Treasury Management in the UK

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UK Overview

The United Kingdom is home to London, a global financial center that serves as the European and Global Headquarters for many corporations and financial institutions.

The unit of currency is the Great Britain Pound (GBP). It is divided into 100 pence and commonly referred to as the Pound sterling. The Pound sterling is freely traded on the foreign exchange market and is not currently a Euro currency.

The Bank of England is the central bank and regulates all financial institutions in the country. Central bank reporting requirements have minimal impact on cash management activity and the regulatory environment is open.

There are five payment and clearing systems in the UK that relate to cash and treasury management. All five operate under the auspices of the Association for Payment Clearing Services (APACS).

1. The high value sterling system (Clearing House Automated Payments System - CHAPS) is a same day system with real time gross settlement (RTGS) across accounts maintained by members with the Bank of England. There is no minimum or maximum value for payments processed through CHAPS. CHAPS is owned directly by its members.
2. The CHAPS Clearing Company also offers a CHAPS Euro system which functions identically to traditional CHAPS payments except that instructions are passed through SWIFT instead of the CHAPS Sterling network. This system links to TARGET for the settlement of cross border Euro payments.
3. The check clearing system is managed by the Cheque and Credit Clearing Company Limited under the auspices of APACS. Check clearing in the UK is a three day cycle regardless of location in the country with day 1 being the date of deposit and day 3 being the day of final settlement. Checks drawn in England and cleared in Scotland - or vice versa - clear in four days.
4. The ACH system is called BACS and operated by the Bankers' Automated Clearing Services Ltd (BACS) which is part of the Association for Payment Clearing Services (APACS). BACS processes direct credits, direct debits, and standing orders for its 16 members and 35,000 sponsored users. The BACS clearing cycle takes three days from advice of issuance to ultimate settlement and is float neutral to payers and beneficiaries.
5. There is also a U.S. dollar check clearing system using a major international bank as the settlement bank for checks drawn on U.S. dollar accounts located in the City of London.

A company is considered resident in the UK if it is incorporated there or if the central management and control of the company is exercised there. Companies resident under domestic law, but nonresident under a double tax

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Background

USCIA and US State Department

Government

Bank of England

Consultants

DTT WorldTax, Ernst & Young, and Bank Relationship Consultancy

Associations

Association of Corporate Treasurers, British Bankers' Association, and APACS

Banks

Standard Chartered Bank, Barclays Bank, Citibank, HSBC Group, Lloyds TSB, Royal Bankof Scotland, Ulster Bank, and NatWest

treaty, are regarded as nonresident for all tax purposes. Resident companies in the UK are subject to corporation tax on their worldwide profits. Tax is imposed on the total amount of income earned from all sources in the company's accounting period, including any chargeable capital gains. The current rate is 30%.

Treasury Management

London has traditionally been one of the world's financial capitals because of its location, language, and legal system. Virtually all bona fide commercial activities can be, and are, conducted in the UK. There is a huge foreign exchange market in London and membership in the European Union and efficient transport make the UK a good location for Shared Service Centers (SSC) and Regional Treasury Centers (RTC). Treasury activities which result from this such as multicurrency settlement accounts and Pan European account structures are a significant business for all international banks.

All common treasury management techniques are permitted in the UK including leading/lagging, reinvoicing, sweeping, and cash concentration. Multilateral netting is permitted without restriction. London's position as a global financial center makes it an ideal location for a regional or global netting center. Pooling of Pound sterling is permitted as is the pooling of other currencies.

The size and sophistication of the UK market make it a tempting point of entry for virtually all financial institutions. The resulting competition ensures thin margins and requires that all organizations focus on areas of special competence to survive.

Accounts

The basic GBP operating account is referred to as a current account and may be held by resident or non-resident corporations. Banks are permitted to pay interest on current accounts maintained by corporations and offer overdrafts at their discretion. While not a reserve currency, GBP accounts can be held offshore in many countries and are not prohibited by regulation or discriminated against by custom.

Resident and non-resident corporations may hold accounts in the UK that are denominated in currencies other than the Pound sterling, Euro, or U.S. dollar. Many companies choose to maintain a variety of currency accounts in London to facilitate treasury settlements and other financial activities.

There are several overnight and short term investment options for resident or non-resident corporations. Options range from bank deposits through time deposits, certificates of deposit, repurchase agreements and government securities referred to as gilts.

Overdrafts are permitted, with the amount and rate determined by each bank. Short term loans, commercial paper, and banker's acceptances are the other principal sources of short term finance.

Payments and Receipts

Checks and cash are widely used in retail settlements but are diminishing in importance relative to debit cards and the ACH. Direct debits have a high level of consumer acceptance and are increasingly used for retail collections. Larger settlements are easily handled by check but since electronic client access

News

Treasury Management International, Daily Telegraph, The Economist, The Financial Times, and The Times

Specialist Sites

Euro-Impact

International Treasurer

systems are in common use, electronic payments are the becoming the norm. Since there is no payment size restriction on same day payments (CHAPS) this is also a common payment method; fully 1/3 of all CHAPS payments are for less than GBP 100,000.

Lockbox type arrangements are permitted but not common business practice. Fast check clearing, an efficient mail system, and increased usage of electronic alternatives make lockbox arrangements relatively uncommon.

Controlled disbursement is not possible because the timing of cleared check presentment and CHAPS cutoffs do not permit coverage of check presentments. The high level of ACH usage for retail payments obviates the need for a functional alternative.

Technology and Marketplace

The UK has a modern telecommunications system including fiber optic cable and digital switches. Bandwidth is reasonably priced and readily available. In addition to an excellent infrastructure, United Kingdom also has a number of value added networks (VANs) that enable efficient domestic electronic commerce.

London is one of the most competitive banking markets in the world. It is home to strong local, regional, and international banks. Local banks such as Lloyd's TSB, Halifax, NatWest (soon to be part of the Royal Bank of Scotland), Barclays, Royal Bank of Scotland, HSBC Midland, and Alliance & Leicester have huge retail networks and in some cases offer regional and global cash management solutions. Virtually all international banks offering global cash management services have London operations including Hong Kong Shanghai Banking Corporation (Hexagon), Deutsche Bank (DB Direct), Citibank, ABN-AMRO (BankStation), and Chase (Workspace).

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