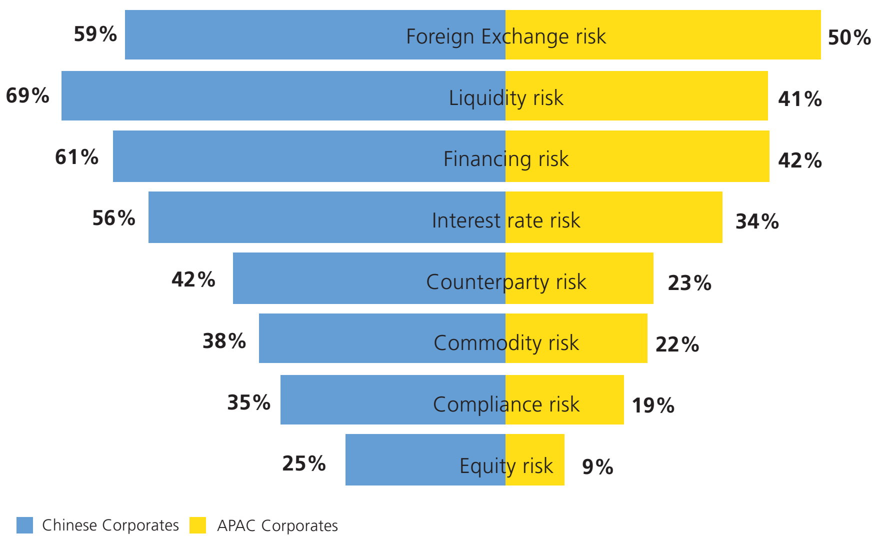
Corporates can use forward contracts, which are the most common tools for hedging, particularly buying or selling a fixed amount of currency at a set rate.

Indeed, the survey reveals that FX risk tops the list of financial risks that Asian corporates are most concerned about. The majority (59%) of the respondents that put FX risk on top of their list are from China.

Among respondents in the survey, a Chinese manufacturer of solar energy products says it hedges between 40% and 60% of its FX exposure by using forward contracts. FX movements have negatively impacted its 2015 income statement in its reporting currency. The company prefers using multi-dealer electronic platforms.

CHART 3

Most important financial risks: China vs APAC corporates



Rank in the order of weighted importance of overall sample.

A global supplier in the printing industry operating in China hedges between 10% and 60% of its FX exposure and employs forward contracts as well as natural hedging. Its preferred methods of hedging FX risk in external markets are phone-based broking and bank proprietary web-based platforms.

A subsidiary of a global chemical company operating in China hedges a bigger share of its FX exposure at between 61% and 80% and likewise employs forward contracts. Its preferred method of hedging FX risks is bank proprietary web-based platforms. The company is not allowed to use multi-dealer electronic platforms.

As a US dollar reporting entity with a strong emerging market portfolio, a global brewery faces real challenge managing a strong dollar.

On a transactional level, the company hedges as much as 95% of its FX exposure and uses plain vanilla forwards. The method it uses to hedge the FX risks depends on the market. It relies on multi-dealer electronic platforms as well as phone-based broking in some markets.

An Indonesian company, meanwhile, determines the proportion of its hedging based on the level of fluctuation of the local currency. For instance, when the FX movement was volatile such as in the third quarter of 2015, it hedged almost 50% of its FX exposure. And when the rupiah stabilized, it hedged only 10%.

The company uses forward contracts and combines those with options. However, the onshore options market for rupiah contracts is still in its infancy, while the offshore market can be expensive and difficult to access for onshore corporates. The company also uses swaps, but transacts them offshore. The company engages five banks in hedging and uses phone-based broking.

A global spirits company that operates in India cites FX risk as the financial risk that has the most impact on its income statement because it imports a lot of its products. To hedge its FX risk, it uses multi-dealer electronic platforms. In some cases, it conducts phone-based broking and gets quotes from three to four banks.

A US multinational company, also operating in India, hedges between 21% and 40% of its FX exposure, but the actual hedging is being done in the US. In 2016 it is undertaking a change in its strategy to manage its FX risk by negotiating an Indian rupee billing from its parent for all of its US dollar payables in order to have a natural hedge.

A major global transport and logistics company only hedges less than 20% of its FX exposure because it uses a global netting system that protects it from FX risks. The currency exchange movements have not negatively affected the company's income statement in the reporting currency. It only uses one main bank for hedging and does not require a multi-dealer electronic platform.

Overall, phone-based broking is the preferred method of hedging FX risks in external markets for 33% of the Chinese corporates and 45% of corporates in the rest of Asia-Pacific. The other methods are bank proprietary web-based systems and multi-dealer electronic platforms.

Another global telecommunications company operating in China indicates that it lets its head office hedge FX risk for them. It's a practice it intends to continue for

CHART 4

Percentage of FX exposure hedged: China vs APAC corporates

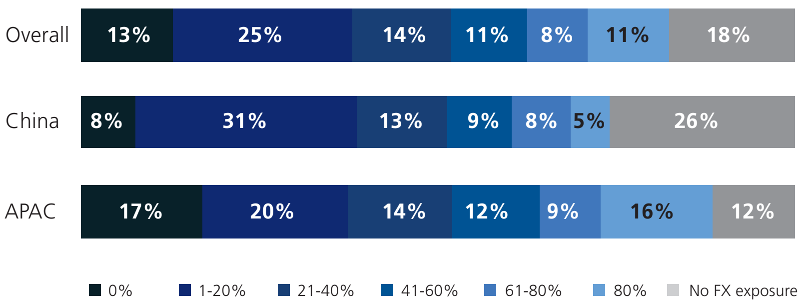
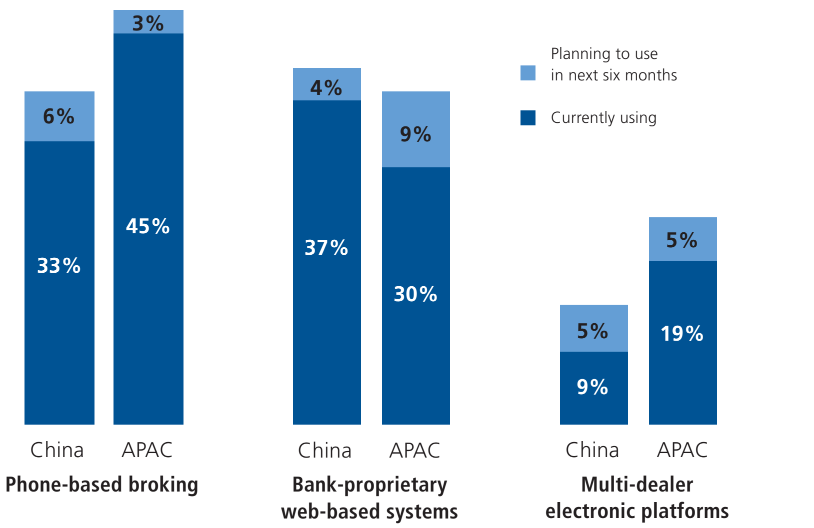


CHART 5

Preferred method of hedging FX risks: China vs APAC corporates

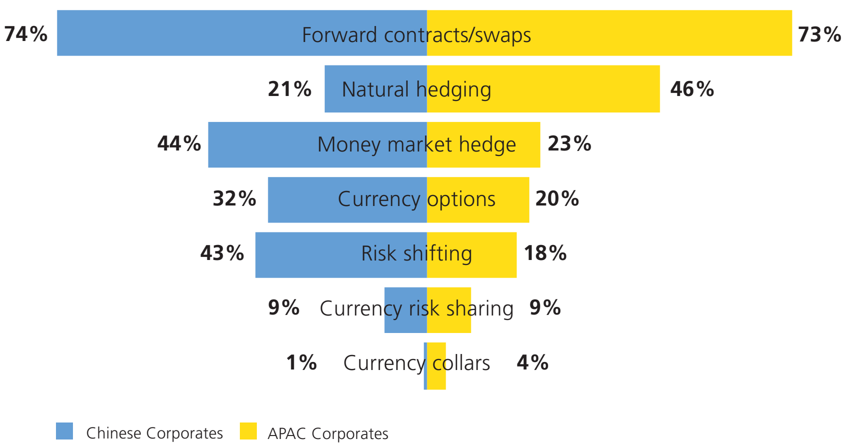


the rest of 2016. As a result, FX risks are minimized for the group as a whole. The head office does natural currency hedging and applies other hedging tools for the net outstanding or net open value.

The survey reveals that forward contracts and swaps as a strategy is the most common hedging tool for corporates in the region, with 74% of the respondents from China and 73% from the rest of Asia-Pacific citing it as their preferred strategy. Other popular hedging strategies include natural hedging, money market hedging, currency options, risk shifting, currency risk sharing and currency collars.

CHART 6

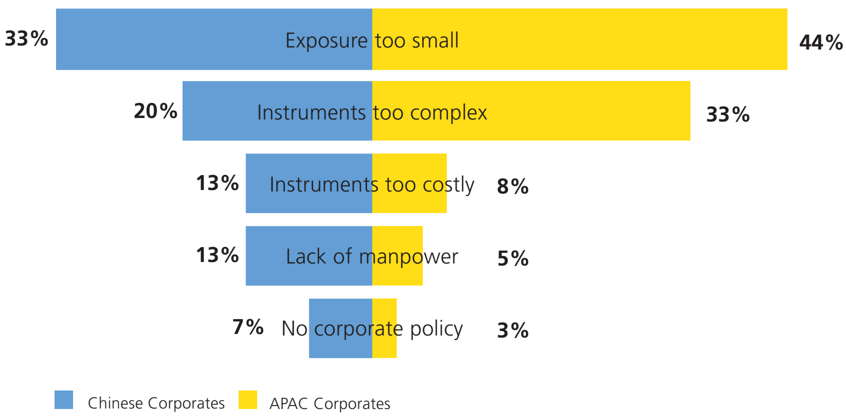
Most common hedging strategies: China vs APAC corporates



Rank in the order of weighted importance of overall sample.

CHART 7

Reasons for not hedging FX risks: China vs APAC corporates



Rank in the order of weighted importance of overall sample.

An Indonesian subsidiary of a European distributor of security products, services and solutions, meanwhile, is now looking at hedging its FX exposure. Its exposure had been fairly limited in the past, but that has slowly changed. Its treasury team is now looking at cross-currency matching as one option.

A CFO of a leading pharmaceutical company headquartered in Europe with operation in Singapore, meanwhile, says that FX risks have become more manageable in 2016. While some currencies will continue to fall against the US dollar and euro, the pace will likely be slower and could be hitting bottom.

Survey respondents also rank liquidity risk as among their major concerns. China-based respondents (69%) cite liquidity as the most important risk as opposed to 41% of respondents from the rest of Asia-Pacific.

One other global telecom subsidiary operating in China cites liquidity risk as its foremost problem. While it enjoys excess liquidity, access isn't always easy. It has a standard hedging programme that takes care of its FX risk and monitors financial counterparty risk exposure.

A multinational manufacturer of industrial tools and equipment operating in Thailand reduced FX exposure after it was able to invoice in Thai baht last year.

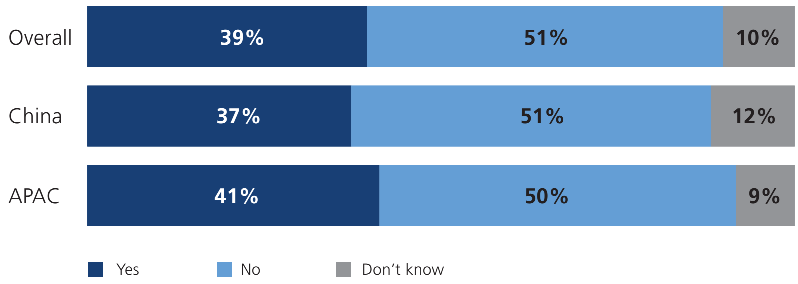
A power generation company identified interest rate risk as its biggest financial risk. It has no external debt so it has no FX risk to deal with. It has long-term liabilities, so the liquidity risk is small.

Other financial risks that keep CFOs and treasurers awake at night are counterparty risk, commodity risk, compliance risk and equity risk.

The survey reveals that some corporates aren't hedging because of their small exposure to FX risks. Others don't hedge because it's complicated and costly.

CHART 8

Negative P/L impact due to FX exposure in the past 12 months: China vs APAC corporates



P/L impact from FX exposure

One in two corporates say their income statements had been unaffected by currency exchange movements in the past 12 months. In fact, a transport and international logistics company operating in Singapore says the currency movement worked to its advantage because of the euro depreciation against Asian currencies.

Thirty-nine percent of respondents experienced the opposite, however. FX movement impacted their P/L statements in their reporting currency – some more than others. The rest were not sure if the movement has had an impact on their P/L over the past year.

Domestic and cross-border netting

The next part of this report documents the evolution of a cash management concept that is used by large multinational corporates, but has only recently caught the attention of their peers in China: netting of payments and receivables.

Netting is a cash management strategy employed by the world's largest companies since the 1990s. It typically involves the creation of an internal netting centre, which is charged with netting off intercompany transactions between different subsidiaries of the same

State of the netting regulations in China

Cross-border (Foreign Currency)	Cross-border (Renminbi)
August 2015 - The company should set up an onshore FX account Allowed sources of FX in onshore account: 1. FX income from onshore subsidiaries' current account 2. Offshore account within a limit quota 3. FX purchase under current account 4. Wealth management products 5. Other allowed source Allowed uses of FX: 1. Current account expenditure from onshore to offshore subsidiaries 2. Allocate to onshore subsidiaries 3. Pay back the offshore account 4. FX settlement 5. FX reserves 6. Other allowed expenditure The group should impose a cross border netting arrangement at least once a month and should report the transaction to SAFE.	**November 2014** - China: The funds cannot be used for purchasing securities, derivatives, wealth management products, properties that are not used by the corporates themselves (e.g. rent, sales, etc) and cannot be lent to non-group members Upper limit for net inflows and outflows: Aggregated equities injected by parent for fund pool purposes multiplied by the coefficient of macroprudential policies **September 2015** - China (excluding Guangdong, Fujian and Tianjin FTZs): Coefficient of macroprudential policies is 0.5 **August 2016** - Guangdong, Fujian and Tianjin FTZs: Coefficient of macroprudential policies is 1 *(The value of the coefficient of macroprudential policies is based on macroeconomic policies and credit controls by PBoC. The change of the coefficient reflects the PBoC's willingness to liberalize its cross-border cash flows.)*

group. As such, investments in netting will usually only prove to be efficient when the corporate operates a multitude of subsidiaries that trade with each other. For groups that fit this category, the return on investments can be significant. Rather than handling thousands of payments among interrelated parties, netting centres can bundle, cancel and streamline transactions to produce cost savings on payment fees and manpower.

As the PBoC and SAFE issued several regulations to promote cross-border cash and liquidity management in the renminbi and foreign currencies, the introduction of netting has attracted considerable interest from corporate treasurers. It enables corporates to leverage the concept of centralized payment and collection to better manage their working capital, including pay-on-behalf-of (POBO) and receive-on-behalf-of (ROBO), and the netting of transactions between intercompanies and third party companies.

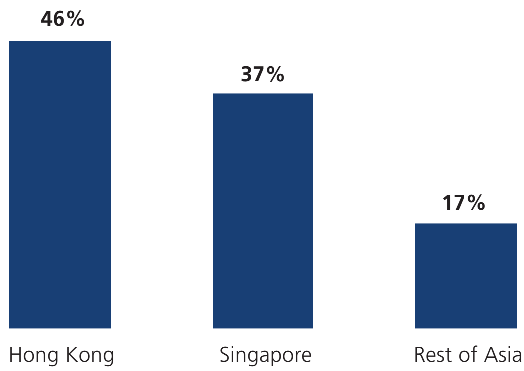
> *The single biggest benefit of operating a GNC is lower operational costs, according to 78% of corporates that run one*

Netting offers benefits – from simplifying settlements between internal and external trading partners to helping reduce the funding cost significantly.

There have been pioneering renminbi netting transactions involving multinational companies. Samsung Electronics successfully implemented in May 2015 the first global intercompany cross-border renminbi netting solution. Managed by Samsung's GNC, the solution brings significant opportunity for more effective liquidity management and working capital optimization for the company.

Bosch, which has a GNC in Germany for cross-border settlement transactions among intra-group companies, executed in September this year its first cross-border renminbi netting transaction. The solution is expected to significantly benefit its global treasury operations with improved transaction costs due to the reduced number of payments, better global liquidity management across the group and minimized onshore FX exposure by centralizing FX management into its headquarters in Germany. At the same time, its China subsidiaries are now another step closer to full integration into its global treasury operations.

CHART 9
Respondent distribution for cross-border netting



The majority of the corporates (46%) that responded in the netting survey are located in Hong Kong. Thirty-seven percent of respondents are in Singapore and 17% in the rest of Asia. Only 38% of respondents operate a GNC for their intercompany receivables and/or payments. Half of the respondents don't operate a GNC, while the remaining 12% are unaware of the activity.

The single biggest benefit of operating a GNC is lower operational costs, according to 78% of corporates that run one. The annual savings range from US$10,000 to US$500,000 or an average of US$330,000.

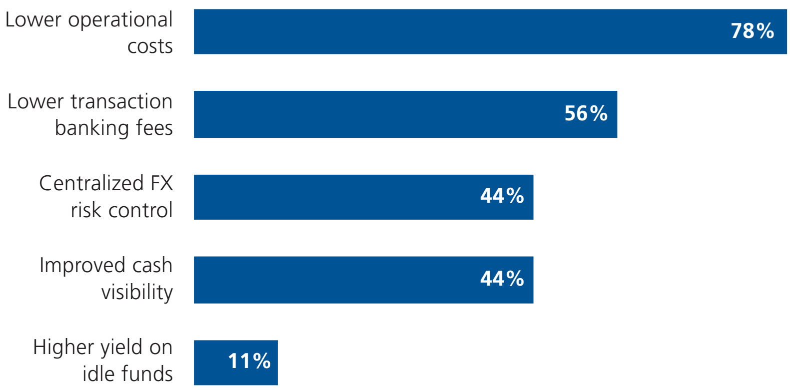
One corporation that lowered its operational cost with the help of a GNC is a multinational chemical manufacturing corporation with regional headquarters in Hong Kong. It is now trying to include their onshore entities in China in the group's netting arrangement, which it describes as a difficult exercise. The company is facing regulatory issues and the arrangement is taking a lot of time. But it hopes regulators will streamline documentation process.

A multinational engineering firm with a Hong Kong-based unit has been operating netting globally for more than 15 years. In its intra-group "cleaning", the payables and receivables are actually netted. Payments are cleared without the exchange of physical assets except in countries with central bank regulations that do not allow netting.

A global brewery with a Hong Kong office does netting for its operations in Asia-Pacific, particularly in Australia, but not in markets where control policies on cash are strict such as in some Southeast Asian and Indian markets where it operates.

CHART 10
Does your company operate a GNC for your inter-company receivables and/or payments?

CHART 11
Single greatest benefit of operating a GNC



A company providing market expansion services in Asia achieved lower operational costs and improved cash visibility after it slowly expanded its GNC. The cost benefit of operating a GNC is over US$500,000 yearly. The company included its onshore China entities in its group netting arrangement.

It would have wanted to grow its GNC channels, but netting isn't allowed in certain markets. Netting becomes more complex given the uncertainty around the banking sector. The company will have to deal with more than one or two core banks as a result. Onerous documentation requirements is also increasingly a problem for the company. In certain markets, netting entails multiple forms and documents that need filling out.

A global pioneering technology company with a branch in Singapore started operating a GNC in 2008. That cut operational costs and transaction banking fees, centralized FX control and improved cash visibility. The company saves between US$100,000 to US$500,000 yearly. Its onshore Chinese entities have been included in the group's netting arrangement since 2014.

A US multinational conglomerate that produces a variety of commercial and consumer products operates a GNC that is managed by a third party. The company, with presence in Singapore, onboarded its onshore China entities to its netting arrangement five years ago. They participate in the platform, but settle on a gross basis.

The company says it can work with a Chinese bank for its netting arrangements. But it will have to be a bank that operates globally given the company's intercompany transactions that originate from a number of markets.

A US computer company that operates in Singapore puts its annual GNC savings at over US$500,000. It already onboarded some of its onshore Chinese entities to the netting arrangement and would have included all if not for impediments such as cost and regulations.

The company has a view that Chinese banks can do well at netting given that they're operating in the country and are familiar with the regulations.

For a subsidiary of a European car company operating in Malaysia, implementing group-wide netting is impractical because of FX volatility. To manage fluctuations in currencies, it locks in FX contracts. It believes operating a GNC will incur costs that may outweigh savings from netting. The company prefers to lock in contracts on a monthly basis than to net.

A food and beverage company in Singapore sees regulations as hurdles to netting. It says it may operate a GNC when governments ease regulations around netting.

Nearly half (42%) of respondents cite the lack of cost savings and other visible benefits as reason for not implementing a group-wide netting.

CHART 12

Are your onshore China entities included in your group's netting arrangement?

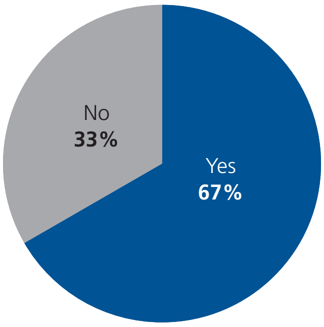
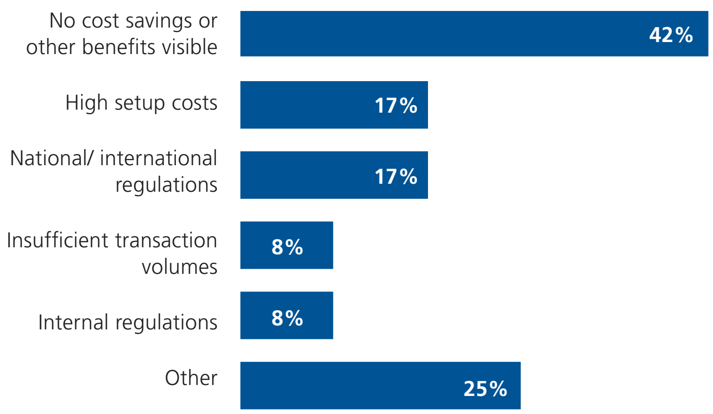


CHART 13

Why do you choose not to implement group-wide netting?



RISK AND FINANCING IN OVERSEAS M&A

2016 is shaping up to be another record year for outbound China M&A, with noticeable participation from the private sector despite the slowing domestic economy in the backdrop. The outbound activity is shifting towards higher value-added sectors in line with the country's structural reforms towards a consumption-driven model from an export and investment-led strategy.

Chinese corporates expanding their global footprint are now moving to pursue opportunities in technology and new economy sectors after chasing a number of resource-related deals in the past. They are also keen on sectors including industrial, chemical, consumer and healthcare.

Chinese corporates expanding their global footprint are now moving to pursue opportunities in technology and new economy assets

What is also noticeable this year are the sizes of China-led acquisitions. ChemChina is in the process of acquiring the Swiss pesticide and seed company Syngenta for US$43 billion, the largest overseas acquisition by a Chinese company to date. Tencent bought the Finnish mobile game developer Supercell for US$8.6 billion, while Qingdao Haier paid US$5.4 billion for the home appliance business of General Electric.

A third survey reveals Chinese corporates' appetite for offshore assets. In the survey, 23% of China-based corporates acquired or had plans to acquire a non-related company outside of mainland China during the past 12 months with an average transaction size of US$150 million. The rest (77%) have not been in involved in any outbound acquisitions in the period.

Unlike in the previous years, state-owned enterprises (SOEs) are not leading outbound M&A deals. Leverage growth concerns have surfaced in view of SOEs' past acquisitions that were largely funded by debt.

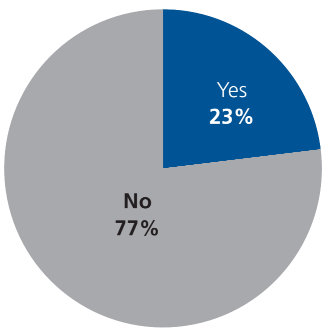
Taking up the cudgels are the privately-owned enterprises (POEs), which are designing their acquisition strategy in line with China's macroeconomic policies. The Chinese companies have become more experienced in executing M&A transactions and in arranging financing to fund their acquisitions, which made them more competitive in the global M&A arena.

The wave of Chinese deal-making is also underpinned by the participation of Chinese private equity firms, which are picking up assets overseas that they can scale up in the domestic market, such as higher value-added technology products, healthcare and lifestyle brands. This comes as the private equity sector in China is growing fast with pool of capital available from such sources as asset managers, insurance companies and pension funds, which are looking to further diversify their investment.

Cheap funding in China has underpinned sizeable acquisitions in 2016. Chinese banks have been very aggressive on loan terms and pricing. Bringing their large balance sheets to the table, the Chinese banks are holding a big part of the assets and are not looking to broadly syndicate the transactions.

Apart from bank loans, Chinese respondents say they turn to the bond market or tap internal resources to fund acquisitions, using retained earnings from overseas operations. Most respondents say FX risk was not an issue in their outbound deals. For those that encountered FX risks, they chose not to hedge their exposure.

CHART 14
Have you acquired a non-related company outside of mainland China in the past 12 months, or do you have concrete plans to do so in the next 12 months?



INTERNATIONALIZATION OF CHINESE TREASURY UNITS

The risk management survey reveals the interest of some of the Chinese companies to set up treasury units overseas. Seven percent of the respondents are considering setting up a team abroad, while 8% say they intend to expand existing finance and treasury functions outside of China. The majority of the respondents (85%) have no immediate plans to move their treasury functions abroad.

A large export and import company in China says setting up an overseas finance treasury department is in line with its business expansion plans. The company is looking at China's capital account liberalization policies for clues on how soon it can set up abroad. It is also studying whether the move will offer greater interest rate differential with China's onshore interest rates. Tax incentives in offshore location for treasury entities and the presence of its preferred banking partner are factors that it is taking into consideration in its decision.

The global supplier to the printing industry is planning to move some of its finance and treasury management functions from China to Hong Kong. The move depends on whether there will be a greater interest rate differential with the onshore China interest rate going forward and if tax incentives in offshore locations will become more attractive for treasury entities.

Hedging market exposure is the primary task of their offshore treasury operations, say 53% of respondents of the Treasury Risk Management 2016 survey. Corporates (52%) also believe that funding overseas operations and seeking overseas trading partners with a more convenient

CHART 15
Plans to set up overseas treasury and finance units

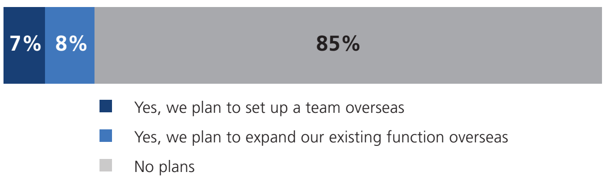
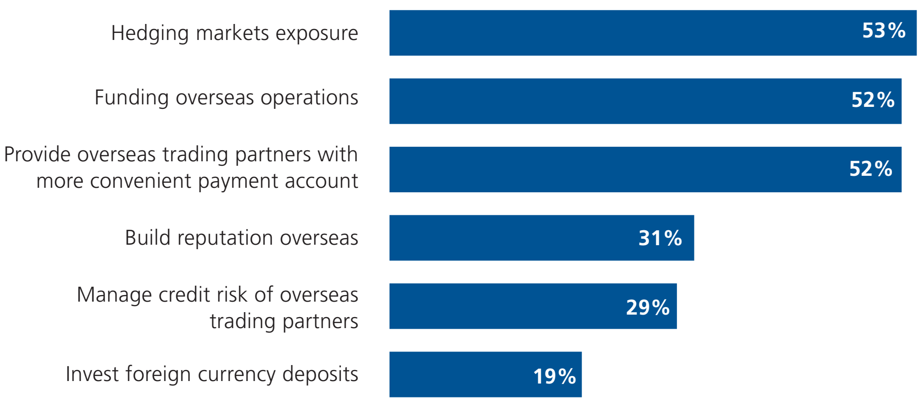


CHART 16
Primary task of offshore treasury operations



payment account are also important roles of treasury teams.

More than half (58%) of the respondents believe an expanding overseas business is a reason for setting up an overseas finance and treasury department. Tax incentives in offshore locations for treasury entities (27%), complete capital account liberalization in China (26%), greater interest rate differential with onshore China interest rate (25%) were also cited as reasons for establishing a treasury unit abroad.

Hong Kong is by far the preferred region by 68% of the respondents when given the choice to pick a place to set up the overseas treasury and finance units, followed by Singapore at 36%.

Hong Kong has enhanced its competitiveness as a regional hub for corporate treasury centres (CTCs) after amending in the 2015-16 budget the Inland Revenue Ordinance, under which it reduced by 50% the profits tax for specified treasury activities and to allow, under specified conditions, interest deductions under profits tax for CTCs.

CHART 17

What would make you consider to set up an overseas treasury and finance department?

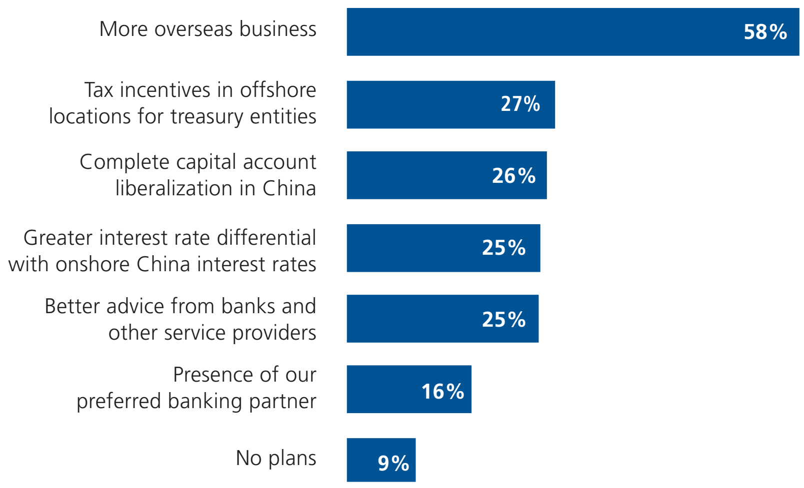
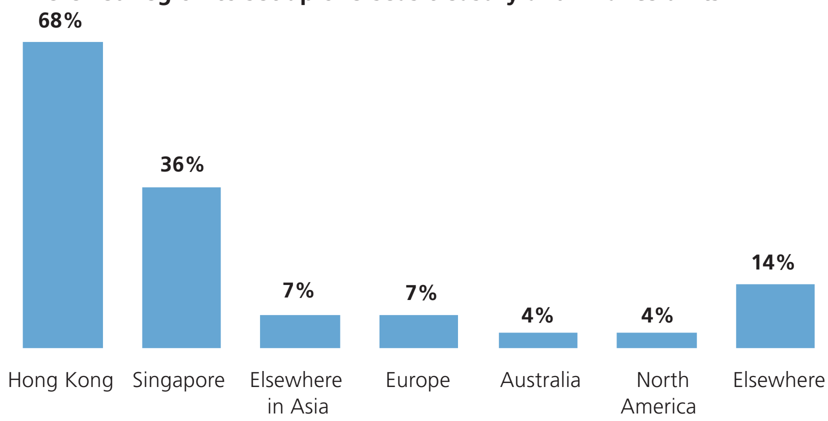


CHART 18

Preferred region to set up overseas treasury and finance units



Among other things, Hong Kong boasts of a large presnece of global banks, making it easier for companies to centralize all their regional treasury activity with a single bank to achieve maximum efficiency. CTCs operating in Hong Kong can also take advantage of the large pool of liquidity in the territory to raise their funding requirements and at lower cost.

In addition, Hong Kong's regulatory environment is very transparent, with no capital and foreign exchange controls to facilitate cross-border cash movements.

Singapore, undoubtedly, has a first mover advantage in promoting itself as a CTC. Both Hong Kong and Singapore have more or less similar infrastructure when it comes to CTCs.

Another Chinese export-import company plans to set up a finance and treasury management department in London for the primary purpose of hedging its market exposure. A leasing company cited the same reason for its plan to set up one in Hong Kong.

A Taiwanese steel company also plans to set up a finance and treasury department outside of China. But this will depend on a certain level of investments in its subsidiaries in the mainland. The primary task of such offshore treasury operations is to manage offshore financial risks.

Conclusion

The continuing volatility in the global financial markets is a constant challenge to the CFOs and treasurers in Asia-Pacific as they wrestle with the various risks associated with running a business in the region.

Foremost among these is FX risk in view of the divergent policies being adopted by the central banks as well as other factors, such as fluctuating commodity prices and the stronger US dollar. For Chinese corporates, however, they are more concerned about liquidity risk than FX risk.

What's helping the CFOs and treasurers battle the FX volatility is a slew of hedging instruments such as forward contracts and swaps. Here, technology plays a major part as they hedge their risks in financial markets. Hedging is a key solution to currency volatility as it aims to secure stable margins.

One can also resolve certain types of FX exposure by netting or matching payments. Netting, which has been used by large multinational corporates, has only recently caught the attention of their peers in China.

The global intercompany renminbi netting of Samsung Electronics and Bosch illustrates how companies can benefit from operating a GNC. Chinese multinationals could learn from their experiences to reap such benefits as lower operational costs, lower transaction banking costs, centralized FX risk control and improved cash visibility.

Despite a slowing domestic economy, Chinese corporates maintain a huge appetite for assets overseas and their targets have shifted to higher value-added sectors to reflect the country's structural reform.

Funding is not a problem as the Chinese banks, with their large balance sheets, are willing to finance the acquisitions on attractive terms.

Chinese multinationals could learn from their experiences to reap such benefits as lower operational costs