

Intercompany Financing Structures Redefined

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Global economic climate

- A global GDP growth of 2.9% expected for 2016. Both developed and emerging markets are on weak trajectory
- Low investment levels, weak productivity growth, small export sector
- Monetary policy used extensively as expansionary policy
- Deflation/low prices are in the US, the EU and Japan
- Climate change impacting businesses.

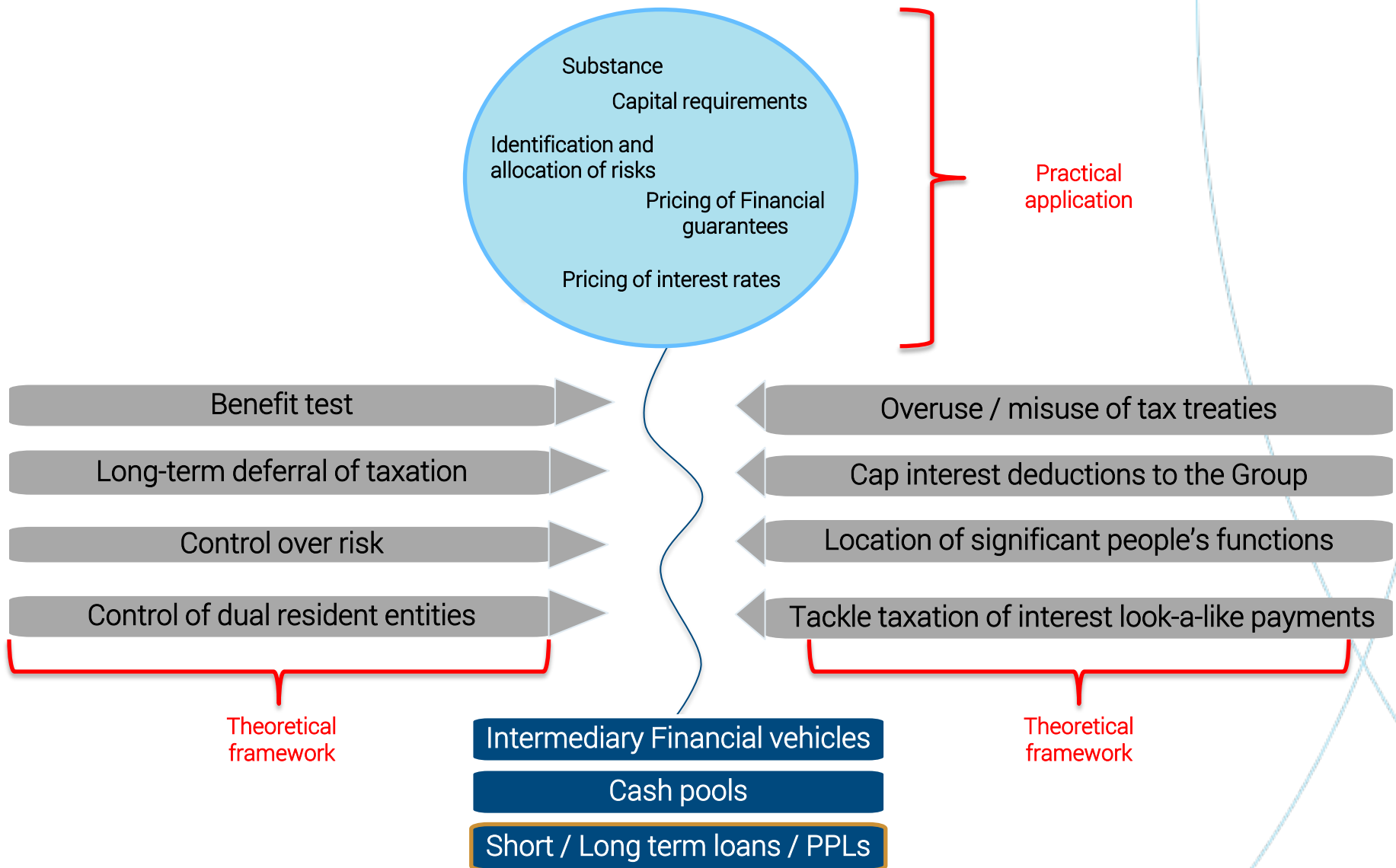
Sub-zero interest rate

- Negative rates are now the policy of the European Central Bank, with a deposit rate of - 0.40%
- Switzerland, - 0.75%, Sweden, - 0.50%, Japan, - 0.10%
- More than \$26 trillion of government bonds now trade at yields of below 1%, with around \$7 trillion yielding below 0%
- Government bonds in Germany with a maturity of 7 years are trading at negative yields
- Swiss and Japanese government bonds out to 10 years trade at negative yields
- Investors preferring Junk bonds.

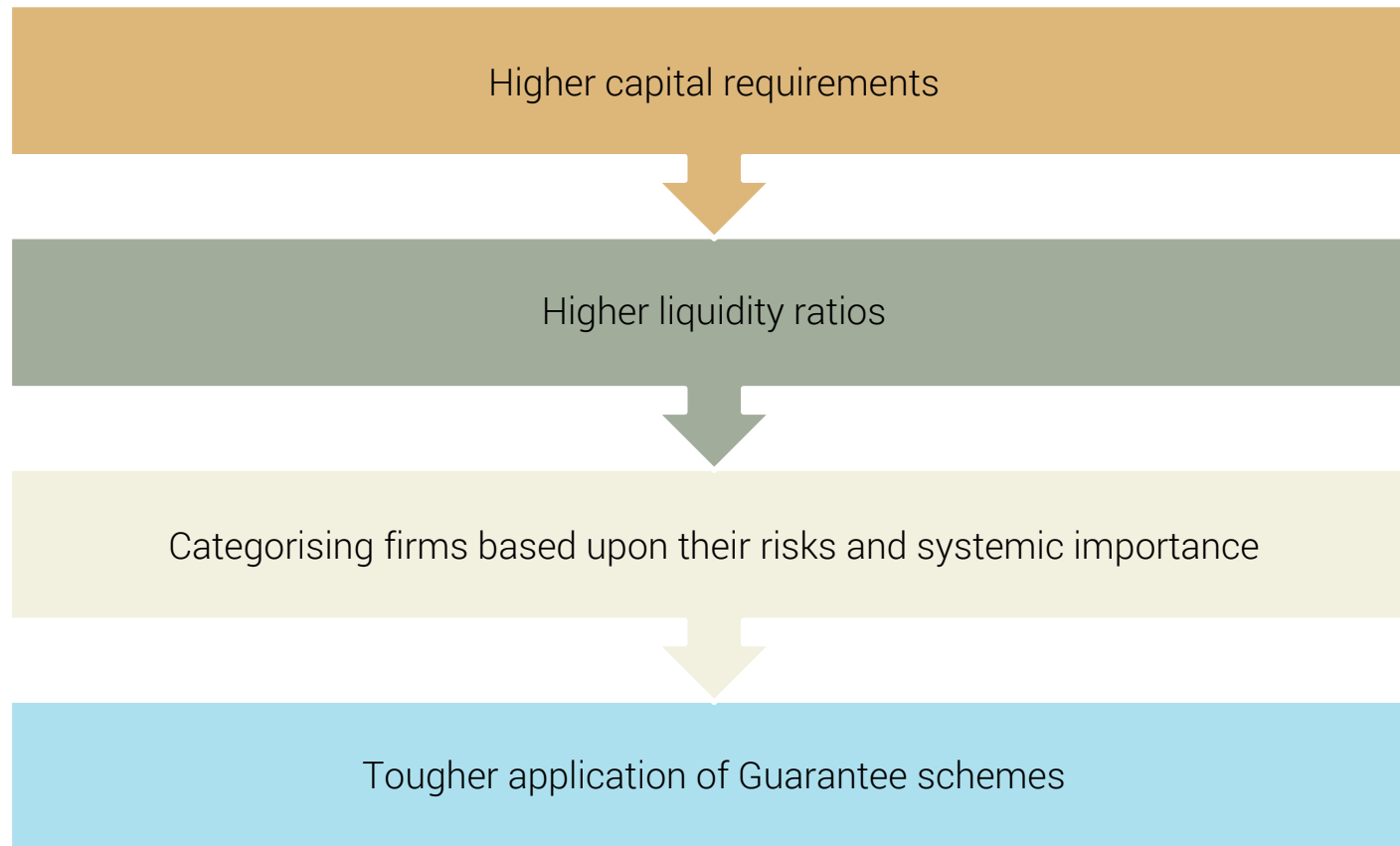
Implications

- Weak economic climate impacting the risk appetite of the lender, putting today's intercompany loans concluded "under water"
- Eroded profitability and consequently battered equity position, making MNEs existing debt position highly leveraged
- Negative interest rates creating an overall low level of interest rate environment for intercompany financing
- Risky financing still commanding premium due to lack of good investment avenues
- Non-payment of interest becoming a less significant covenant.

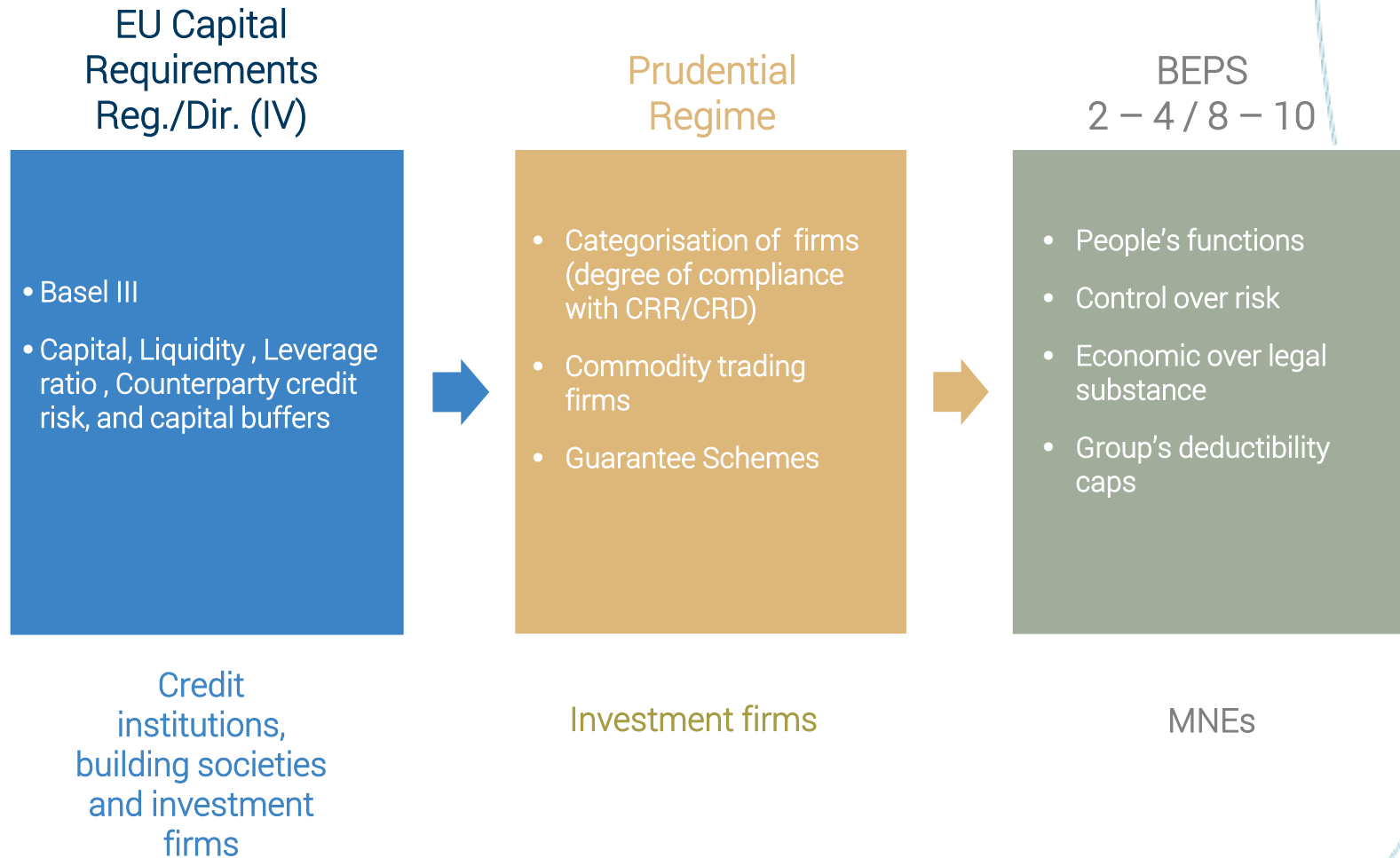
MNE's main concerns may be going forward



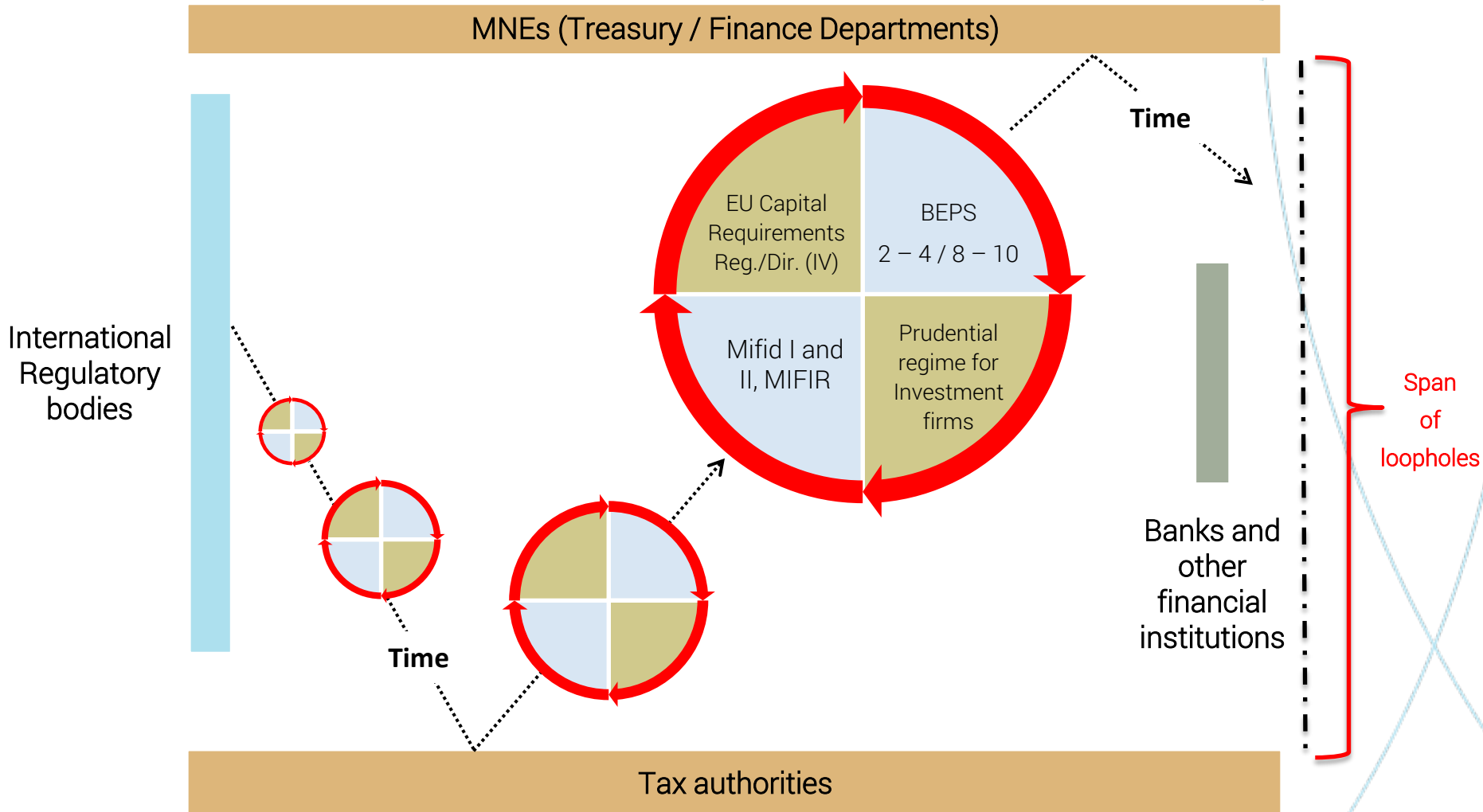
Collateral effect: On the long run, IC financing will be affected by the same or similar events that are currently redefining the banking and finance industry



The source of all: Regulating the Banking and other financial institutions sector



Regulatory framework: Understand the game and its rules to foresee the future of IC financing



Key takeaways

- To evaluate existing highly leveraged positions
- To examine closely loan arrangements where the interest rate is higher than 10%
- To move away from the “synthetic approach” to a new approach involving “audit trails with empirical evidence” on SPF
- To check whether existing financial structures (for example, a hybrid structure - profit participation loan) are not being taxed anywhere.

Q & A

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