



ASSOCIATION FOR  
FINANCIAL  
PROFESSIONALS

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# CASH AND TREASURY MANAGEMENT COUNTRY REPORT

# USA

# Executive Summary

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## Banking

The USA's central bank is the Federal Reserve System (the Fed). Supervision is performed by three authorities: the Fed, the US Treasury Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

There are no central bank reporting requirements in the USA.

Resident and non-resident entities are permitted to hold both US dollar and foreign currency bank accounts, both in the USA and abroad. However, foreign currency bank accounts are not common in the USA.

A total of 5,170 commercial banks currently operate in the USA, following a decade of M&A activity. The vast majority of US banks are small, local banks.

## Payments

The USA's four main interbank payment clearing systems are Fedwire, CHIPS, ACH and check clearing. There are two ACH operators in the USA — one is operated by the Federal Reserve, the other is the private Electronic Payments Network.

In terms of value, electronic credit, or wire, transfers are the predominant method of making payments. Checks are still one of the major payment instruments, despite a steady decline in recent years.

## Liquidity Management

US-based companies have access to a broad number of short-term funding and investment instruments.

Cash concentration, zero balancing and target balancing are widely used in the USA and are offered by most major domestic banks and international banks. Several regulations restrict the use of notional pooling in the USA.

## Trade Finance

The USA is a member of the North American Free Trade Association (NAFTA), the Dominican Republic-Central American Free Trade Agreement (DR-CAFTA) and the World Trade Organization (WTO).

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# PNC's International Services

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*PNC can bring together treasury management, foreign exchange, trade finance and credit capabilities to support your international needs in a coordinated and collaborative way.*

## International Funds Transfers

International Funds Transfers to over 130 countries in USD and foreign currency can be accessed through PINACLE®, PNC's top-rated, online corporate banking portal.

## Multicurrency Accounts

Set up demand deposit accounts that hold foreign currency instead of U.S. dollars. These accounts offer a simple and integrated way to manage and move money denominated in more than 30 currencies, including offshore Chinese Renminbi. You can easily view deposit and withdrawal details through PINACLE.

## PNC Bank Canada Branch ("PNC Canada")

PNC Bank, through its full service branch in Canada, can help you succeed in this important market. PNC Canada offers a full suite of products including payables, receivables, lending, and specialized financing to help streamline cross border operations.

## Multibank Services

PNC's Multibank Services provide you with balances and activity for all your accounts held with PNC and other financial institutions around the world. PINACLE's Information Reporting module can give you a quick snapshot of your international cash position, including USD equivalent value, using indicative exchange rates for all your account balances. You can also initiate Multibank Transfer Requests (MT101s), and reduce the time and expense associated with subscribing to a number of balance reporting and transaction systems.

## Establish accounts in foreign countries

Establishing good banking relationships in the countries where you do business can simplify your international transactions. PNC offers two service models to help you open and manage accounts at other banks in countries outside the United States.

- PNC Gateway Direct comprises an increasing number of banks located in many European countries and parts of Latin America. PNC's team will serve as a

point of contact for setting up the account helping with any language and time barriers and will continue to serve as an intermediary between you and the bank you select. You can access reporting and make transfers via PINACLE.

- PNC's Gateway Referral service can connect you to a correspondent banking network that comprises more than 1,200 relationships in 115 countries.

## Foreign Exchange Risk Management

PNC's senior foreign exchange consultants can help you develop a risk management strategy to mitigate the risk of exchange rate swings so you can more effectively secure pricing and costs, potentially increasing profits and reducing expenses.

## Trade Services

PNC's Import, Export, and Standby Letters of Credit can deliver security and convenience, along with the backing of an institution with unique strengths in the international banking arena. PNC also provides Documentary Collections services to both importers and exporters, helping to reduce payment risk and control the exchange of shipping documents. We assign an experienced international trade expert to each account, so you always know your contact at PNC and receive best-in-class service. And PNC delivers it all to your computer through advanced technology, resulting in fast and efficient transaction initiation and tracking.

## Trade Finance

For more than 30 years, PNC has worked with the Export-Import Bank of the United States (Ex-Im Bank) and consistently ranks as a top originator of loans backed by the Ex-Im Bank both by dollar volume and number of transactions.<sup>1</sup>

## Economic Updates

Receive regular Economic Updates from our senior economist by going to [pnc.com/economicreports](https://pnc.com/economicreports).

(1) Information compiled from Freedom of Information Act resources.

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# Financial Environment

## Country Information

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### Geographical Information

<b>Capital</b>	Washington, DC
<b>Area</b>	9,826,675 km <sup>2</sup>
<b>Population</b>	324.0 million
<b>Official languages</b>	English
<b>Political leader</b>	President (head of state and government) — Donald J. Trump (since January 20, 2017)

### Business Information

<b>Currency (+ SWIFT code)</b>	US dollar (USD)
<b>Business/Banking hours</b>	09:00–17:00 (Mon–Fri. Some banks also open on Saturday.)
<b>Bank holidays</b>	<p>2017 — February 20, May 29, July 4, September 4, October 9, November 11, 23, December 25</p> <p>2018 — January 1, 15, February 19, May 28, July 4, September 3, October 8, November 12, 22, December 25</p> <p>2019 — January 1, 21, February 18, May 27, July 4, September 2, October 14, November 11, 28, December 25</p> <p>Source: <a href="http://www.goodbusinessday.com">www.goodbusinessday.com</a>.</p>
<b>International dialing code</b>	+ 1

## Country Credit Rating

Fitch Ratings last rated United States of America on July 22, 2016 for issuer default as:

Term	Issuer Default Rating
Short	F1 +
Long	AAA
Long-term rating outlook	Stable

Source: [www.fitchratings.com](http://www.fitchratings.com), January 2017.

## Economic Statistics

### Economics Table

	2010	2011	2012	2013	2014
<b>GDP per capita (USD)</b>	47,924	49,277	51,319	52,631	54,447
<b>GDP (USD billion)</b>	14,964	15,518	16,155	16,692	17,393
<b>GDP volume growth‡ (%)</b>	+ 2.5	+ 1.6	+ 2.2	+ 1.7	+ 2.4
<b>BoP (goods, services &amp; income) as % GDP</b>	- 2.1	- 2.1	- 2.0	- 1.5	- 1.5
<b>Consumer inflation‡ (%)</b>	+ 1.6	+ 3.2	+ 2.1	+ 1.5	+ 1.6
<b>Population (million)</b>	312	315	315	317	319
<b>Unemployment (%)</b>	9.6	9.0	8.1	7.4	6.2
<b>Interest rate (federal funds rate)† (%)</b>	0.18	0.10	0.14	0.11	0.09
<b>Exchange rate* (USD per EUR)†</b>	1.3269	1.3914	1.2856	1.3282	1.3288
	2015		2016		
	Q4	Year	Q1	Q2	Q3
<b>GDP per capita (USD)</b>	-	56,055	-	-	-
<b>GDP (USD billion)</b>	-	18,037	-	-	-
<b>GDP volume growth‡ (%)</b>	+ 1.9	+ 2.6	+ 1.6	+ 1.3	+ 1.5
<b>BoP (goods, services &amp; income) as % GDP</b>	-	- 1.8	-	-	-
<b>Consumer inflation‡ (%)</b>	+ 0.5	+ 0.1	+ 1.1	+ 1.1	NA
<b>Population (million)</b>	-	322	-	-	-
<b>Unemployment (%)</b>	4.8	5.3	5.2	4.8	5.0
<b>Interest rate (federal funds rate)† (%)</b>	0.16	0.13	0.36	0.37	0.40
<b>Exchange rate* (USD per EUR)†</b>	1.0949	1.1096	1.1018	1.1293	1.1164

\*Official rate. †Period average. ‡Year on year.

Source: *International Financial Statistics*, IMF, December 2016 and 2015 Yearbook.

### **Sectoral Contribution as a % of GDP**

Agriculture - 1.1%

Industry - 19.4%

Services - 79.5% (2016 estimate)

### **Major Export Markets**

Canada (18.6%), Mexico (15.7%), China (7.7%), Japan (4.2%)

### **Major Import Sources**

China (21.5%), Canada (13.2%), Mexico (13.2%), Japan (5.9%), Germany (5.5%)

# Political and Economic Background

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## Economics

### Interest Rate Management Policy

The Federal Reserve System (the Fed) is responsible for managing interest rate policy. The Fed's main objectives are maximum employment, stable prices and moderate long-term interest rates. Interest rates are set at eight annual meetings of the Fed's Federal Open Market Committee (FOMC).

### Foreign Exchange Rate Management Policy

The exchange rate policy is determined by the US Department of Treasury in consultation with the Fed. Although they are permitted to intervene in the foreign exchange market to manage the US dollar exchange rate relative to other currencies, their intervention has become less frequent in recent years. The Federal Reserve Bank of New York has the responsibility of executing foreign exchange intervention.

### Major Economic Issues

Although the USA has the world's biggest and most powerful economy, it is also facing several serious economic challenges, including falling, but still high unemployment and the need to stabilize debt levels, whilst not jeopardizing its recovery from the recession. After four successive quarterly drops in GDP, the economy grew by 1.4% in the third quarter of 2009 and then continued to grow over the next 13 quarters. The economy grew 2.4% in both 2014 and 2015, although growth slowed to 2% in the last quarter of 2015, reflecting falling exports and consumer and business spending. GDP grew 3.5% in the third quarter of 2016, the highest rate in two years, driven by stronger consumer spending. The Fed has forecast GDP growth of 1.9% for 2016, and of 2.1% for 2017 and 2% for 2018.

In December 2015, after holding its benchmark interest rate near zero for seven years, the Fed raised interest rates by a quarter of a percentage point to between 0.25% and 0.50%, ending a lengthy debate about whether the economy was strong enough to withstand higher borrowing costs. In December 2016, the Fed raised interest rates to between 0.50% and 0.75%, the first increase in a year and only the second time since 2008. In a statement, the Fed said economic growth is stronger and unemployment lower, and indicated that there will be gradual increases in 2017. Unemployment fell from 5% in December 2015 to 4.7% in December 2016. Inflation, as measured by the Consumer Price Index (CPI), increased from 1.7% in November 2016 to 2.1% in December 2016, above the Fed's 2% target for the first time since 2014.

The USA's trade deficit increased from USD 42.4 billion in October 2016 to USD 45.2 billion in November 2016, as exports fell and imports climbed to the highest level since August 2015. Although the USA is self-sufficient in most raw materials, it is still dependent on imports for its supply of oil.

In the long term, the USA also needs to address under-investment in its financial infrastructure, as well as the pressing concerns associated with its ageing population, such as the sharp rise in the cost of pensions and medical care. Other long-term problems include sizeable current account and budget deficits and stagnation of wages for lower-income families.

US companies benefit from highly developed technology and a business-friendly domestic market. The country's main industries include automobile manufacture, aerospace, computers, electronics and chemicals.

## Politics

### Government Structure

Political power is divided between the national (federal) and state governments in the USA under the terms of the US constitution.

The national government is based in Washington, DC.

There are 50 state governments, within which there are also local municipal and county councils.

The federal president is both the head of state and head of government.

### *Executive*

At national level, the federal government is headed by the president. The president is elected by a college of representatives directly elected from each state. The president then appoints the cabinet with senate approval.

The current administration is headed by President Donald J. Trump, of the Republican Party.

Presidential elections are held every four years. The next election will be held on November 3, 2020.

### *Legislature*

At national level, the legislature has two houses.

The Senate has 100 members. Each state is represented by two Senators, who are elected by popular vote of the whole state. The term of office in the Senate is six years. One-third of the Senators are elected every second year.

The House of Representatives has 435 members. They are elected every two years by popular vote to represent single-member districts. Each state is divided into a number of congressional districts, with the number of districts apportioned according to their population.

### *International memberships*

The USA is a member of the North American Free Trade Association (NAFTA), the Organization for Economic Cooperation and Development (OECD), the Bank for International Settlements, the North Atlantic Treaty Organization (NATO) and the World Trade Organization (WTO), as well as the Dominican Republic–Central American Free Trade Agreement (DR-CAFTA).

## Major Political Issues

On November 8, 2016, Republican Donald Trump was elected president of the United States after a victory over the Democratic presidential candidate, Hillary Clinton, in the race for the presidency.

Donald Trump was sworn in as the 45th President of the United States on January 20, 2017, succeeding Barack Obama, of the Democratic Party. President Trump has promised to undo some of Barack Obama's signature achievements, including the repeal and replacement of the Affordable Healthcare Act "Obamacare." He has also promised initiatives on tax and infrastructure and to radically change US foreign policy.

The new president has questioned US commitments to NATO allies that do not pay their own way and called for better relations with Russia. He has also proposed renegotiating US-China relations, the Iran nuclear deal and trade agreements such as the North American Free Trade Agreement (NAFTA). On his first working day in office, on January 23, 2017, President Trump signed an executive order withdrawing the USA from the Trans-Pacific Partnership (TPP) trade pact. After meeting with Prime Minister Theresa May of the UK in his first week after assuming office, the US and UK agreed to a "U.K.-U.S. Trade Negotiation Agreement" to begin preliminary bilateral trade talks for a formal free-trade deal to be signed as soon as possible after the U.K. leaves the European Union. He has also pledged a hard-line stance on immigration and to build a new wall along the US-Mexico border. Mr. Trump defends a non-interventionist approach to military policy while increasing military spending and focusing on defeating the Islamic State militancy. On Friday, January 28, the president signed an executive order temporarily suspending the entrance of nationals for 90 days from Iraq, Syria, Iran, Libya, Somalia, Sudan and Yemen, countries named in a 2016 law concerning immigration visas as "countries of concern," and calling for a review and revision of visa issuance procedures by the Department of Homeland Security and the State Department within three months. The order also suspends the refugee admissions program for 120 days and indefinitely suspends refugee admittance from Syria.

In July 2015, after 20 months of negotiations, Iran agreed a long-term nuclear deal with the so-called P5+1 (the US, UK, France, Russia, China and Germany) to limit its sensitive nuclear activities in return for the lifting of crippling sanctions. In January 2016, Iran emerged from years of economic isolation after the United Nations' nuclear watchdog ruled it had fulfilled key nuclear commitments, clearing the way for the lifting of UN, US, and European Union nuclear-related sanctions. However, the deal, which was a focal point of Mr. Obama's foreign policy, has been criticized by new president Donald Trump, who has threatened to dismantle it. Nuclear proliferation in North Korea remains a pressing issue.

A slowdown in the growth of government revenues as well as higher government spending pushed the US budget deficit up for the first time since 2009, when the deficit peaked at USD 1.416 trillion (9.8% of GDP) amid the global financial crisis. The budget deficit stood at USD 587 billion (3.2% of GDP) in the fiscal year ending in September 2016, up from USD 435 billion (2.4% of GDP) in the fiscal year ending in September 2015.

# Taxation

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## Resident/Non-resident

A corporation (or partnership) is “domestic” for federal tax law purposes if it is created or organized in the US or under the laws of the US, one of the 50 states or the District of Columbia. If certain transactions are executed whereby a foreign corporation directly or indirectly acquires substantially all of the property held directly or indirectly by a domestic corporation (or substantially all of the property constituting a trade or business of a domestic partnership) (an “inversion”), the foreign corporation may, in certain cases, be treated as a domestic corporation for purposes of applying US tax provisions.

## Tax Authority

The Internal Revenue Service (IRS), a part of the US Department of the Treasury, administers the taxes imposed by federal law.

## Tax Year / Filing

The taxable year usually follows the taxpayer’s annual accounting period where such period is a calendar or fiscal year. A calendar year is a period of 12 months ending on December 31. A fiscal year means an accounting period of 12 months ending on the last day of any month other than December. An annual accounting period means the annual period on the basis of which the taxpayer regularly computes its income in keeping its books. Certain taxable periods of more/less than 12 months may arise.

A domestic company must file its US federal corporate income tax returns by the 15th day of the fourth month following the close of the company’s taxable year. A six-month extension may be obtained for filing this tax return. A foreign company that is subject to US return filing requirements may be subject to different due dates. Non-corporate businesses that have certain US-sourced income or that conduct a US trade or business are subject to return filing requirements with various due dates.

Taxpayers are normally required to make estimated tax payments in quarterly installments during the fiscal year. All remaining taxes due must be fully paid by the original due date of the return. No extensions are allowed for payment of tax. Interest is assessed on all amounts outstanding as of the original due date of the tax return.

State filing and payment deadlines are similar to the US federal requirements, but vary by state.

A group of domestic affiliated corporations may file a consolidated tax return if certain requirements are met, most particularly that the parent company must own directly 80% or more of the stock of at least one subsidiary in the group, and each subsidiary in the group must be at least 80%-owned directly by the parent and/or other group subsidiaries.



## Corporate Taxation

Domestic corporations are taxed by the federal government on worldwide income, including income from branches, whether or not repatriated. Profits of foreign subsidiaries usually are not taxed until they are repatriated as dividends, unless they are subject to current inclusion under the “subpart F” (see “Controlled foreign companies” below) or passive foreign investment company (PFIC) qualified electing fund rules.

A foreign corporation is taxable on income effectively connected with the conduct of a trade or business in the US (“effectively connected income” or “ECI”) and on most non-ECI that is derived from US sources.

A US trade or business (e.g. a business conducted through a branch office located in the US) is relevant for this purpose if conducted by the corporation, by a partnership in which it is a partner or by a trust or estate of which it is a beneficiary.

State and local income taxes are imposed at varying rates. The state income tax base is generally federal taxable income that has been apportioned to a state on the basis of some combination of property, sales and payroll. City income taxes are generally levied on adjusted federal taxable income at various rates (often ranging from 1% to 2%). Some states also impose corporate net worth/franchise/capital stock taxes at varying rates. These taxes are based on the corporate net worth apportioned to the state. State and local taxes typically are deductible expenses for federal income tax purposes.

A flat tax of 35% applies to the taxable income of a corporation that has taxable income for the year equal to or greater than USD 18,333,333. Graduated rates, starting as low as 15%, apply to income of a corporation with total taxable income of less than USD 18,333,333. The gradations in the rate brackets that apply to a single corporation’s progressive amounts of income phase out as the corporation’s total taxable income rises from USD 100,000 to USD 18,333,333. For this purpose, members of a controlled group of corporations are treated similarly to a single corporation.

Domestic and foreign corporations are liable for a 20% alternative minimum tax (AMT) to the extent that 20% of an adjusted measurement of income, computed without certain preferences, exceeds the regular tax on taxable income.

Foreign income taxes may offset dollar for dollar the US income tax on taxable income, to the extent the US tax is allocated to foreign-source taxable income and additional conditions and limitations are satisfied. Creditable foreign income taxes include taxes borne by foreign subsidiaries on profits repatriated to a US corporate shareholder (“deemed-paid taxes”).

No participation exemption. The deduction for dividends received, which serves a similar function in the case of a participation in a subsidiary (but not a branch or a PE), generally is not available for dividends received from foreign corporations (except in certain cases where the foreign corporation has ECI).

Incentives include numerous credits for special types of activities (including R&D), a deduction for qualifying domestic production activities and various temporary “expensing” provisions to accelerate the benefits of depreciation deductions.

Foreign companies generally are subject to US income tax on two categories of income: (1) income effectively connected with a US trade or business; and (2) US-sourced fixed or determinable annual or periodic (FDAP) income. Income effectively connected with a US trade or business is taxed on a net basis. A factual determination must be made as to whether a foreign company is engaged in a US trade or business. The partners/owners of various pass-through/disregarded entities can be deemed to be engaged in a US trade or business, due to their ownership of such entities. FDAP income not effectively connected with a US trade or business generally includes dividends, interest, rents and royalties, and is commonly subject to a 30% withholding tax on the gross amount without an allowance for deductions. This rate may be reduced by an applicable tax treaty.

Foreign companies engaged in a US trade or business may also be subject to the US branch profits tax at a rate of 30%. The branch profits tax is intended to place foreign companies that operate in the US through a branch on an equal footing with those operating through a US subsidiary subject to tax at a rate of 30% upon receipt of dividend income from the US subsidiary as FDAP. Foreign companies that operate in the US through a branch may also be subject to a branch-level interest tax. US branches of foreign companies that are residents of certain jurisdictions, and that satisfy specific conditions under the relevant treaty, may qualify for a reduced rate on, or be entirely exempt from, the branch profits tax and branch interest tax.

Federal net operating losses generally may be carried back for two years and carried forward for up to 20 years to offset taxable income in those other years (specific types of losses have different carryback or carryforward provisions). Most states have similar provisions, with differences in the carryforward or carryback periods.

## Miscellaneous State Taxes

Many state and local jurisdictions impose taxes on real property.

Some state and local jurisdictions impose a tax on the transfer of real property.

## Capital Gains Tax

Capital gains earned by a domestic company are taxed at ordinary corporate tax rates. Foreign companies are generally exempt from tax on capital gains, unless the income is taxable as FDAP income or is considered to be connected with a US trade or business. Gains on the sale of stock in a US real property holding company or on the sale of a US real property interest by a foreign company are treated as income that is effectively connected with a US trade or business. Capital gains recognized by a foreign company may also be taxable as Subpart F income.

Capital losses may only be used to offset capital gains, not ordinary income. A company's excess capital losses can be carried back three years and forward for five years to offset capital gains in

such other years. The amount of capital loss carried back, however, is limited to an amount that does not cause or increase a net operating loss in the carryback year.

## Stamp Duty

Documentary stamp taxes may be imposed at the state level. Stamp taxes also may be imposed on such items as alcohol and tobacco.

## Withholding Tax (Subject to Tax Treaties)

Payments to:	Interest	Dividends	Royalties	Branch remittances
Domestic companies	None	None	None	NA
Foreign companies in a tax treaty country	0-30%	0-30%	0-30%	0-30%
Foreign companies in a non tax treaty country (see below for certain exceptions to general 30% rate)	30%	30%	30%	NA

As a general rule, no US withholding tax is imposed on payments to US citizens, US resident individuals or domestic companies. However, back-up withholding on interest and dividends may be required if the US recipient fails to provide the necessary withholding certificate to the payer.

A payment to a fiscally transparent entity may or may not be subject to withholding tax, or may be subject to different withholding rates, depending on the status and residence of the beneficial owner of the income. Various withholding certificates are required. Structures with fiscally transparent or hybrid entities should be evaluated to determine the extent to which tax treaty benefits are available.

Payments of US-sourced dividends, interest, royalties and rents to a foreign company generally incur withholding tax at 30%. However, a reduced rate or an exemption may be available under an applicable tax treaty.

Notwithstanding the general rule, no withholding tax is imposed when the income is paid to a foreign company which conducts a US trade or business (e.g. payment to a US branch of a foreign company) if such income is effectively connected with the US trade or business.

No withholding tax is imposed on broad types of interest payments to foreign companies. Payment of interest to a foreign unrelated party is in many cases exempt under the portfolio interest exemption. Payment of interest on a bank deposit to a foreign depositor is generally exempt under the bank deposit interest exemption.

As a general rule, withholding tax is not imposed on a payment that is associated with income that is exempt from US taxation when received by a foreign person who is a beneficial owner of the income. Therefore, foreign-sourced income is not subject to withholding tax. Capital gains on disposition of personal property are generally exempt from withholding tax as well.

A reduction in, or exemption from, withholding tax is conditioned on compliance with complex rules. Generally, the payer must be in possession of an appropriate withholding certificate at the time of payment to apply a lower treaty rate or to allow exemption. The withholding certificate must be executed by the recipient of the payment and/or the beneficial owner of the income as required by the regulations. When a treaty benefit is claimed, the income recipient must certify its eligibility for benefits and must provide its US tax identification number on the withholding certificate.

In addition to the above rule, a business entity that is treated as a partnership under US tax principles is subject to a withholding tax requirement with respect to its business income if the entity has a foreign owner. The withholding requirement applies to the foreign owner's share of income that is connected with a US trade or business.

Legislation enacted in 2010 (the Foreign Account Tax Compliance Act, or FATCA) imposes 30% withholding requirements on certain payments (e.g., dividends, interest, insurance premiums) to certain foreign financial institutions.

### **Tax Treaties / Tax Information Exchange Agreements (TIEAs)**

United States has exchange of information relationships with 87 jurisdictions through 61 double tax treaties and 33 TIEAs ([www.eoi-tax.org](http://www.eoi-tax.org), February 2016).

### **Thin Capitalization**

The "earnings stripping" rules restrict the ability of US (and certain foreign) companies to claim an interest deduction on debt owed to, or guaranteed by, certain non-US related persons (and other related persons exempt from US tax). The rules generally apply where the debt-to-equity ratio of the payer exceeds 1.5 to one and the payer's "net interest expense" exceeds 50% of its "adjusted taxable income" for the year. Disallowed interest that is not currently deductible may be carried forward and deducted in future years if certain conditions are satisfied.

### **Transfer Pricing**

Transactions between related parties must be conducted at arm's length.

Transfer pricing policies between commonly controlled entities are closely scrutinized by the tax authorities (the IRS), which have substantial powers to adjust a taxpayer's transfer pricing. Regulations cover prices for products, services, loan interest, and license and management fees. The IRS is authorized to allocate income and deductions to prevent evasion of taxes or to reflect clearly the income of the different parties. Control is defined very broadly, including where two or more persons act in concert with a common goal or purpose.

US transfer pricing regulations are constantly evolving and should be reviewed continuously.

Advance pricing agreements, both bilateral and unilateral, may be negotiated.

Contemporaneous documentation is required, as provided in the regulations.

## Controlled Foreign Companies

Certain types of income of controlled foreign corporations (CFCs) are included currently in the taxable income of “US shareholders” (US persons that own at least 10% of the foreign corporation’s voting stock). A CFC is a foreign corporation, more than 50% (by vote or value) of whose stock is owned (directly, indirectly or by attribution) by “US shareholders”.

## Disclosure Requirements

Corporations with USD ten million or more in assets are required to file Schedule UTP, disclosing information about tax positions treated as “uncertain” for financial statement purposes.

Individuals are required to file a statement with their income tax returns to report interests in specified foreign financial assets if the aggregate value of those assets exceeds certain thresholds. Reporting thresholds vary based on whether a filer files a joint tax return or resides abroad, and are higher for married couples and taxpayers who qualify for foreign residency. For example, unmarried taxpayers living in the US have a filing requirement if the total value of specified foreign financial assets is more than USD 50,000 on the last day of the tax year, or more than USD 75,000 at any time during the tax year. Applicable assets include financial accounts, foreign stock and securities, interests in foreign entities and other financial instruments and contracts. Failure to disclose for any taxable year would subject the individual to a USD 10,000 penalty (with the continuation penalty capped at USD 50,000) and a 40% penalty on an understatement of tax attributable to non-disclosed assets.

Foreign Account Tax Compliance Act (FATCA) rules, which are designed to prevent US persons from evading US tax through foreign accounts and foreign entities, are enforced by the imposition of a 30% withholding tax on certain categories of US-source income, and on the gross proceeds of post-2018 dispositions of instruments giving rise to US-source dividends or interest, in situations where insufficient information is provided, or insufficient due diligence is performed, by foreign financial institutions (FFIs) or non-financial foreign entities (NFFEs) with respect to whether the ultimate owners of financial accounts or foreign entities are US persons.

These FATCA rules are in addition to other rules requiring that details of transactions, holdings and tax positions be disclosed on US tax returns, or by US payers and withholding agents, depending on the nature and size of the transaction.

## Advance Tax Ruling

Taxpayers may request a private letter ruling, to be issued relative to a specific taxpayer and specific transaction or series of events. Pre-filing agreements also are available.

## Cash Pooling

There are no specific tax rules for cash pooling arrangements. However, such arrangements could be subject to the Subpart F rules, the foreign tax credit rules, the foreign exchange rules, the withholding tax rules and all other generally applicable US tax rules, as discussed above.

## Sales and Excise Taxes / VAT

The US does not have a national or federal sales-and-use tax or a VAT system.

Federal excise taxes are levied on certain items such as motor fuel, alcohol and tobacco at the manufacturing level. Likewise, certain services are subject to federal excise taxes, including communications and air transport. Some states impose similar excise levies.

Most states and municipalities levy sales-and-use taxes on certain goods and services. The taxability of certain transactions and the rates vary between levying entities, and by the type of goods or services.

## Financial Transactions / Banking Services Tax

There is no specific federal financial transactions tax. Certain US states impose a stamp duty/tax on certain financial transactions or financial institutions. These duties or taxes generally are imposed at very low rates, and only on certain transactions, issuances, or institutions.

## Payroll and Social Security Taxes

Social security taxes are comprised of old age, survivors and disability insurance (OASDI), and “hospital insurance” (also known as “Medicare”). The taxes generally are borne equally by the employer and the employee, with the employer responsible for remitting each employee’s portion to the federal government. The OASDI tax is imposed on the first USD 118,500 of wages, at the combined rate of 12.4%. The Medicare tax is imposed on total wages, at the combined rate of 2.9% (plus an additional 0.9% for wages above a certain threshold).

The employer’s portion of social security taxes is deductible for income tax purposes. Persons who are self-employed are subject to a separate tax that is comparable to the social security tax paid by employers.

The US has totalization agreements in force with over 20 countries to eliminate dual social security taxation and to help ensure benefit protection for employees.

The employer must withhold federal, state and local income taxes from employee wages (where applicable) and must remit these taxes to the respective government agencies. The employer also must pay federal and state unemployment taxes (where applicable) and, as noted above, social security taxes. The federal unemployment insurance rate is 6% on the first USD 7,000 of each employee’s wages. State unemployment insurance, mandatory in all 50 states and the District of Columbia, varies wildly. The employer receives a credit, up to a maximum of 5.4% (5.1% for states classified as “credit reduction states” that have outstanding FUTA loans), against the federal tax for amounts paid to state unemployment insurance funds.

## Other Taxes

The federal government imposes a variety of excise taxes, in addition to the social security taxes on wages described above. In addition, the 50 states and the District of Columbia, as well as local

governments, impose various income, franchise, gross receipts, license, stamp, estate, property and other taxes based on the capital of a corporation.

All tax information supplied by Deloitte Touche Tohmatsu Limited and Deloitte Highlight 2016 ([www.deloitte.com](http://www.deloitte.com)).

# Cash Management

## Banking System

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### Banking Regulation

#### Banking Supervision

##### *Central bank*

The Federal Reserve System (the Fed), a network of 12 regional Federal Reserve Banks, headed by the Washington-based Board of Governors, was established in 1913 through the Federal Reserve Act. It exercises monetary policy by controlling the availability of funds and setting basic interest rates.

##### *Other banking supervision bodies*

There are three banking supervisory authorities at federal level in the USA:

- The Federal Reserve, which regulates Edge Act banks (the US branches of foreign banks and foreign activities of US banks). The Federal Reserve also supervises state-chartered member banks and US bank holding companies.
- The US Treasury Office of the Comptroller of the Currency, which regulates national banks.
- The Federal Deposit Insurance Corporation, which regulates banks that do not hold accounts with the Federal Reserve system.

In addition, each state has its own banking commission.

#### Central Bank Reporting

##### *General*

The USA does not apply central bank reporting requirements.

##### *What transactions – listed*

NA

##### *Whom responsible*

NA

##### *Additional reporting for liquidity management schemes*

NA

#### Exchange Controls

##### *Exchange structure*

The USA has a free floating exchange rate structure. The value of the USD is determined freely in the foreign exchange market, based on supply and demand.



### *Classification*

The USA's currency is classified as unitary.

### *Exchange tax*

There is no exchange tax.

### *Exchange subsidy*

There is no exchange subsidy.

### *Forward foreign exchange market*

There are no restrictions on forward foreign exchange markets.

### *Capital flows*

Capital repatriation is permitted. If the capital is controlled directly or indirectly by the authorities of a restricted nation, such as Myanmar, then a license is required from the US Treasury.

Foreign direct investment into certain US sectors is restricted. These include nuclear energy (licenses permitting foreign investors to use nuclear materials are not generally offered), communications (a 20% maximum threshold is applied to foreign investment), shipping and air transport (a 25% maximum threshold applies to both sectors).

### *Loans, interest and repayment*

There are no restrictions on loans and interest remittances to residents and non-residents.

### *Royalties and other fees*

There is no limit on repatriating fees or royalties.

### *Profit remittance*

Profits can be remitted in any currency without restriction.

### **Bank Account Rules**

US residents and non-residents are able to open foreign exchange accounts and domestic currency (USD) accounts both domestically and abroad. Resident and non-resident domestic currency accounts can be converted into foreign currency. However, foreign currency bank accounts are not widely available.

As of July 21, 2011, banks can offer interest on corporate demand deposit accounts (commonly known as DDAs or corporate checking accounts). The repeal of Regulation Q, which prohibited the payment of interest on corporate demand accounts, as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act allows banks to pay interest on DDAs. The elimination of the prohibition on the payment of interest on DDAs took effect on July 21, 2011, one year from the date of enactment of the Act.

Formal overdrafts are not permitted on corporate demand deposit accounts. However, special bank overdraft facilities may be arranged subject to a fee.

## Anti-money Laundering and Counter-terrorist Financing\*

- The USA has implemented anti-money laundering and counter-terrorist financing legislation (the Bank Secrecy Act of 1970 and associated Regulations; the Money Laundering and Financial Crimes Strategy Act of 1998; the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (PATRIOT) Act of 2001; the International Counter Money Laundering and Foreign Anti-Corruption Act of 2001; the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001; the Sarbanes-Oxley Act of 2002; the Combating Financing of Terrorism Act of 2003; the Tools to Fight Terrorism Act of 2004; the Intelligence Reform and Terrorism Prevention Act of 2004; the Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010; the National Defense Authorization Act for Fiscal Year 2012 and the Money Remittance Improvement Act of 2014). The Financial Intelligence Unit, FinCEN, has also issued related Guidance notes.
- A Financial Action Task Force (FATF) member, the USA observes most of the FATF-49 standards. The USA is also a member of the Caribbean Financial Action Task Force (CFATF) (as a Co-operating and Supporting Nation), the Asia Pacific Group on Money Laundering (APG), the Organisation of American States/Inter-American Drug Abuse Control Commission (OAS/CICAD) and the Council of Europe MONEYVAL Select Committee (as an observer jurisdiction).
- The USA has established a financial intelligence unit (FIU), The Commissioner of Internal Revenue Financial Crimes Enforcement Network (FinCEN), which is a member of the Egmont Group.
- Account opening procedures require formal identification of the account holder and beneficial owners
- Existing customers are exempt from the verification requirements as long as the financial institutions have a 'reasonable belief' that they know the true identity of the customer.
- Financial institutions must identify any individual making a transaction for which a report is required.
- Financial institutions are required to conduct on-going CDD.
- Financial institutions in the broadest sense must report to the FinCEN suspicious transactions of USD 5,000 or above within 15 days of the transaction. Institutions are encouraged to voluntarily report suspicious transactions below this amount.
- All currency transactions exceeding USD 10,000 (daily aggregate amount) must be recorded and reported to the FinCEN.
- Financial institutions must maintain records when issuing a bank check or draft, traveler's check or money order exceeding USD 3,000.
- Financial institutions do not have to retain copies of the identification information but records of the method of identification and the identification number must be kept for at least five years after the date of the transaction.

Data as at January 2017.

**USA**

## Banking Sector Structure

### Major Domestic Banks

Bank	Total assets (USD billion) September 30, 2016
JPMorgan Chase & Co	2,521
Bank of America Corporation	2,199
Wells Fargo & Company	1,942
Citigroup Inc	1,818
Goldman Sachs Group	880
Morgan Stanley	814
U.S. Bancorp	454
Bank of New York Mellon Corporation	374
PNC Financial Services Group	369
Capital One Financial Corporation	345
TD Group US Holdings	339
HSBC North America	304

Sources: Federal Reserve National Information Center and [www.accuity.com](http://www.accuity.com).

### Overall Trend

The banking sector remains fragmented; most of the banks are small, local banks. However, the ten biggest US banks hold approximately 75% of the commercial banking sector assets. In addition to the commercial banks, the US also has 810 savings banks and approximately 6,140 credit unions. The main US banks are JPMorgan Chase, Bank of America, Citibank and Wells Fargo.

The US banking industry has seen a great deal of consolidation in the past decade and, at the end of September 2016, there were 5,170 commercial banks operating in the USA, as compared to 14,000 in the early 1980s. Two pieces of legislation during the 1990s allowed US banks to merge with each other more easily: the Interstate Banking and Branching Efficiency Act of 1994 permitted banks to acquire a bank in another state (previously prohibited), while the repeal of the Glass-Steagall Act in 1999 paved the way for banks to merge with insurance companies and brokerage firms.

In October 2008, the US House of Representatives passed a USD 700 billion government plan, known as Troubled Assets Relief Program (TARP), designed to rescue the US financial sector. Several US financial institutions have received government financial support through TARP, including Freddie Mac and Fannie Mae, AIG, Citigroup, Bank of America and JPMorgan Chase.

In March 2009, the government announced a plan to use up to USD 100 billion in TARP funds in

addition to private funds to generate between USD 500 billion and USD 1,000 billion in purchasing power to buy toxic assets.

In October 2013, JPMorgan Chase reached a deal to pay a record USD 13 billion to resolve state and federal investigations into its mis-selling of bundles of toxic mortgage debt to investors in the build up to the financial crisis. The settlement is part of a broader investigation by the US authorities into the sector's mortgage activities in the run up to the financial crisis of 2008. It is estimated that the country's six biggest banks have piled up USD 103 billion in legal costs since 2008.

The Fed has established rules that prohibits mergers that result in a combined financial company's liabilities exceeding 10% of the aggregate consolidated liabilities of all financial companies so that a possible collapse of such companies could not largely impact the country's financial market. The measure was proposed in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and became effective in January 2015. As a result, the next round of consolidation is more likely to be driven by the second-tier and regional banks.

In July 2015, the Fed adopted a new rule for the eight largest US banks to hold more equity capital in order to protect against losses and prevent a repeat of the 2008 credit crisis. Although the biggest US banks are now reporting strong balance sheets with improved liquidity positions, toughened regulations and years of very low interest rates have made it harder for them to expand.

Several foreign banks have also established themselves in the US market by acquiring domestic banks. These include Deutsche Bank, HSBC, Grupo Santander, Toronto-Dominion Bank and Royal Bank of Scotland. In January 2011, Industrial and Commercial Bank of China (ICBC), China's largest bank, agreed to buy 80% of the US subsidiary of Hong Kong-based Bank of East Asia for an estimated USD 140 million. The deal was approved by the US Federal Reserve in May 2012, allowing ICBC, which currently operates in the US wholesale market through a single branch in New York, to establish a presence in the US retail banking sector. The Fed also gave permission to two other Chinese banks, Bank of China and Agricultural Bank of China, to increase open branches in the US.

There are also some non-bank financial service providers operating in the US. These include leasing and factoring, venture capital, consumer finance and credit card companies.

# Payment Systems

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## Overview

Four main clearing systems operate in the USA: Fedwire, CHIPS, ACH and check clearing.

The Fedwire Funds Service (Fedwire) is a real-time gross settlement system, used for high-value and urgent electronic payments. Developed, owned and operated by the Fed, it links the 12 Federal Reserve Banks to about 6,800 depository institutions in the USA.

The Clearing House Interbank Payment System (CHIPS) is a private real-time bilateral and multilateral net settlement system. CHIPS transactions are often associated with international interbank transfers.

The Automated Clearing House System (ACH) processes low-value or high-value payment transactions that are not time-critical. There are two operators, the Federal Reserve (FedACH) and the private Electronic Payments Network (EPN). Together, they process the majority of non-urgent and low-value interbank payments.

Banks may use four different methods for clearing checks:

- “On-us” clearing is used for checks deposited in the same bank on which the check was drawn.
- Regional or local clearing houses formed by groups of banks exchange checks drawn on member participants.
- Checks can be processed through the Federal Reserve banks or via correspondent banking relationships.
- Direct sends or bilateral arrangements can be arranged between banks.

The Check Clearing for the 21st Century Act (Check 21), which became effective in October 2004, allows for electronic clearing of checks.

## High-value

<b>Name of system</b>	Fedwire
<b>Settlement type</b>	Real-time gross settlement
<b>Settlement cycle</b>	Payments are settled on a same-day basis with immediate finality.
<b>Links to other systems</b>	NA
<b>Payments processed</b>	Domestic high-value and urgent electronic payments
<b>Currency of payments processed</b>	USD
<b>Value and other limits to processing</b>	There are no value thresholds.
<b>Operating hours</b>	21:00 (prior night) – 18:30 ET
<b>System holidays</b> Source: <a href="http://www.goodbusinessday.com">www.goodbusinessday.com</a>	2017 – February 20, May 29, July 4, September 4, October 9, November 11, 23, December 25 2018 – January 1, 15, February 19, May 28, July 4, September 3, October 8, November 12, 22, December 25 2019 – January 1, 21 February 18, May 27, July 4, September 2, October 14, November 11, 28, December 25
<b>Cut-off times</b>	Online transfers: Foreign payment orders (USD transfers to a foreign central bank or other international bank with an account at the Federal Reserve Bank of New York) = 17:00 ET Domestic payment orders = 18:00 ET Interbank settlement payment orders = 18:30 ET Offline transfers: Foreign payment orders (USD transfers to a foreign central bank or other international bank with an account at the Federal Reserve Bank of New York) = 16:30 ET Domestic payment orders = 17:30 ET Interbank settlement payment orders = 18:00 ET
<b>Participants</b>	Approximately 6,820 financial institutions and government agencies are active participants in Fedwire.
<b>Access to system</b>	Online via PC or offline via telephone
<b>Future developments</b>	NA

<b>Name of system</b>	CHIPS
<b>Settlement type</b>	Real-time net settlement
<b>Settlement cycle</b>	Payments are settled on a same-day basis with immediate or end-of-day finality.
<b>Links to other systems</b>	NA
<b>Payments processed</b>	High-value and urgent electronic payments, both domestic and cross-border. Typically foreign exchange settlements, commercial payments, offshore investments.
<b>Currency of payments processed</b>	USD
<b>Value and other limits to processing</b>	There are no value thresholds.
<b>Operating hours</b>	21:00 (prior night) – 17:00 ET
<b>System holidays</b> Source: <a href="http://www.goodbusinessday.com">www.goodbusinessday.com</a>	2017 – February 20, May 29, July 4, September 4, October 9, November 11, 23, December 25 2018 – January 1, 15, February 19, May 28, July 4, September 3, October 8, November 12, 22, December 25 2019 – January 1, 21, February 18, May 27, July 4, September 2, October 14, November 11, 28, December 25
<b>Cut-off times</b>	17:00 ET
<b>Participants</b>	48 direct participants. Non-direct participants may send transfers through CHIPS via a direct member.
<b>Access to system</b>	Online via PC
<b>Future developments</b>	NA

## Low-value

<b>Name of system</b>	Automated Clearing System House (ACH)
<b>Settlement type</b>	Multilateral net settlement
<b>Settlement cycle</b>	Payments are usually settled on next-day basis. Same-day settlement is available through FedACH's FedACH SameDay Service. Debit transactions usually settle on a next-day basis at 08:30 ET. Credit transactions usually settle on a next-day or two-day basis at 08:30 ET. Items received by the FedACH SameDay Service by 14:00 ET settle at 17:00 ET.
<b>Links to other systems</b>	NA
<b>Payments processed</b>	Low-value and non-urgent domestic electronic payments. Transactions that are not time-critical may be batched and processed through the system using ACH credits and ACH debits. Debit transfers include Back Office Conversion (BOC), the POS check-conversion program.
<b>Currency of payments processed</b>	USD
<b>Value and other limits to processing</b>	There are no value thresholds.
<b>Operating hours</b>	03:00 to 17:00 ET
<b>System holidays</b> Source: <a href="http://www.goodbusinessday.com">www.goodbusinessday.com</a>	2017 – February 20, May 29, July 4, September 4, October 9, November 11, 23, December 25 2018 – January 1, 15, February 19, May 28, July 4, September 3, October 8, November 12, 22, December 25 2019 – January 1, 21 February 18, May 27, July 4, September 2, October 14, November 11, 28, December 25
<b>Cut-off times</b>	Depends on bank, presentation format and ACH operator rules. There are two operators: the Federal Reserve (FedACH) and the private Electronic Payments Network (EPN). For same-day settlement through the FedACH SameDay Service , the cut-off time for forward items is 14:00 ET.
<b>Participants</b>	Approximately 20,000 credit institutions
<b>Access to system</b>	ARC – Accounts receivables; BOC – Back office conversion; CCD – Cash concentration and disbursement; CIE – Customer initiated entries; CTX – Corporate trade exchange; IAT – International ACH Transaction; PPD – Prearranged payment or deposit; POP – Point of purchase; POS – Point of sale; RCK – Re-presented check; TEL – Telephone initiated entry; TXP – Tax payment; TRC/TEX – Truncated check entries; WEB – Internet-initiated entry



<b>Future developments</b>	In September 2015, the Federal Reserve Board approved enhancements to the FedACH SameDay Service. The new rules will be implemented in three phases with the first one effective September 23, 2016. Phase 1 provides for same day processing of ACH credit transactions to include hourly payroll, person-to-person payments and same-day bill payments. Phase 2 will add ACH debits to same day processing and will allow for consumer bill payments to be included. Phase 3 will require banks to provide faster ACH credit funds availability.
<b>Name of system</b>	Check clearing
<b>Settlement type</b>	Bilateral gross settlement
<b>Settlement cycle</b>	Settlement depends on whether the checks are “on-us” (checks deposited at the same institution on which they are drawn) or interbank checks. On-us settlement occurs on the same day, while the settlement of interbank checks may take up to five days.
<b>Links to other systems</b>	NA
<b>Payments processed</b>	Paper checks
<b>Currency of payments processed</b>	NA
<b>Value and other limits to processing</b>	There are no value thresholds.
<b>Operating hours</b>	NA
<b>System holidays</b> Source: <a href="http://www.goodbusinessday.com">www.goodbusinessday.com</a>	2017 — February 20, May 29, July 4, September 4, October 9, November 11, 23, December 25 2018 — January 1, 15, February 19, May 28, July 4, September 3, October 8, November 12, 22, December 25 2019 — January 1, 21 February 18, May 27, July 4, September 2, October 14, November 11, 28, December 25
<b>Cut-off times</b>	Cut-off times depend on the bank.
<b>Participants</b>	NA
<b>Access to system</b>	NA
<b>Future developments</b>	NA

## Payment and Collection Instruments

### Overview and Trends

The predominant payment method in terms of value is the electronic credit, also known as the “wire” transfer.

Despite their decline in recent years, checks remain an important payment instrument, at least in terms of the number of transactions. However, payment cards are set to overtake the check as the most widely-used non-cash payment for consumers. Credit and debit card transactions have already outstripped the number of checks issued.

Some of the major banks in the US are now introducing EMV technology such as contactless smart cards, which do not require a signature, initially for low-value transactions.

### Statistics of Instrument Usage and Value

	Transactions (million)		% change 2015/2014	Traffic (value) (USD billion)		% change 2015/2014
	2014	2015		2014	2015	
<b>Checks</b>	14,338.9	12,287.1	- 14.3	21,703.6	18,405.1	- 15.2
<b>Fedwire transfers</b>	135.0	142.8	5.8	884,551.9	834,630.4	- 5.6
<b>CHIPS transfers</b>	109.4	110.4	0.9	390,695.2	375,862.3	- 3.8
<b>ACH credits</b>	9,463.8	10,020.6	5.9	79,059.9	83,057.5	5.1
<b>ACH debits</b>	14,389.5	15,472.4	7.5	75,363.1	63,812.6	- 15.3
<b>Debit card payments</b>	59,539.3	64,268.2	7.9	2,279.7	2,444.8	7.2
<b>Credit card payments</b>	30,573.7	33,398.0	9.2	2,876.9	3,082.3	7.1
<b>Total</b>	<b>128,549.6</b>	<b>135,699.5</b>	<b>5.6</b>	<b>1,456,530.3</b>	<b>1,381,295.0</b>	<b>- 5.2</b>

Source: Bank for International Settlements – CPI Red Book, December 2016.

### Paper-based

#### Checks

The check is no longer the primary non-cash payment method in the USA and, in terms of numbers of transactions, has been superseded to a large extent by the payment card. The number of checks issued as a percentage of non-cash payments is continuing to decrease each year.

There have been several initiatives in the private and the public sector to encourage companies to adopt electronic payment methods rather than using paper checks. These have resulted in an increase in the volumes of ACH credit and debit transactions, by 24.4% and 24.7% respectively, between 2011 and 2015. The number of checks dropped by 39.7% to 12,287.1 million in the same period.

As facilitated by the Check 21 Act, almost all interbank checks in the USA are now truncated and processed in electronic form. Most of these interbank checks are cleared through direct exchange, regional or local check clearing houses and correspondent bank networks. The rest are cleared through the Federal Reserve Banks.

## Electronic

### Credit Transfer

Credit transfers are used for both high-value and low-value payment transactions in the USA. Whether they are processed by wire transfer or ACH depends on the urgency of the transfer.

#### *High-value*

High-priority, high-value payments, known as wire payments, are usually processed by Fedwire or CHIPS. Both systems are used predominantly by financial institutions and their corporate clients. Fedwire mainly processes domestic USD payments, while CHIPS processes USD cross-border payments.

#### *Low-value*

Low-priority transfers are usually processed through the ACH using ACH credits, which need to be initiated one day before value or settlement date. Both recurring and non-recurring transactions can be processed in this way. ACH credits are typically used to process transactions for state and federal taxes, payroll, pension and social security, and to suppliers. FedACH's FedACH SameDay Service enables the settlement of ACH transactions of up to USD 25,000 on a same-day basis. Effective April 1, 2013, an expanded service permits all SEC codes except IAT, TRC and TRX, both credits and debits, and businesses and consumer transactions. The average ACH credit payment in 2015 had a value of USD 8,289.

### Direct Debits

ACH debits are used to process direct debits. The ACH debit must be initiated one day ahead of the value or settlement date. Recurring consumer payments such as insurance premiums, mortgage loans, stock purchases, utility payments and other bills are typically processed through ACH debit. They can also be used by companies as a means of cash concentration.

The use of direct debits is growing steadily, driven mainly by the considerable growth in the number of authorized direct debit entries initiated via the Internet (known as WEBs), direct debit entries used for conversion of consumer checks received via US mail or at a lock box (known as ARCs), direct debit entries used for conversion of consumer checks received at the point-of-sale (known as POPs) and direct debit entries used for conversion of consumer checks received at the point-of-purchase and processed during back office operations (known as BOCs).

FedACH's FedACH SameDay Service enables the settlement of ACH transactions on a same-day basis. Effective April 1, 2013, an expanded service permits all SEC codes except IAT, TRC and TRX, both credits and debits, and businesses and consumer transactions.

The average ACH debit payment in 2015 had a value of USD 4,124.

## Payment Cards

The use of payment cards is growing in the USA. The number of payments initiated by debit card rose from 13.39 billion in 2002, to over four times that figure in 2015 (64.3 billion). In the USA, the value of the average debit card transaction is USD 38. Credit card transaction numbers rose from approximately 17.53 billion in 2002 to 33.4 billion in 2015. The average size of a credit card payment is USD 92.

There were 307.3 million debit cards and 998.1 million credit cards in circulation in the USA at the end of 2015, of which 392.1 million credit cards were retailer cards.

Two types of debit card are available in the USA: online-based cards that require a PIN, and offline cards requiring a signature. Despite the higher associated cost and risk, signature-based cards are more popular than PIN-based cards. Many cards introduced more recently have both functions. It is estimated that, as of August 2016, 44% of card-accepting merchants in the USA had EMV-compliant POS terminals. EMV merchant adoption in the USA has been slower than expected. It is now expected that consumers will be able to use their PIN-based payments cards at 62% of US merchant locations by the end of March 2017. The majority of debit card payments are provided by either Visa or MasterCard.

Proprietary cards with a limited use, such as those issued by oil companies or retail stores, are also popular.

## ATM/POS

At the end of 2015, there were approximately 425,000 ATMs in the USA. There were approximately 12.7 million POS terminals in the USA at the end of 2014.

## Electronic Wallet

A number of banks offer prepaid stored-value cards.

General purpose cards were the most used type of prepaid card in the US in 2015, accounting for 37% of total usage, followed by private label cards (cards which are limited in usage to one of several merchants) (36% of total usage) and Electronic Benefits Transfer (EBT) cards (27% of total usage).

General purpose prepaid cards were the fastest growing type of noncash payment instrument between 2012 and 2015, with the number of transactions increasing by 0.6 billion to 3.7 billion in 2015.

There were 159.1 million general purpose cards in circulation in the USA at the end of 2012, of which 96% was held at commercial banks.

There were more than 250.6 million mobile payments made using a mobile wallet application and 205.3 million person-to-person or money transfer payments in 2012.

# Liquidity Management

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## Short-term Borrowing

### Overdrafts

Formal bank overdrafts are not available. An informal overdraft may be offered to a company which has exceeded its formal credit lines.

### Bank Lines of Credit / Loans

Bank lines of credit are the most common form of short-term borrowing, especially for smaller companies. Resident and non-resident entities can arrange short-term bank loans from local and foreign banks. They are usually arranged for periods up to one year and may be renewed or increased annually.

Collateral is often required. Fees (commitment fees and arrangement fees) and charges are negotiable.

Banks will typically charge interest at a margin over Libor (London interbank offered rate), the Federal funds rate or the commercial paper composite rate.

### Trade Bills - Discounted

Discounting trade bills are not a common form of short-term financing.

### Factoring

Factoring is available in the USA. It is used primarily by smaller companies, usually on a disclosed basis.

### Commercial Paper

Commercial paper is a popular form of short-term borrowing in the USA. Commercial paper is an unsecured promissory note, which is issued for periods up to 270 days. Companies issue paper directly to investors, or through dealers for an additional fee. Almost all commercial paper issues are given a rating by one of the rating agencies.

### Bankers' Acceptances

Although primarily used as a technique to support trade, bankers' acceptances are also available for domestic transactions.

Although available for a range of maturities, funding is usually arranged for one to six months.

### Supplier Credit

Companies can usually arrange payment discounts of 2% for the early or prompt payment of supplier invoices.

## Intercompany Borrowing, including Lagging Payments

Although intercompany funding is not commonly used, it is permitted. However, companies need to be aware of thin capitalization rules as the Inland Revenue Service can refuse to permit the tax deductibility of some interest expense for thinly capitalized companies.

## Short-term Investments

### Interest Payable on Bank Account Surplus Balances

As of July 21, 2011, banks can offer interest on corporate demand deposit accounts (commonly known as DDAs or corporate checking accounts). The repeal of Regulation Q, which prohibited the payment of interest on corporate demand accounts, as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act allows banks to pay interest on DDAs. The elimination of the prohibition on the payment of interest on DDAs took effect on July 21, 2011, one year from the date of enactment of the Act.

Due to Regulation Q, banks were not able to pay interest on company checking accounts. However, loss of interest earnings could be avoided if companies swept surplus liquidity into overnight investment accounts.

### Demand Deposits

The repeal of Regulation Q (see above) allows banks to pay interest on company demand deposit accounts.

### Time Deposits

Time deposits are available that range from seven days to one year. The maximum deposit per bank is USD 150,000.

### Certificates of Deposit

Certificates of deposit (CDs) are a popular short-term investment instrument and maturities range from one week to more than a year, although they typically mature between three and six months. Interest is paid at either a fixed or floating rate and the minimum investment is USD 100,000. There is an active CD secondary market.

### Treasury (Government) Bills

Treasury Bills (T-Bills) and Treasury Notes (T-Notes) are issued by the US Treasury Bureau of the Public Debt. The minimum investment is USD 100. T-bills are issued with maturities ranging from few days to 52 weeks and are available to investors via the internet (TreasuryDirect) or through a bank or broker. All T-bills except 52-week bills are auctioned on a weekly basis. The 52-week bill is auctioned every four weeks. T-Notes are issued with maturities of two, three, five, seven and 10 years and pay interest every six months. They are available to investors via TreasuryDirect.

### Commercial Paper

Commercial paper (CP) is issued with maturities that vary from one day to a maximum 270 days, with an average value of 30 days. A minimum of USD 100,000 is usually invested.

### Money Market Funds

Money market funds in the US are regulated by rule 2a-7 of the 1940 Investment Company Act. They are a popular short-term investment instrument and the minimum investment is typically USD 1,000.

### Repurchase Agreements

Overnight repos are a popular short-term investment instrument in the USA.

### Bankers' Acceptances

Banker's Acceptances are a common short-term investment for US firms. They have maturities that range from one day to six months.

## Liquidity Management Techniques

### Cash Concentration / Zero Balancing / Target Balancing

Domestic cash concentration techniques are widely available and are a popular cash management technique, particularly due to the restrictions on notional pooling. Zero balancing is offered by both domestic and international banks in the USA.

If cash is required on a same-day basis then concentration is usually done using Fedwire or CHIPS. The transfers are processed through ACH debit if funds are not needed until the next day.

FedACH's FedGlobal ACH Payments is used to send ACH payments to more than 35 countries in Europe and the Americas, including Austria, Canada, Germany, Mexico, Panama, Switzerland and the UK. SWIFT or CHIPS is used to transmit the cross-border payment instructions. US dollar payments can be cleared by local clearing systems in the US, Canada and Mexico, as agreed under NAFTA. However, cross-border cash concentration is not common among US companies.

NACHA - The Electronic Payments Association has developed a cross-border ACH transfer system with Canada but not with Mexico.

### Notional Pooling

Several regulations restrict notional pooling in the US. The repeal of Regulation Q and the elimination of the prohibition on the payment of interest on corporate demand accounts, which took effect on July 21, 2011, has allowed banks more freedom to offer notional pooling.

Cross-border notional pools are not available in the USA.

# Trade Finance

## General Rules for Importing/Exporting

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The USA is a member of the North American Free Trade Association (NAFTA) and DR-CAFTA. As such, it has free trade arrangements with Canada, Mexico, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, as well as with Australia, Bahrain, Chile, Israel, Jordan, Morocco, Oman, Peru and Singapore.

The USA has signed free trade agreements with South Korea, Colombia and Panama. The agreements came into force in March 2012, May 2012 and October 2012, respectively.

In October 2015, the USA and 11 other Pacific Rim countries announced the conclusion of a regional, Asia-Pacific trade agreement, known as the Trans-Pacific Partnership (TPP) Agreement. However, in January 2017, US President Donald Trump signed an executive order withdrawing the USA from the TTP agreement.

The USA has 250 foreign free trade zones. Duty is paid only on goods sent to the US domestic market from a free trade zone.

There are no financing requirements for imports or exports.



# Imports

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## Documentation Required

Imports require a customs declaration, a bill of lading, packing list, commercial invoice and a delivery order.

## Import Licenses

Most imports do not require licenses. Goods that do require licenses include animals and plants, alcoholic beverages and dairy products.

## Import Taxes/Tariffs

Import taxes are low except for those applied to clothing, footwear, beverages, tobacco, leather and textiles. Most tariffs levied are ad valorem. Industrial imports are subject to tariffs of 4-5%.

The US government rigorously applies measures consistent with international obligations, such as antidumping and countervailing duties.

Taxes must be paid on steel imports from Brazil, Russia and Japan.

Most imports are subject to MFN (most favored nation) tariff rates. Imports from countries without MFN or free trade status are subject to high tariffs.

## Prohibited Imports

It is not permitted to import goods from Myanmar, Cuba or certain areas of Sudan. The USA also has economic sanctions on a number of other countries.

# Exports

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## Documentation Required

Exports require a commercial invoice, bill of lading and an export declaration.

## Export Licenses

Most exports are subject to the Export Administration Regulations. Exports of dairy products, livestock and poultry require a license from the Department of Agriculture. Software and technology exports require a license from the Department of Commerce.

## Export Taxes/Tariffs

There are no export taxes or tariffs.

## Prohibited Exports

Exports to countries on which sanctions have been applied are prohibited.

# Information Technology

## Electronic Banking

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Internet banking is widely available in the USA. It is advanced and provides the same functionality that is also available through an electronic banking portal.

Although the USA does not have an electronic banking standard, electronic banking services are widely available and include balance reporting, transaction initiation, payables and receivables tracking and image capabilities. Most banks transmit transaction and balance data using the Bank Administration Institute (BAI) format. Using BAI, users are able to carry out a number of functions, including accessing intra-day and end-of-day balance and transaction reports, initiating payments and tracking payments and receivables.

Mobile banking is widely available in the USA. There are an estimated 111 million mobile banking users in the USA in 2016, compared with 99 million in 2015, 89 million in 2014 and 79 million in 2013. This figure is likely to increase in the future as more consumers use smartphones.

The Association for Financial Professionals (AFP) has published a standard format and standard service codes for the account analysis report. Most US cash management banks adhere to this standard. The account analysis is also available from major banks in the ANSI (American National Standards Institute) ASC X12 822 account analysis format.

# External Financing

## Long-term Funding

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### Bank Lines of Credit / Loans

Medium-term and long-term financing are both available in the form of bank loans.

Commercial banks offer loans with maturities of between one and ten years, with a fixed rate or floating interest rate based on an agreed reference rate. Loan agreements include financial covenants and negative pledges. Collateral may be required, especially for maturities of over five years.

Bank lines of credit are usually short-term or up to 12 months. Revolving facilities for up to five years are also available, but the bank may require all drawings under any such facility to be repaid once a year.

### Leasing

Leases can be arranged as an operating lease, as a finance lease or a leveraged lease.

A financial lease is a lease that cannot be cancelled, is fully amortized, and does not provide for maintenance. Operating leases provide for maintenance costs and allow the lessee to use a piece of equipment for an agreed period of time. Leveraged leases are usually used to fund the use of high-value assets, including property, and are often tax-driven.

### Bonds

Bonds are, with bank lending, the core source of finance for larger US companies.

Bonds can be structured in a variety of ways to meet the borrower's needs, such as at a discount or paying a regular coupon, which may be calculated at a fixed or a floating rate. Convertible bonds and bonds with a warrant can also be arranged.

Approval by the Securities and Exchange Commission (SEC) is required for public debt issues. In addition, bonds are usually rated by one or more of the rating agencies.

### Private Placement

If a security is placed privately, under Rule 144A it is exempt from SEC registration requirements. Securities may only be placed with a limited number of informed/qualified investors (institutional investors who are only permitted to sell these securities on to other similar investors). Privately placed securities are placed directly with the investors by the issuer or through an intermediary.

## Asset Securitization / Structured Finance

US and foreign-based banks commonly arrange asset securitization programs for non-bank corporations. These are most commonly used to refinance assets such as consumer debt and mortgages. However, the availability of such finance has diminished in recent months, as a result of market conditions.

# Useful Contacts

## National Treasurers' Association

Association for Financial Professionals — [www.afponline.org](http://www.afponline.org)

## Central Bank

Federal Reserve System — [www.federalreserve.gov](http://www.federalreserve.gov)

## Supervisory Authorities

Federal Deposit Insurance Corporation (FDIC) — [www.fdic.gov](http://www.fdic.gov)

Office of the Comptroller of the Currency (OCC) — [www.occ.treas.gov](http://www.occ.treas.gov)

## Payment System Operators

CHIPS (Clearing House Interbank Payment System) — [www.chips.org](http://www.chips.org)

NACHA (National Automated Clearing House Association) — [www.nacha.org](http://www.nacha.org)

EPN (Electronic Payments Network) — [www.epaynetwork.com](http://www.epaynetwork.com)

The Clearing House Payments Company — [www.theclearinghouse.org](http://www.theclearinghouse.org)

## Banks

JPMorgan Chase & Co — [www.jpmorganchase.com](http://www.jpmorganchase.com)

Bank of America Corp — [www.bankofamerica.com](http://www.bankofamerica.com)

Citigroup — [www.citibank.com](http://www.citibank.com)

Wells Fargo & Co — [www.wellsfargo.com](http://www.wellsfargo.com)

## Stock Exchanges

New York Stock Exchange (NYSE) — [www.nyse.com](http://www.nyse.com)

American Stock Exchange (AMEX) — [www.amex.com](http://www.amex.com)

NASDAQ — [www.nasdaq.com](http://www.nasdaq.com)

Chicago Bond Options Exchange (CBOE) — [www.cboe.com](http://www.cboe.com)

## Ministry of Finance

Department of the Treasury — [www.treasury.gov](http://www.treasury.gov)

## Ministry of Economy

Department of Commerce — [www.commerce.gov](http://www.commerce.gov)

### Chamber of Commerce

US Chamber of Commerce — [www.uschamber.com](http://www.uschamber.com)

### Bankers' Association

American Bankers Association — [www.aba.com](http://www.aba.com)