The Structure, Role and Location of Financial Treasury Centres: A Process of Evolution

Financial Risk Management
KPMG in Singapore
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction: Adapting the Status-Quo</td>
<td>03</td>
</tr>
<tr>
<td>The Path Towards Centralisation</td>
<td>04</td>
</tr>
<tr>
<td>A Process of Evolution</td>
<td>05</td>
</tr>
<tr>
<td>- Post-decentralisation</td>
<td></td>
</tr>
<tr>
<td>The Merits of Centralisation</td>
<td>06</td>
</tr>
<tr>
<td>Obstacles to Overcome</td>
<td>07</td>
</tr>
<tr>
<td>Location, Location, Location - Treasury Consideration Factors</td>
<td>08</td>
</tr>
<tr>
<td>KPMG Insights</td>
<td>09</td>
</tr>
<tr>
<td>Staying Ahead of the Competitive Curve</td>
<td>10</td>
</tr>
<tr>
<td>- Country Analysis</td>
<td></td>
</tr>
<tr>
<td>Conclusion</td>
<td>16</td>
</tr>
<tr>
<td>Authors</td>
<td>17</td>
</tr>
</tbody>
</table>

© 2016 KPMG Consulting Pte. Ltd. (Registration No: 201409431M), a Singapore incorporated company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.
Defining the role of a company’s Financial Treasury Centre (FTC) can be a puzzling task. Depending on jurisdiction, operating structure, company attributes and more, the role of treasury varies within an organisation.

Traditionally, the core role of the treasury was to perform essential finance-related activities. This objective has not changed. What has changed, however, is its structure, expanding breadth of responsibilities the treasury function carries out and the perception of the departments’ function by management.

Corporate treasury has transformed from a mechanical payment processing unit of a company, to a data provider that assists financial reporting and risk management, and increasingly into an internal advisor to the business, contributing to corporate strategic planning.

The function and structure of corporate treasury is fluid, not static in nature. In alignment with broadening responsibilities, corporate treasury has evolved from its decentralised form where companies engaged in cross-border business. Today, in an age of globalisation and technological advancement, it is common to see multinationals (MNCs) establishing centralised treasury functions in an effort to fortify internal controls, mobilise internal sources of liquidity, improve cash management efficiency, amongst other benefits. This transition is not new, but has been accelerated by the Global Financial Crisis (GFC).

How and where to build a strategically primed and proficient FTC raises fundamental questions over which jurisdiction should be selected. Indeed, different locations often harbour contrasting strengths and weaknesses that need to be considered. This publication draws upon extensive research conducted by KPMG in Singapore to address three main points:

1. How has the treasury function evolved in form and responsibility?
2. What factors entice companies to locate their corporate treasury functions in certain locations?
3. What are countries in Asia doing to build their treasury centre attractiveness?

By assessing and evaluating these central questions, we aim to help clients:

- Analyse and appropriately structure their corporate treasury function to drive efficiency.
- Raise awareness of current trends within corporate treasury.
- Understand what factors are important when choosing the location of their corporate treasury.
The Structure, Role and Location of Financial Treasury Centres: A Process of Evolution

Since the turn of the century, there is little doubt that corporate treasury has morphed into a far broader and comprehensive function. The traditional role of the treasury function, one purely focused on transactional activities, is obsolete. Extensive KPMG analysis, conducted through a multitude of survey and interviews, finds that the modern corporate treasury function is more strategic in outlook.

Today, corporate leaders devote less of their time to day-to-day treasury undertakings and more towards optimising cash allocation from their companies' balance sheets and on supporting risk-adjusted decision making. The transition has enabled the treasury function to manoeuvre itself into the epicentre of business decision-making, advising the company on issues such as: providing greater access to capital markets, supporting M&A activity and enhancing internal control over domestic and foreign operations.

Defining the Structural Change
Facilitating the FTC’s strategic pivot has been the shift from decentralisation to forms of centralisation. The treasury function’s move towards forms of centralisation is not a new topic. Corporate treasurers have been centralising processes for the last couple of decades. Indeed, a swathe of MNCs have already transitioned or are considering a transition to some form of centralisation. The motives behind this structural shift fluctuate but before focusing on the reasoning, it is important to define what centralisation means.

The concept of centralisation is not easily defined. The definition varies from person to person, in part because the structure of treasury centralisation can come in variable moulds. Nonetheless, in its simplest form, centralisation involves the consolidation of treasury units and services.

In the past, the common-practice for MNCs engaging in cross-border activities was to establish local treasury units in the operating countries. In order for local business units to run smoothly, they were given autonomy over activities. Numerous processes such as settlements were performed manually, with local treasury units communicating with headquarters: a practice that was often blighted by inaccuracy and inefficiency. Over the last couple of decades, a blend of forces, ranging from technological advancement, globalisation and regulatory change, have re-carved the path the treasury function has taken from decentralisation to forms of centralisation.

### Key Drivers of FTC Centralisation

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Globalisation</strong></td>
<td>The phenomena of globalisation - from a corporate perspective - is the process by which businesses or other organisations develop international influence or start operating on an international scale. The internationalisation of organisations has the potential to increase the complexity and decrease the transparency of organisations. It also requires that cash is managed across various currencies, involving diverse banking partners, which manifests its own risks and challenges. Through treasury centralisation, companies aim to improve their understanding of their global cash and liquidity positions, whilst also improving the efficiency and coordination of payment processing.</td>
</tr>
<tr>
<td><strong>Technology</strong></td>
<td>Advances in treasury technology has been a key enabler for treasury centralisation. Strides in IT development, data-analytics and digitalisation has improved banking infrastructure and supported the rise of network computing. Technology is helping to enable the centralisation of treasury operations, unifying local business units to the corporate group and galvanising the IT landscape.</td>
</tr>
<tr>
<td><strong>Regulation</strong></td>
<td>Regulatory changes have increased since the GFC. Many sectors, particularly the financial industry, are having to adapt to new rules and forms of governance. Adhering to such changes, requires cross-border management and broad awareness of the varying regulatory initiatives and exposures. Centralisation assists treasurers to find structures that will give them greater control. It drives cross-border cooperation and eases standardised procedures and documentation, helping to ensure good governance.</td>
</tr>
</tbody>
</table>
A Process of Evolution

Post-decentralisation

The optimal level of centralisation varies profoundly: some firms will look to build a fully centralised treasury centre, while others might aim to put in place regional structures or processes (Figure 1). Either way, the influence of the decentralised model has waned, particularly since the GFC, with companies inclined towards different types of centralised operating models.

Rising risks due to financial market turbulence and supply chain instability spurred companies to improve transparency, operational adaptability and comprehensive risk management. The GFC shook the status quo of treasury functions, prompting them towards a focus on cost saving and tightened internal control. Moreover, it moved companies a step away from fully relying upon external liquidity and towards mobilising internal funds, often through an in-house bank. The fusion of these objectives widened the responsibilities of the treasury function and has hastened the journey towards centralisation.

Figure 1: Treasury Centre Operating Models

- **Fully Centralised Treasury Centre**
  - All business units report into a single centralised entity globally.
  - Treasury operations are pooled, coordinated and carried out centrally. Global Treasury Centre acts as an ‘in-house bank’.

- **Global Treasury Centre with Regional Treasury Centres**
  - Each Region's business units report into their respective Regional TC.
  - Treasury operations are pooled and coordinated regionally.

- **Global Treasury Centre with Decentralised Treasury Activities**
  - Hybrid Model
  - Business Units generally report a centralised entity, however some treasury operations are carried out separately.

- **Decentralised**
  - Each Country business units perform their own treasury operations and are quite independent of each other.
Merits of Centralisation

**Cash Management:**
Centralised treasury provides an opportunity to net transactional exposures. For example, correctly applied, the use of multi-currency netting system can result in reduced foreign exchange trading and improved intercompany settlement efficiency. A netting system - which could be applied to a broad range of transactions - collates batches of cashflows between a defined set of entities and offsets them against each other such that just a single cashflow to or from each participant takes place to settle the net result of all cashflows.

**Liquidity Management:**
The “Liquidity Buffer” is core to any treasury department as it acts as a source of liquidity ensuring the company has adequate levels of short term capital. The post-GFC regulatory measures enforced on financial institutions require stringent capital requirements, which translates into less attractive funding rates. Companies that maintain a liquidity buffer through exceptional treasury management will likely be winners of the “liquidity squeeze” competition. As companies become more centralised, their treasury centres are likely to act as an in-house bank and can help build a more sustainable liquidity strategy. Through using cash pooling techniques such as recycling cash-debits in one location, which can be set against credits in another, an organisation can improve group liquidity.

**Data Analytics:**
The GFC heightened the prominence of treasury as a provider of real-time data analytics – not just a collector of historical financials. Through establishing a centralised treasury function, organisations are able to both collate data and carry out analysis that enables them to make better informed decision. Not only does this provide companies with improved visibility of which countries are booming and which are in the red, it also offers forward-looking strategic planning by senior management. In addition, the capability to have a holistic view of a company’s cash balance means that cash can be allocated more efficiently.

**Governance:**
Treasury policy is often set at the centre. Treasury centralisation has resulted in standardised procedures and documentation. As a consequence, employees of the organisation have a superior understanding of the company’s policies and procedures. Centralisation enhances an organisation’s awareness of the global regulatory pressures they face, particularly those that manifested from the GFC. The improved control and reporting gained through the use of available technology has also led to cost savings.

**Funding/Credit:**
One further benefit of a centralised treasury function is that it caters for an increasingly integrated world, where many large businesses have cross-border activities. Establishing a centralised structure such as an in-house bank, attached with a shared service centre, allows companies to minimise replication across the company and limit the number of localised banks that are necessary. It also allows organisations to develop stronger relationships with a focused group of core banks, which has the potential to minimise risk and create better credit terms. Consequently, agreements with counterparties are streamlined, reducing the operational burden of handling various external agreements.

---

**Decentralisation Model:** Without netting, each entity settles its obligations directly and individually with each counterparty.

**Centralisation Model:** Using a netting system, each entity pays or receives just a single local currency balance to or from the netting centre.
Obstacles to Overcome

According to KPMG research, the treasury story in Asia contrasts with the West. In Asia, while companies have started to centralise and evolve their treasury departments into strategic parts of the business, there are cultural, systemic and practical challenges confronting the fully embedded centralised treasury model.

Cultural diversity:
Issues such as market fragmentation, unique regulatory measures, language diversity and lack of cultural awareness remain obstacles to centralisation. Simplistically put, these differences are more pronounced in Asia than in the West where English is the prime business language. The diverse cultural heritage of Asian states often finds its way into business activities, and for companies that have an exposure to jurisdictions around the region, it has traditionally made sense to localise treasury related activities.

Lack of unity:
The business models of organisations all differ in scope, structure, culture and strategy. No single business is the same and therefore adopting a one-for-all, fully-fledged centralised treasury model is often not practical or wise. Further challenges to the centralised model lie in the fact that if a corporation has been traditionally decentralised, a centralised model can manifest tensions with local business units. A crucial success factor of a centralised treasury function lies in fostering a strong level of commitment from local business units who are willing to cede control over a number of key treasury activities. This sense of integrated harmony and unification is often missing, undermining the potential benefits of a centralised treasury model.

Technological Limitation:
A further obstacle challenging the prevalence of centralisation are technological limitations. Although in many ways technological enhancement, particularly through IT, has catalysed globalisation and made centralisation a feasible option, there are few systems that offer the wing-to-wing capability of connecting cash management with hedge management, requiring manual touch points or interfaces and manipulation of data. Many treasuries manage forecasted cash exposures within spreadsheets, for example, making the aggregation of exposures at the consolidated level a time-consuming and error-prone process. Those systems that do offer this functionality are expensive, with implementation taking months or years.¹

Local Knowledge Expertise:
The activities of many treasury functions can be enhanced by local understanding ‘of the bottom-up’ market. For instance, local treasury functions with a deeper understanding of prevailing market conditions can improve the accuracy of cash forecasting. In some cultures, particularly in Asia, localised bank relationships are often essential in obtaining favourable credit or liquidity terms. Moreover, in commodity risk management, ‘bottom up’ market knowledge of commodity trends and requirements, can strengthen hedging rationality and risk management procedures.

Through digesting the myriad strengths and weaknesses of centralised treasury functions, it is apparent that although centralisation offers wide-ranging benefits, there are limitations to its proficiency. Therefore, perhaps the optimal structure is that of a ‘hybrid’.

Research, surveys and interviews conducted by KPMG show that there is a strong trend towards and rationale behind establishing a centralised treasury base, aligned with some decentralised activity to cover specific jurisdictions and activities. For example, subsidiaries or local business units are tasked with identifying exposures related to their line of business and then request head office operations to execute hedges. Interestingly, a number of global organisations have chosen to centralise activities on a regional, not global level, in order to serve the financial needs of their business around the clock. Whether an MNC elects a Fully Centralised Treasury Centre, or Global Treasury Centres with Regional Centres, or some other form, the question of locating the treasury hub is a fundamental business decision.

¹ Bloomberg, Benefits of Treasury Centralisation, 2015

CLIENT PERSPECTIVE
“ We have over 30 entities in Indonesia and a similar number in Malaysia. We need some form of treasury in each location, just to understand the local market and even speak the language.”
Treasury Consideration Factors

In selecting the appropriate location to centralise treasury activities, it is often perceived that tax incentives are the strongest pull factor.

Undoubtedly, low-tax jurisdictions supplement efficient cash pooling and inter-company lending. Countries with comparatively low corporate income tax and extensive tax treaty networks are favourable treasury centre locations, given benefits such as reduced or exempted withholding taxes on interest between treasury and other group entities. Governments may also offer additional tax benefits as jurisdictions vie to bring greater activity to their respective financial centres. For instance, the Hong Kong 2015 Budget announced a Corporate Treasury Centre (CTC) incentive initiative which will allow companies to benefit from a 50 percent reduction in the current 16 percent corporate tax rate.

Recent KPMG research (Table 1) focused upon the core ‘consideration factors’ that determines where organisations locate their treasury functions. The answers of C-suite respondents, representing MNCs from 12 industries gave fascinating insights.

Table 1: The following Consideration Factors were generated by KPMG

<table>
<thead>
<tr>
<th>Consideration Factor</th>
<th>Definition</th>
<th>Score</th>
<th>Consideration Factor</th>
<th>Definition</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Attractiveness</td>
<td>The effect of a location’s general tax structure with regard to attracting business and capital inflows.</td>
<td>12.9%</td>
<td>Banking Factors</td>
<td>The key considerations concerning banking-related activities.</td>
<td>13.3%</td>
</tr>
<tr>
<td>Currency Environment</td>
<td>The currency-related conditions that influence a company’s operating environment.</td>
<td>9.1%</td>
<td>Access to Capital Markets</td>
<td>The ability and ease of an organisation to finance itself through accessing longer term capital via traditional markets (Equity and Debt).</td>
<td>8%</td>
</tr>
<tr>
<td>Government Incentives</td>
<td>The degree to which a location’s government incentivises or encourages finance and treasury related activities.</td>
<td>9.3%</td>
<td>Infrastructure and Accessibility</td>
<td>The physical and organisational structures and facilities required for the operation of a company.</td>
<td>7.2%</td>
</tr>
<tr>
<td>Country Credit Ratings</td>
<td>An evaluation of the ability and willingness of a location’s government to fulfil their financial commitments in full and on time. Equally measured by the three main Rating Agencies: Standard and Poors, Moodys and Fitch.</td>
<td>7.4%</td>
<td>Business Environment</td>
<td>The external factors that define a company’s operating environment.</td>
<td>9.7%</td>
</tr>
<tr>
<td>Existence of other TCs</td>
<td>The number of multinational companies with Regional Treasury Centres within a particular location.</td>
<td>6.4%</td>
<td>Availability of Skills and Talent</td>
<td>The existence and availability of a highly skilled, well educated, international and mobile workforce.</td>
<td>9.4%</td>
</tr>
<tr>
<td>Regulatory Reporting Requirements</td>
<td>A measure of the necessary, time-sensitive information required by a location’s governmental bodies.</td>
<td>7.2%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 Citibank Insights, Evolution of Corporate Treasury Centres and Location Considerations for Asia Pacific, 2012
KPMG research found that although tax incentives are a highly important pull factor, companies - from a variety of industries - place a high value on a jurisdiction’s non-tax capabilities: banking factors and efficiency, ease of doing business (business environment and availability of skills and talent). Indeed, Tax Attractiveness and Banking Factors were ranked among the top 5 by more than 90 percent of participants. Almost 60 percent of participants ranked Business Environment as the top influencing factor.

The currency environment and infrastructure accessibility are also core consideration factors. Thus, while tax and government incentives will inevitably catch the attention of chief financial officers, the risks associated with political instability, controlled currency environments, or simply a lack of talent, are not to be overlooked. Indeed, a multitude of factors are normally considered when choosing where to centralise a company’s treasury activities.

Interestingly and in alignment with comments made above, KPMG Singapore’s Financial Treasury Centre study showed that MNCs are increasingly building their treasury model along regional lines. It appears that the economic fragmentation of markets, differing regional supply and demand profiles and increase global competition has limited the effectiveness of a single Global Treasury Centre. Instead, Regional Treasury Centres and Global Treasury Centres with specialised decentralised business units are coming into favour. Some sectors in particular, such as the commodity trading industry, tend to prefer a Global Treasury Centre with some decentralised treasury activities and this is in part because of sharp contrasts in commodity dynamics in different regions and therefore the need for regional risk management expertise.

KPMG Insights

Our regional treasury centres are strategically located around the globe in London, Singapore and Rio. This means we can meet the needs of our business all day and every day.

CLIENT PERSPECTIVE
Staying ahead of the Competitive Curve

Country Analysis

In relation to ‘consideration factors’, those jurisdictions that ‘tick-all-the-boxes’ are more likely to host major treasury centres. This helps explain why cities such as London, New York and Geneva - which have a breadth of attributes - have traditionally played host to major treasury centres. Yet, aligning with Asia’s economic ascendance, Hong Kong and Singapore have cultivated maturing governance and financial capabilities. This, coupled with comparatively enticing tax rates (Table 2), has propelled these jurisdictions as premier choices for many treasury departments global or Asian base.

Table 3 zooms in on the Treasury Centre competency of countries in Asia and exemplifies the ‘tick-all-boxes’ narrative. Singapore and Hong Kong have managed to assemble strong attributes across the key consideration factors. As a consequence, they are the two pre-eminent destinations to located a treasury centre in Asia. In contrast, Malaysia, which has implemented an array of enticing tax inducements for organisations, comparatively lacks strong competencies in other valued areas (currency environment, credit rating and access to skilled talent).

There are also concerns over the ability of Malaysian corporates over real time cash visibility, which is widely regarded as one of the worst in Asia Pacific. This lack of visibility makes it almost difficult to have an efficient cash management policy, with companies using borrowing lines and facilities in an ineffective way.

### Table 2: Tax Competitiveness

<table>
<thead>
<tr>
<th></th>
<th>Singapore</th>
<th>Hong Kong, SAR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tax Rate</strong></td>
<td>17% Income Tax</td>
<td>16.5% Profits Tax</td>
</tr>
<tr>
<td><strong>Tax System</strong></td>
<td>Territorial basis, with tax on remittance/deemed remittance</td>
<td>Territorial basis</td>
</tr>
<tr>
<td><strong>Capital Gains</strong></td>
<td>Singapore does not have a capital gains tax regime. Income will be subject to income tax if it is deemed trade in nature</td>
<td>Does not have a tax on capital gains. However, profits tax may be charged on the profits of speculative transactions if they are shown to be an adventure in nature of trade</td>
</tr>
<tr>
<td><strong>Indirect Tax</strong></td>
<td>Standard-rate of 7%</td>
<td>No GST/VAT</td>
</tr>
<tr>
<td><strong>Withholding Tax</strong></td>
<td>Withholding tax is applicable on certain payments to non-residents (e.g. interest, royalties, technical service fees, etc.) Rates vary based on the type of payments</td>
<td>Typically does not impose withholding tax on payments to non-residents, except royalties</td>
</tr>
<tr>
<td><strong>Others</strong></td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Tax Incentives for Treasury Centres

- ✔️
- ✔️
### Table 2: Tax Competitiveness

<table>
<thead>
<tr>
<th>Kuala Lumpur, Malaysia</th>
<th>Geneva, Switzerland</th>
<th>London, UK</th>
<th>New York, USA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>25%</strong></td>
<td>Approximately 24% (in Geneva canton)</td>
<td><strong>20%</strong></td>
<td>Graduated rate from 15% to 35%</td>
</tr>
<tr>
<td><strong>Territorial basis</strong></td>
<td>Worldwide basis</td>
<td>Worldwide basis</td>
<td>Worldwide basis</td>
</tr>
<tr>
<td>Malaysia does not have a capital gains tax regime. Income subject to income tax if it is deemed trade in nature</td>
<td>Capital gains treated as ordinary income, and subject to tax</td>
<td>Form part of taxable profits</td>
<td>Taxed at normal tax rates</td>
</tr>
<tr>
<td><strong>Standard-rate of 6%</strong></td>
<td><strong>Standard-rate of 8%</strong></td>
<td><strong>Standard-rate of 20%</strong></td>
<td>No Federal VAT, may have VAT in states</td>
</tr>
<tr>
<td>Withholding tax is applicable on certain payments to non-residents (e.g. interest, royalties, technical service fees, etc.) Rates vary based on the type of payments</td>
<td>35% on dividends, potentially 0% when paid to EU members. Interest from deposits with Swiss banks, bonds and bond-like loans subject to 35% withholding tax. Otherwise, 0% withholding tax on interest</td>
<td>Typically 0% on dividends, 20% on interest and royalties</td>
<td>30% on dividends, interest and royalties</td>
</tr>
<tr>
<td><strong>N/A</strong></td>
<td>Thin capitalization rules apply</td>
<td>CFC rules apply</td>
<td>Thin capitalization and CFC rules apply</td>
</tr>
</tbody>
</table>

**CLIENT PERSPECTIVE**

“Singapore ticks all the boxes. Its banking and infrastructure are of a high standard and it already has a lower tax rate than a number of high quality locations.”
Table 3: Territorial Analysis: Evaluating Treasury Centre Competitiveness in Asia

<table>
<thead>
<tr>
<th>Country</th>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
</table>
| Singapore | • Singapores scores strongly across all Consideration Factors, both when viewed in isolation and when compared to its peers. Singapore’s wide tax treaty network, low corporate income tax rate, and mature banking sector also support the Lion City as a location for global and regional treasury operations.  
• Low corporate income tax rate of 17 percent. This is the second lowest headline tax rate among the jurisdictions analysed in this study, after Hong Kong at 16.5 percent.  
• The Finance & Treasury Centre (“FTC”) incentive administered by the Singapore Economic Development Board (EDB) gives Singapore particular clout in attracting companies looking to establish a treasury centre.  
• Companies with FTC status enjoy concessionary tax rate on qualifying FTC income and withholding tax exemption on certain interest payments made to non-Singapore tax residents for a period of 5 years or more. | • Singapore does harbour high costs of living relative to its Asian neighbors.  
• Singapore does not have a comprehensive tax treaty with the US.  
• Lower quality tax treaties: While Singapore has a large tax treaty network, jurisdictions such as Luxembourg, Netherlands, Switzerland and Hong Kong may have higher quality tax treaties. For example, the said territories offer lower withholding tax rates for many tax treaty countries compared to Singapore’s tax treaties. |
| Hong Kong | • Attractive territorial taxation regime characterised by a low corporate income tax rate, tax exemption on foreign interest income, and no withholding tax on interest payment.  
• Dynamic financial sector and superior physical and technological infrastructure.  
• Status as an offshore RMB hub and close proximity to China make it an ideal location for companies that have or are planning to establish business operations in the mainland.  
• Hong Kong gazetted a legislative bill on 4 December 2015 introducing the Corporate Treasury Centre (“CTC”) incentive which provides a concessionary tax rate of 8.25 percent on income from qualifying treasury activities.  
• Companies do not require pre-approval for the CTC incentive and can enjoy the concessionary tax rate by electing for it in writing. Based on the legislative bill, it would appear that there are no restrictions on the companies’ choice of banks, financial institutions or the sources of funding, unlike Singapore’s FTC incentive. | • CTC incentive does not incentivise treasury services provided to local (Hong Kong) related parties.  
• Tax treaty network is limited, with no comprehensive tax treaty with the US.  
• Political instability due to historical and social relationship with China |
| Malaysia | • Malaysia’s Treasury Management Centre (“TMC”) incentive provides a reduced tax rate of 7.5 percent on qualifying treasury activity / service income and stamp duty exemption on loan and service agreements.  
• The Operational Headquarters (“OHQ”) incentive which provides tax exemption on income from services provided to its related entities (including treasury services) and interest income from foreign currency loans extended to overseas related entities. | • While the TMC and OHQ incentives provide low tax rates or tax exemption, these incentives put more onerous qualifying conditions on applicants compared to Singapore’s FTC scheme.  
• Some of the qualifying activities / services under TMC and OHQ incentives are restricted with regard to which related parties the services can be performed to; or what currencies the transactions must be conducted in (i.e. non-MYR currencies).  
• These factors, combined with non-tax factors such as Malaysia’s relatively less vibrant business and financial environments, smaller talent pool and political instability (corruption challenges) erode the competitiveness of TMC and OHQ incentives.  
• Relatively poor banking technology |
Sector Breakdown: Key Insights

Having analysed the data from a country perspective, we shall now go a step further and breakdown the data by sector. This should provide a deeper understanding of what factors attract certain industries in setting up their treasury centres in countries. KPMG research found that from a cross-industry perspective, Banking Factors and Tax Attractiveness were widely viewed as the critical Consideration Factors when evaluating the preferred Treasury Centre Location. Tax attractiveness and Banking Factors were ranked in the top five most important factors by more than 90 percent of the participants.

Figure 2: What Biomedical Sciences and Healthcare Services sectors look for in a FTC location

As Figure 2 conveys, within the Biomedical Sciences and Healthcare Services sectors, both valued Tax Attractiveness highly (1 being the highest; 6 the lowest). Interestingly, the two sectors contrasted in the importance they placed to Government Incentives, with Healthcare ranking it lowly (6); and biomedical high (2). This is perhaps an indicator that the biomedical industry needs government support to catalyse investment into innovative but costly research and development pursuits. Both sectors placed low importance to Infrastructure & Accessibility, Country Credit Ratings and perhaps surprisingly, Regulatory Reporting Requirements. All three consideration were ranked less than 4.
Commodity and Energy Trading and Energy companies placed a lower importance on Tax Attractiveness when compared to the average company (Figure 3). However, Commodity and Energy Trading entities did place particular value on Banking Factors (1.5) and Currency Environment (3). These findings support the perception that continuous trading of goods should be accompanied with a well-developed, liquid banking environment and healthy currency environment to facilitate these activities.

KPMG’s research found that the Energy sector, placed great value on availability of skills and talent. The energy sector is very technical in nature, requiring employees of a diverse skill-set: engineers, offshore specialists, geoscientists, traders, procurement specialists and more. This helps to explain why the sector requires a treasury centre located in a talent hub.
Figure 4 indicates that the Electronics and Information Communications results correlate closely. Both sectors rank Business Environment, Infrastructure & Accessibility and Country Credit Ratings lowly. Both sectors highlighted Tax Attractiveness as a core consideration factor. This is perhaps not surprising due to the fiercely competitive arena that is the IT sector. Information Communications flagged Access to Capital Markets as the central consideration factor (1).

Ultimately, it can be seen from the survey data that each sector in Singapore, has different needs and idiosyncratic requirements for locating their ‘optimal’ treasury centre. These distinct characteristics and distinctions should be kept in mind when a company chooses where to locate its FTC.
Conclusion

Against a backdrop of regulatory upheaval, market volatility and technological transformation, the hand of MNCs is being forced and the structure of treasury functions are having to adapt. Globalisation and digitalisation have compressed time and space between time zone and geographies, enabling the pooling and processing of vast pools of data.

It has become increasingly clear that a centralised model can help MNCs save considerable costs, tighten internal controls, reduce the reliance on external counterparties and play a ‘centre stage’ role in the strategic direction of the company.

It is also becoming apparent that due to cultural and systemic idiosyncrasies, a ‘one-size-fits-all’ centralised model is not the preferred model for many MNCs. Rather MNCs are increasingly establishing hybrid corporate treasury structures such as establishing a Global Treasury Centre with Regional Treasury Centres. By doing so, companies are hoping to balance the pros and cons of the centralised and decentralised model.

In determining where to set-up global and regional hubs, KPMG’s research indicates that MNCs are attracted to cities with many strings to their bow. Although banking factors and tax attractiveness are critical criteria, cities with all-round capabilities are preferred to cities that flourish in some areas but wallow in others. As the global economy becomes increasingly influenced by the ‘Asian Century’, we expect that more MNCs will look to establish global or regional treasury footprints in Asia. In anticipation, Hong Kong and Singapore are positioning themselves strongly to capitalise on this emerging trend.
Authors

Craig Davis
Partner,
Asia Pacific Head of Financial Risk Management

Craig Davis is a Partner and leads KPMG’s Financial Risk Management practice across ASPAC, he co-ordinates and/or leads all related engagements in this field. In addition Craig is the ASEAN lead for the Financial Services sector and is the Global lead for Risk and Capital Markets technology offering and through these, participate in global competency teams. KPMG’s Financial Risk Management team provides end-to-end programme services covering project governance, business analytical/financial engineering, organisational engineering/business process optimisation, systems integration and regulatory advice and assurance. We provide certainty and industry insights to complex challenges across the Treasury, Capital Markets and Risk arenas.

Oliver Hsieh
Associate Director

Oliver is an Associate Director with the Financial Risk Management team and leads the team’s engagements in commodities & energy risk management (CERM) in the ASEAN region. He specialises in risk management, looking specifically at global markets. He has 11 years of banking and consulting experience, of which the last five years has been focused on energy (oil and refined products) and commodity price risk management.
The Structure, Role and Location of Financial Treasury Centres: A Process of Evolution
Contact us

For further information regarding KPMG’s Financial Risk Management Services, please contact:

Craig Davis
Partner
Asia Pacific Head of Financial Risk Management
KPMG in Singapore
T: +65 6411 8533
E: craigdavis1@kpmg.com.sg

Oliver Hsieh
Associate Director
KPMG in Singapore
T: +65 6411 8037
E: oliverhsieh@kpmg.com.sg

For further information regarding KPMG’s Treasury Tax Services, please contact:

Chiu Wu Hong
Partner
Head of Mergers & Acquisitions Tax and Incentives
KPMG in Singapore
T: +65 6213 2569
E: wchiu@kpmg.com.sg

Ho Kah Chuan
Director
ASEAN Incentives Advisory
KPMG in Singapore
T: +65 6213 7303
E: kahchuanho@kpmg.com.sg