Introduction to GCCM

Concepts and Detail of GCCM

Disbursements and Receipts Accounting

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Specific Problems Being Addressed

- How to increase control of real world nostro accounts to reduce interest burn?
  - Currently too many so internalise accounts where possible
  - Lack of same day oversight so create real-time process internally and where possible receive real time bank confirmations of
  - Allocation of incoming funds to accounts

  These same issues create Treasury push-back on account opening whereas the in-house bank is designed to allow an unlimited number of internal accounts to be created

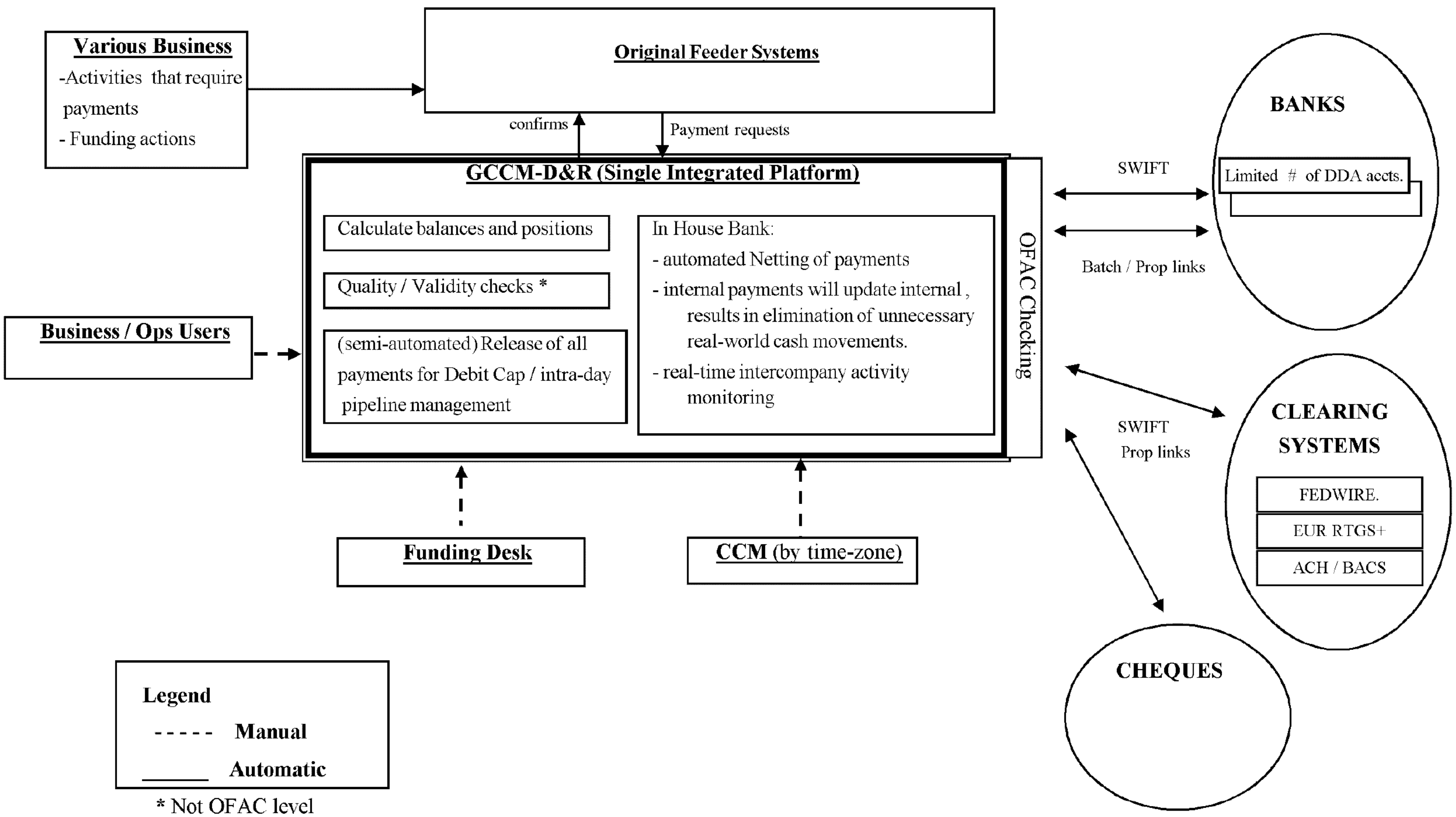
- How to reduce inter / intra -company cash movements to reduce cash clearance NPE costs?

- How to increase visibility of intercompany and intersystem positions?
  - Managing trapped cash intraday
  - Remove need for bridge account processes
  - Create process to reduce Book To Book settlement on ITS

- How to create flexibility to overcome current process inefficiencies
  - For example Tokyo managing New York USD account; NY managing Tokyo JPY account

Proposed GCCM Module 1 D&R Overview

- Targeted process: Cash Flows



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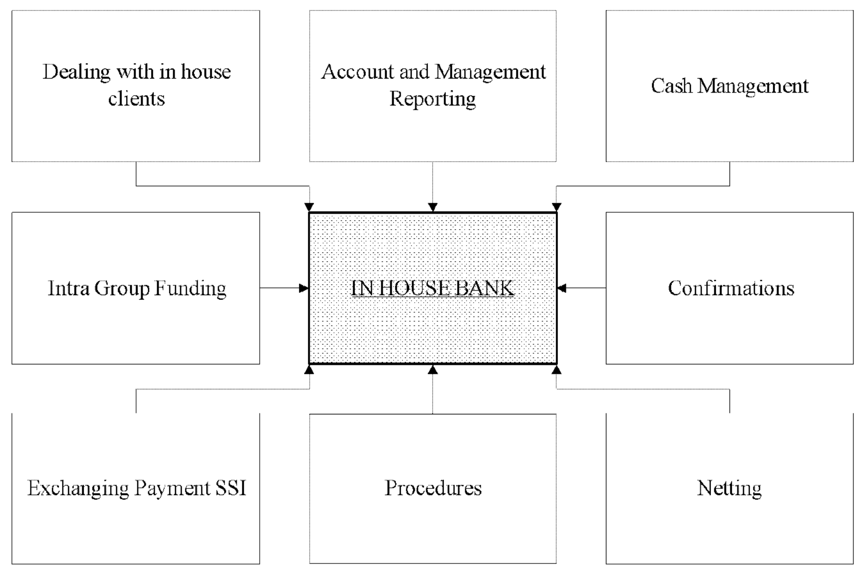
In House Bank model

- As a step towards setting up a global Cash Management team the Firm needs to standardise Treasury and account processing. There are several levels of centralisation with the most developed in the current market being that of the in-house bank. The in house-bank is a vehicle where a group treasury provides banking services to all operating units.
- The in-house bank is set up mainly as a method to reduce the number of external bank accounts, provide account optimisation within the company, minimise banking costs and reduce cash flows.
- Functions of in-house bank:-



- The in-house banking account structure assumes one dominant currency nostro account per country is held with an agent bank with all company subsidiary activity then flowing through these accounts. The in-house bank in return runs accounting entries for each participating subsidiary in the in-house banks books.

How D&R Accounts Work

- Business open account in GCCM D&R
  - Set-up of system will include existing external and internal accounts
  - Will be available to users on-line to review activity in real-time

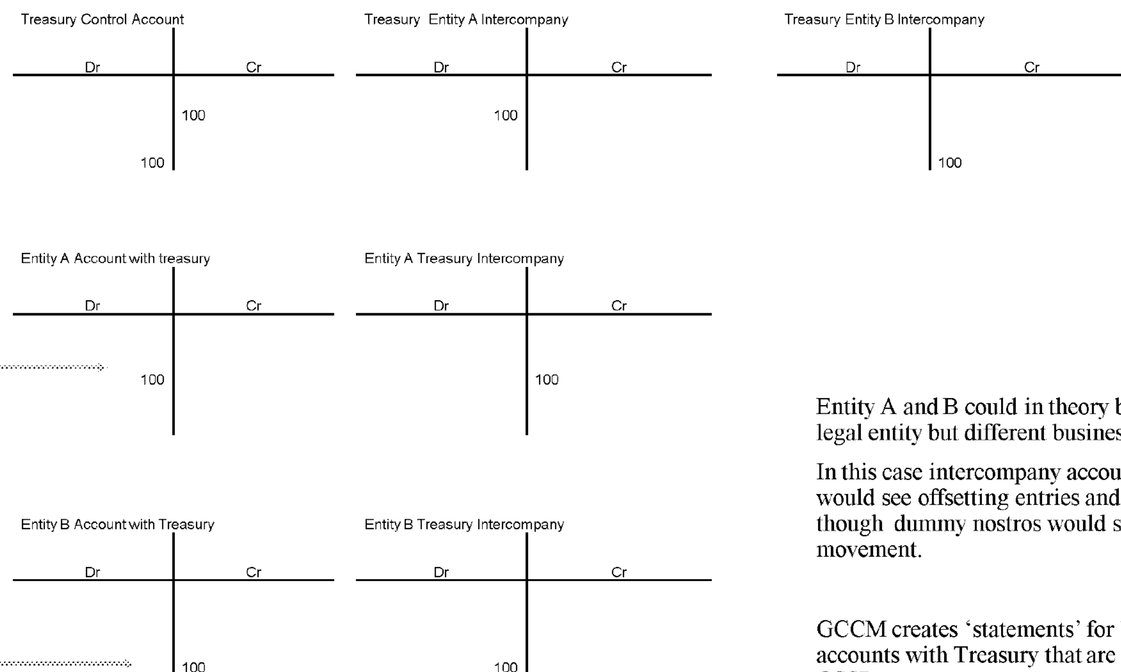
- This is then used as originating account for wires going forward
  - Account is debited for payments and GCCM D&R makes decision as to most effective account and method to make payment through
    - Initial default account would be as now
    - Over time external accounts rationalised and consolidation of flows into limited number of accounts
      - Retain key accounts for certain (regulated) entities;
      - Other flows migrated into shared service account model
    - Methods would include Swift correspondent nostro service, batch files or direct RTGS / FEDWire connectivity
    - CCM will control release and netting of payment flows on key accounts to minimise intraday exposure
  - Account is credited for incoming funds,
    - If preadvice notifications are passed to GCCM D&R, then D&R will attempt to match to actual receipts
    - Unpreadvised funds can be applied to internal business account by user

- Accounting for requests to be generated within D&R and passed to DBS
- D&R hosted accounts sent to GSSR for daily audit reconciliation of activity

Accounting & Reconciliation

Example Internal Pay of 100 between Entity A and Entity B processed by Treasury

Only reconciled if start of day balance is non-zero



Reconciled against ledger credit from Ops booking for underlying activity

Reconciled by Ops / Firm Balancing

Reconciled against ledger debit from Ops booking for underlying activity

Reconciled by Ops / Firm Balancing

Entity A and B could in theory be same legal entity but different business.

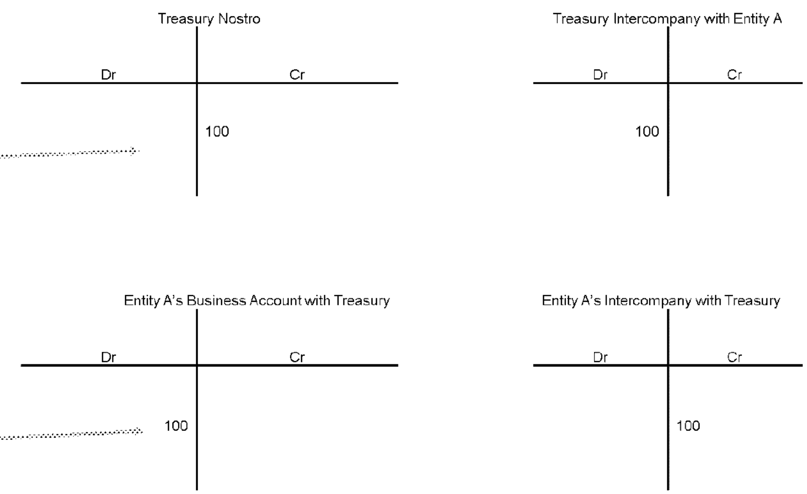
In this case intercompany accounts would see offsetting entries and be flat though dummy nostros would still show movement.

GCCM creates ‘statements’ for both accounts with Treasury that are sent to GSSR

Accounting & Reconciliation

Example External Payment of 100 by Treasury for Entity A

Reconciled against statement showing cash debit



Multiple business accounts may exist in entity.

GCCM creates 'statements' for both accounts with Treasury that are sent to GSSR

Reconciled against ledger credit from Ops booking for underlying activity

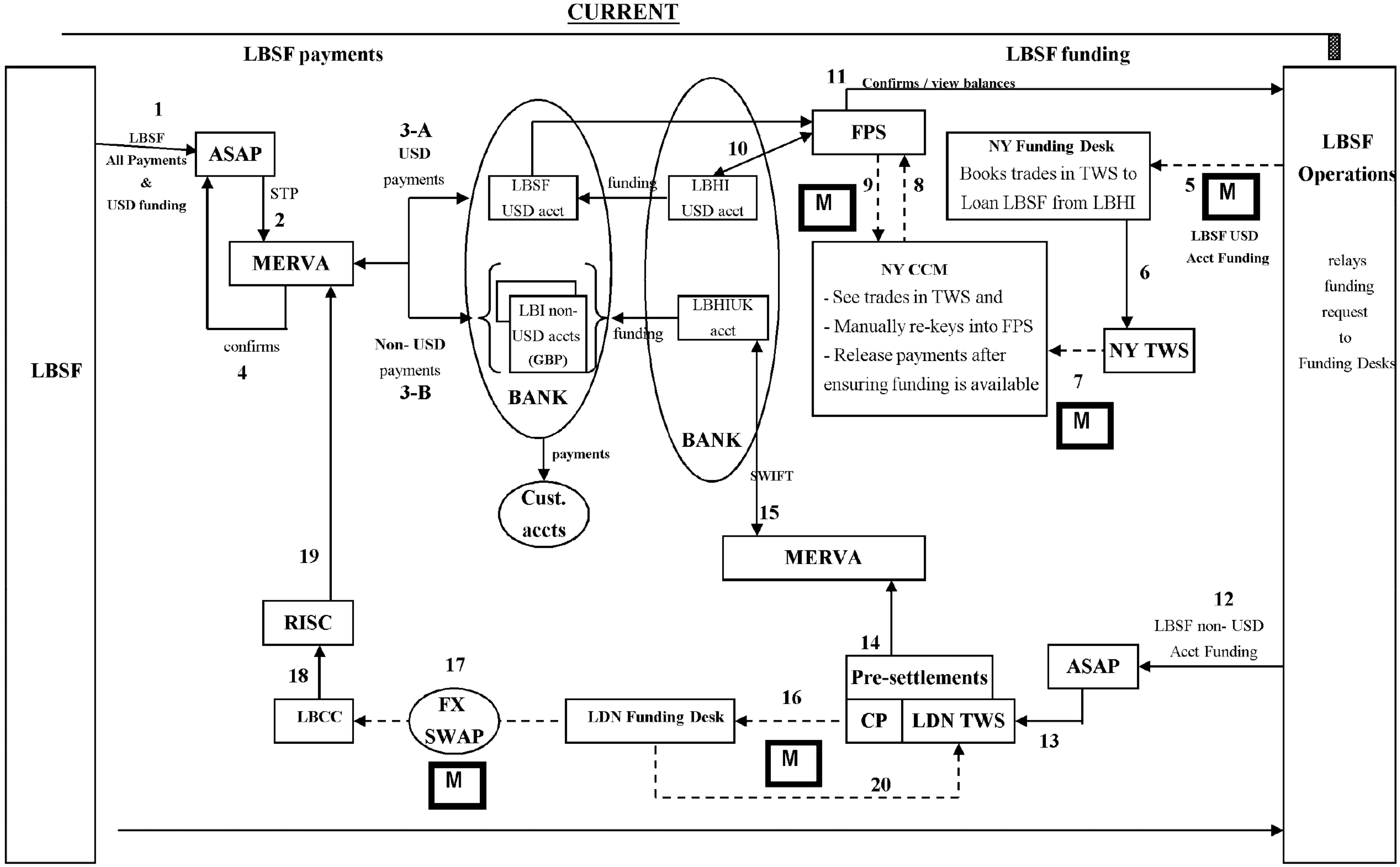
Reconciled by Ops / Firm Balancing

Scenario Example

- The following process flows demonstrates how payments and funding currently takes place and will take place once the D&R module go-live.

LBSF Payment and Funding Process (both USD and non-USD).

Review of Impact On LBSF Processes: Current Flows



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Current Accounting Flows: Payment on Behalf of Business (USD)

LBSF

ASAP / ITS

P&L in LBSF

Dr	Cr
100 (a1)	

LBSF Nostro

Dr	Cr
100 (b3)	100 (a1)

LBSF Intercompany with LBHI

Dr	Cr
	100 (b3)

Real World Agent Bank for LBSF

Dr	Cr
100 (a2)	100 (b4)

LBHI

TWS / DBS

LBHI Intercompany with LBSF

Dr	Cr
100 (b1)	

LBHI Nostro

Dr	Cr
	100 (b2)

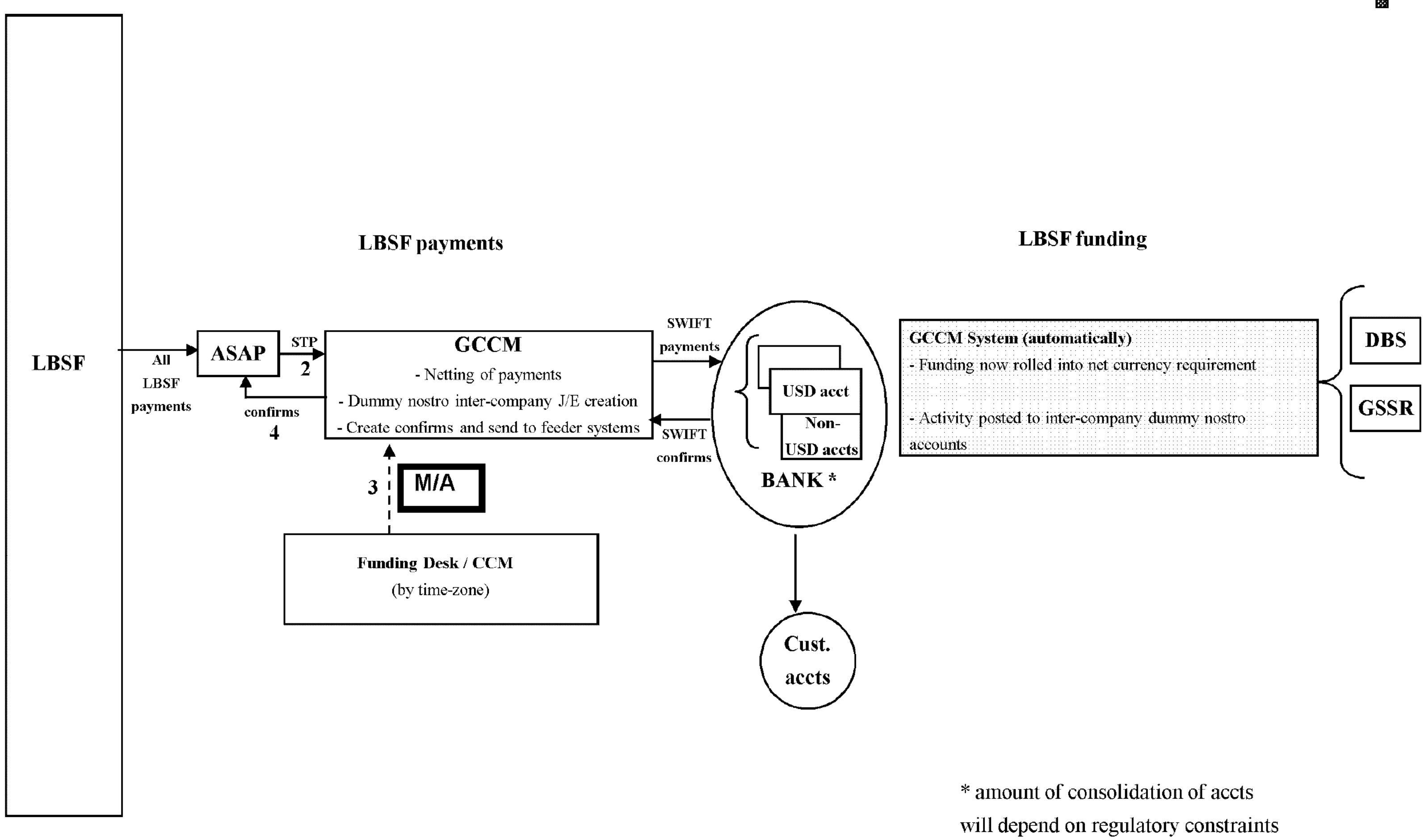
Real World Agent Bank for LBHI

Dr	Cr
100 (b4)	

a1) LBSF has interest payable to customer (as a result of IR swap)
a2) Cash payment to customer
b1) LBSF request funding from LBHI - Journal entry to i/co account in LBHI for LBSF representing payable to LBHI
b2) Journal entry to i/co account in LBSF for LBHI representing payable to LBHI
b3) Cash payment from LBHI to LBSF

Review of Impact On LBSF Processes: Proposed Flows

FUTURE



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Proposed Accounting Flows: Payment on Behalf of Business (USD)

LBSF | **LBHI**

ASAP / ITS

P&L in LBSF

Dr	Cr
100 (a)	

LBSF Internal Business Account

Dr	Cr
	100 (a)

GCCM

LBSF Intercompany with LBHI

Dr	Cr
	100 (b1)

LBSF Internal Business Account

Dr	Cr
100 (b1)	

LBHI Nostro

Dr	Cr
	100 (b1)

LBHI Intercompany with LCPI

Dr	Cr
100 (b1)	

Real World Agent Bank for LBHI

Dr	Cr
100 (b2)	

a) LBSF has interest payable to customer (as a result of IR swap) and requests Treasury to pay
b1) Journal entry to i/co account in LBSF for LBHI representing payable to LBHI
b1) Journal entry to i/co account in LBHI for LBSF representing payable to LBHI
b2) LBHI pays to customer

Scenario Example

- Internal payment between LBI and LBIE

Current Accounting Flows: Internal Payment on Behalf of Business

MTS

Trading Book in LBI

Dr	Cr
100 (a)	

Statement

Dr	Cr
100 (b)	

LBI MTS Nostro

Dr	Cr
	100 (a)

ITS

Trading Book in LBIE

Dr	Cr
	100 (a)

LBIE Control Nostro

Dr	Cr
100 (a)	100 (c)

LBIE Intercompany with LBHI UK

Dr	Cr
100 (d)	

ITS

LBHI UK Nostro

Dr	Cr
100 (d)	

LBHI Intercompany with LBIE

Dr	Cr
	100 (c)

Statement

Dr	Cr
	100 (b)

a) LBI and LBIE books trade to customer and requests Treasury to pay
b) Cash payment from LBI to LBIE at LBHI UK
c) TWS London entry reflecting receipt of cash (posted to ITS)
d) In ITS Prod C functionality creates intercompany journal to offset effect of (c)

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Proposed Accounting Flows: Internal Payment on Behalf of Business

MTS

Trading Book in LBI

Dr	Cr
100 (a)	

LBI Control Nostro

Dr	Cr
	100 (a)

ITS

Trading Book in LBIE

Dr	Cr
	100 (a)

LBIE Control Nostro

Dr	Cr
100 (a)	

GCCM

LBHI Control Nostro

Dr	Cr
100 (d)	100 (b)

LBHI Intercompany with LBI

Dr	Cr
100 (b)	

LBHI Intercompany with LBHI UK

Dr	Cr
	100 (d)

LBHI UK Intercompany with LBIE

Dr	Cr
	100 (f)

LBI Intercompany with LBHI

Dr	Cr
	100 (c)

LBHI UK Intercompany with LBHI

Dr	Cr
100 (e)	

LBIE Intercompany with LBHI UK

Dr	Cr
100 (g)	

LBI Control Nostro

Dr	Cr
100 (c)	

LBHI UK Control Nostro

Dr	Cr
100 (f)	100 (e)

LBIE Control Nostro

Dr	Cr
	100 (g)

Proposed Accounting Flows: Internal Payment on Behalf of Business

a) LBI trades with LBIE and settles 'cash' rather than intercompany between entities direct
b) Journal entry to i/co account with in LBHI representing receivable from LBI
c) Journal entry to i/co account with in LBI representing payable to LBHI
d) Journal entry to i/co account with in LBHI representing payable to LBHI UK
e) Journal entry to i/co account with in LBHI UK representing receivable from LBHI
f) Journal entry to i/co account with in LBHI UK representing payable to LBIE
g) Journal entry to i/co account with in LBIE representing receivable from LBHI UK
h) Reconciliation of all control and intercompany accounts

- Net result is LBI has increased payable to LBHI, LBIE has reduced payable to LBHI UK Branch rather than a direct intercompany position between the two regulated entities.
- Treasury and Reg Controller groups monitor intercompany positions real time to ensure both regulated entities do not have unsecured receivables from the funding entities and minimise trapped cash positions

Intercompany Interest – Proposed Overnight Process

- Intercompany funding via GCCM will create updates to the relevant intercompany account balance as defined in the individual GCCM legal entity record. As GCCM has both intercompany accounts, both are updated.

- Each night the intercompany account balance is used to calculate interest by using the rate linked to the trade account
  - The default rate is the Index rate
  - Interest period used is from that day to next working day for currency of the trade account
  - Trade Account Balance * Rate * (Period / Currency Basis)
  - As GCCM has both intercompany accounts the calculations can be compared to ensure no breaks have originated at this point.

- The resultant interest is then debited / credited from the relevant intercompany interest expense / earnings P&L account for the intercompany position and credited / debited to the underlying intercompany account account.

- Journal reflecting interest posted to DBS and reported to Debt Database