FINANCIAL SOLUTIONS FOR A MULTINATIONAL START-UP IN ASIA. A CASE STUDY OF BLACK PEPPER COMPANY

FEDERICO VILELA PEREZ

**A THEMATIC PAPER SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF MANAGEMENT
COLLEGE OF MANAGEMENT
MAHIDOL UNIVERSITY
2018**

Thematic paper
entitled

FINANCIAL SOLUTIONS FOR A MULTINATIONAL START-UP IN ASIA. A CASE STUDY OF BLACK PEPPER COMPANY

was submitted to the College of Management, Mahidol University
for the degree of Master of Management
on
February 19, 2018

…………………………………………..
Mr. Federico Vilela Perez,
Candidate

……………………………………
Simon M. Zaby,
Ph.D.
Advisor

…………………………………………
Asst. Prof. Astrid Kainzbauer,
Ph.D.
Chairperson

…………………………………….
Duangporn Arbhasil,
Ph.D.
Dean
College of Management
Mahidol University

…………………………………………
Asst. Prof. Chaiyuth Padungsaksawasdi,
Ph.D.
Committee member

ACKNOWLEDGEMENTS

I would first like to thank Dr.Simon M. Zaby, my advisor for this paper. Also thank all the teachers I had during these last two years, from Mahidol University and from the IAE Toulouse. They prepared me in the use of many tools necessary to develop business successfully and transmitted me their personal and professional experiences, from which I learned notably.

I want to give special thanks to Head of Master 2 International Management TSM Nicola Mirc, Assoc. Prof. Dr. Gerard Tocquer and Asst. Prof. Dr. Astrid Kainzbauer, and to all those that made possible the Double Degree between TSM Toulouse and Mahidol University, which I had the opportunity to enjoy and truly did it.

To my mates in both countries, who thought me many things, not only about studying or working, also about live. Probably, one of the most relevant I learned during this Master and my colleagues helped me to understand and develop is the importance of team-work. Thank you for that. I keep good friends from this Master.

Special thanks to one of them, Mathieu, who did his internship with us in Black Pepper, and helped us to develop the company in this crucial first months of activity. I appreciated when studying and working together.

To finish, I would like to thank my wonderful wife, Maï-Lee, who always encouraged me to follow my desires and was an indispensable piece in this project and with whom I am sharing the dream of ruling our own business.

Federico – Vilela Perez

FINANCIAL SOLUTIONS FOR A MULTINATIONAL START UP IN ASIA. A CASE STUDY OF BLACK PEPPER COMPANY

FEDERICO VILELA PEREZ 5949118

M.M. (GENERAL MANAGEMENT)

THEMATIC PEPER ADVISORY COMMITTEE: SIMON M. ZABY, Ph.D, ASST. PROF. ASTRID KAINZBAUER, Ph.D., ASST. PROF. CHAIYUTH PADUNGSAKSAWASDI, Ph.D.

ABSTRACT

The aim of this paper is to find solutions to the financial difficulties that can arrive when setting up and managing a multinational Start-Up. These difficulties are mainly linked to exchange rates, taxation, money repatriation and accounting. This topic is of exceptional interest to the author of the paper, as he is currently involved in setting up and ruling a multinational Start-Up, Black Pepper. This company represents wineries, promote and commercialize their wines in Asia. It is based in Thailand, registered in Hong Kong and trades in several Asian countries. Its suppliers come from very diverse countries, like France, Spain, Australia or South Africa.

Due to its multinational background, Black Pepper faces all kind of financial difficulties. This paper intends to give the company a tailored solution to all difficulties that the company is currently facing and to those that will most probably face in its first years of activity.

The approach used in this paper is to develop first a theoretical framework based in previous articles, reviews and collected information from different sources, scientific and more business oriented, for each of the topics mentioned in the first paragraph. Subsequently, link it to the case of Black Pepper, proposing solutions that better fit the company and its situation.

These recommendations were always given taking into account the goals and priorities of the enterprise in this moment and should help the company to take important financial decisions in coming years, and will probably contribute to the success of Black Pepper.

KEY WORDS: Finance / Start-Up / Asia / Commerce / Multinational

49 pages

CONTENTS

CONTENTS (cont.)

LIST OF TABLES

LIST OF FIGURES

CHAPTER 1
BLACK PEPPER PRESENTATION

Black Pepper is a company that represent wineries from all around the world in Asian countries.

Its name evokes the connection between Asian and European continents. Black Pepper fruit, native from South-East Asia, has been notably traded during the history, even used as a form of commodity money. Historically, since the sixth century, Arabs, Portuguese, Spanish and French have been traveling to Asia regularly and competing between them to bring to their countries the “black gold”.

The company is based in Bangkok and was registered in Hong Kong at the beginning of 2017. It is owned by French and Spanish associates.

The main activity of the company is the search for importers willing to commercialize its represented products. Black Pepper attend and expose in wine fairs, shows and tasting events in all the targeted countries for the year with the goal of finding importers. In 2017, the company is focusing in South- East Asia countries, and taking the first steps into Hong Kong and China. Currently, Black Pepper is targeting 9 different countries where to sell their products: Thailand, Vietnam, Cambodia, Myanmar, Philippines, Singapore, Malaysia, Hong Kong and China. The company is always open to new opportunities and it plans to expand to new countries and select the number of current countries to work in in coming years.

Attending to fairs and shows is a first step to present the products and create relationships with potential customers. Not all the importers go to all wine shows and just few of them visit you in your booth. To look for new importers, find their contacts, write and call them, try to visit in their facilities and offer them the most suitable wines for their portfolio is another of the main activities of the company. Sourcing is also essential.

Choosing the right suppliers, with the right products and the willingness to make the necessary effort and investment to export into Asian market is essential for the success of the company. As a Startup, apart from these two main activities, there many other tasks that need to be done to develop the company. Communication, internal and external, and marketing takes an important fraction of the daily activities. Communication is done by several channels. The construction and development of the website is a demanding activity. The company tries to be active in Facebook and LinkedIn, having the right followers and sharing interesting contents and information for them. Building the brand is also considered as a necessary activity, and a lot of effort is put there, working in the corporative image, including the logo, business cards, and physical elements used the shows to convey this image… As the company is targeting several different markets with different characteristics, it is necessary to study them, to decide to which markets give priorities, which products to focus on and which strategy to follow to reach the potential customers. Human resources needs also to be considered. If it is true that currently the company is formed by only three workers, there are important decisions to be taken and adversities to overcome. Another two activities that require attention are accounting and finance. Due to its multinational nature, the company faces many difficulties in these two areas, from which it is very complex to find the right answer. In general, we can say that the company confront many issues every week, which need to be solved to keep moving on. It is true that there is a long-term strategy, but these decisions are of a paramount importance in the company's first steps, as they determine the progress and direction of the company in the short-term.

The revenue stream of Black Pepper mainly comes from the commissions charged to the wineries each time a sale is done. Wineries also pay a fix fee for being represented and have their products exposed in some of the most important wine & spirits shows in Asia. To finance the company, there is again a complicated and demanding work in terms of finding the right partners and investors.

The firm was born from the appetite for challenges, the pleasure of making business and the passion for these products of their founders. Its goal is to grow within the next 5 years in the wine export industry and, exploiting this relationship between

Europe and Asia, became an importer-exporter of different goods between these two continents and a big player in the European wine production.

Due to its multinational character, Black Pepper faces many accounting and financing issues. Overcome these issues and being capable of taking advantage from them will, for sure, strongly influence on the success of the company. This thesis deals with how to improve and optimize accounting and financing issues in a multinational environment, with a clear focus in company Black Pepper.

This paper intends to trace a useful path for the company that can be used to enhance and accelerate its development. This paper does not pretend to be a theoretical revision of the literature related to international finance, but a practical analysis of the financial and accounting issues that the company is already experimenting or will, most probably, experiment in a future. We will end with a series of recommendations that will serve the company to overcome most financial and accounting difficulties in its first steps and will serve as a guideline for the future.

We will make use of scientific articles related to international finances. These articles have the guarantee of relevance and reliability, as they have been revised by other scientists. We will also make intensive used of other kind of documents, like official bulletins and laws issued by governments and competent bodies, as well as practical reports written by financiers, accountants or lawyers, that make business in Asia and that have faced similar difficulties that Black Pepper is facing now. To complete the sources of information, we will make use of advises and recommendations obtained from personal or telephonic interviews with different counselling agencies or institutions, that will provide us with very specific and relevant information.

Black Pepper is officially registered in Hong Kong Special Administrative Region of the People's Republic of China. The company's bank account is in Singapore. Their founders and main employees are based in Bangkok and come from France and Spain. All these decisions, when taken, were considering several possibilities and were selected among them as the optimal solution for each situation. This conditions will remain fix in the short-term and, only in case that there is a pronounced evidence that something needs to be adapted for the survival of the enterprise, a change will be contemplated.

As stated before, Black Pepper represent wineries from all around the world in Asian countries. These wineries come mainly from France and Spain, but also from other countries, like Italy, Portugal, Chili, Australia, New Zealand… The firm's customers are located in different Asian countries where the company will develop its business.

If we put together all these conditions and situations, we find a financial-accounting puzzle difficult to understand. We are dealing with many different currencies, so we will be affected by exchange rates and will have to manage the exchange rate risk to assure the position or even survival of the firm. As our company has a multinational nature, supplying and making business in several countries, and the enterprise is registered in Hong Kong, a territory with special tax regime, there are a bunch of legal possibilities in how to deal with taxation. Once decided how to deal with taxation we will have to link it with accounting, writing inflows and outflows in the accounting books in a coherent manner with our decision. If business goes well, it is expected that in a future we will be willing to repatriate profits and invest them in our home countries or any other places. This operation will be again connected to taxation and accounting. Banks is another important aspect we cannot forget in Opening a bank account was of a great difficulty. And once open, for the current volume of business, commissions are excessive. It is crucial to find the way of avoiding these commissions that could ruin the economic performance of the enterprise if they are not taken with dully consideration.

Figure 1.1 Non-solved financial puzzle for multinational Start-Ups

The aim of this paper is to analyze and find an optimal solution to this puzzle. We will study how exchange rate, taxation, accounting & bank commissions and money repatriation can affect the enterprise and we will come up with a series of recommendations for the specific case of Black Pepper. Some of these recommendations will be of immediate application and others will apply in a future.

For each of these four subsections we will first build a theoretical framework, based in articles, reports and bibliography about this topic. Interviews with counseling agencies and previous experiences will also help us in this task. Later on, we will apply it to the particular case of Black Pepper and will give a series of practical recommendations that will help the company to optimize its finances. In the thesis final conclusion, we will link all our proposals defining a financial path for Black Pepper to follow in coming months and years.

CHAPTER 2
EXCHANGE RATE

2.1 Introduction

For an international firm it is crucial to measure and manage exchange rate exposure, to reduce its vulnerability from major exchange rate movements which could adversely affect profit margins and the value of assets (Michael Pappaioannou, 2006).

For Black Pepper, exchange rate risk exposure and management is of a paramount importance, as it is an international firm, carrying business in several countries, with different currencies. In this section we will go throw the definition of exchange rate, its history and classification. We will revise the different ways in which financial authorities manage exchange rates. We will examine the different exchange policies used around ASEAN and Hong Kong. We will learn how to measure exchange rate, which techniques we can use to manage it. Finally, we will describe how exchange rates could affect Black Pepper and the specific measures that can be taken to reduce the exposure of the company.

2.2 Exchange rates overview

2.2.1 Definition

Exchange rate is the price of one currency in terms of another currency.

2.2.2 History

During history we can find 5 different ‘exchange rate eras’: The Gold Standard, The Interwar Years, The Bretton Woods Era, The Floating Era and the Emerging Era.

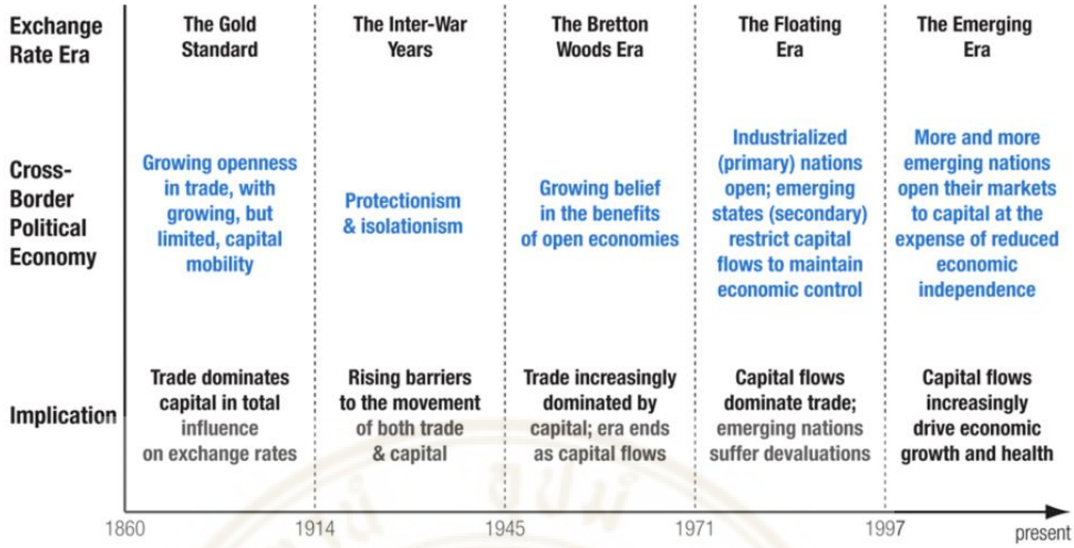


Figure 2.1 Exchange rates eras

From 1860 to 1914, during the Gold Standard Era, there is a big openness in trade, compared to past times, but capital mobility is still limited. Trade dominates capital, and both influence exchange rates.

During the Inter-War years, from 1914 to 1945, there is an important protectionism and isolationism concerning the Cross border political economy and a rising in barriers for trade and the movement of capital.

Once WWII ended, the Allied Powers met and created a post-war international monetary system. They stablished a U.S. dollar based internationally monetary systems and created two new institutions, the International Monetary Fund (IMF) and the World Bank. The U.S. dollar became the main reserve currency. During this period, known as the Bretton Woods Era, from 1945 to 1971, the belief that open economies bring benefits spreads among the governments and population of most developed countries. The trade became increasingly dominated by capital. In the years following the WWII, called the reconstruction era, the currency agreements negotiated at the beginning of this period and supervised by the IMF, functioned adequately. But, around 1973, the system collapse due to some currency shocks produced in previous years, disparate fiscal and monetary policies and diverse rates of inflation between different countries. Foreigners owns big sums of dollars. This fact produced an absence of confidence between the investors in the capacity of U.S to convert dollars to gold, producing consequent dollar devaluations. From March 1973, monetary bodies of most countries allowed their currencies to float freely in the market, initiating the Floating Era.

During the Floating Era, from the End of Bretton Woods Era until 1997, the industrialized nations open their cross-border political economy, while the emerging states restrict their capital flow to maintain economic control. During this period, the capital flows dominate trade and the emerging nations suffered devaluations. From 1973, the volatility of exchange rates increased notably, while became much more difficult to predict their values than in the fixed period.

From 1997 to the present time, during the so-called Emerging Era, emerging nations open their markets to capital, reducing their economic independence. Nowadays, capital flows increasingly drive economic growth and health.

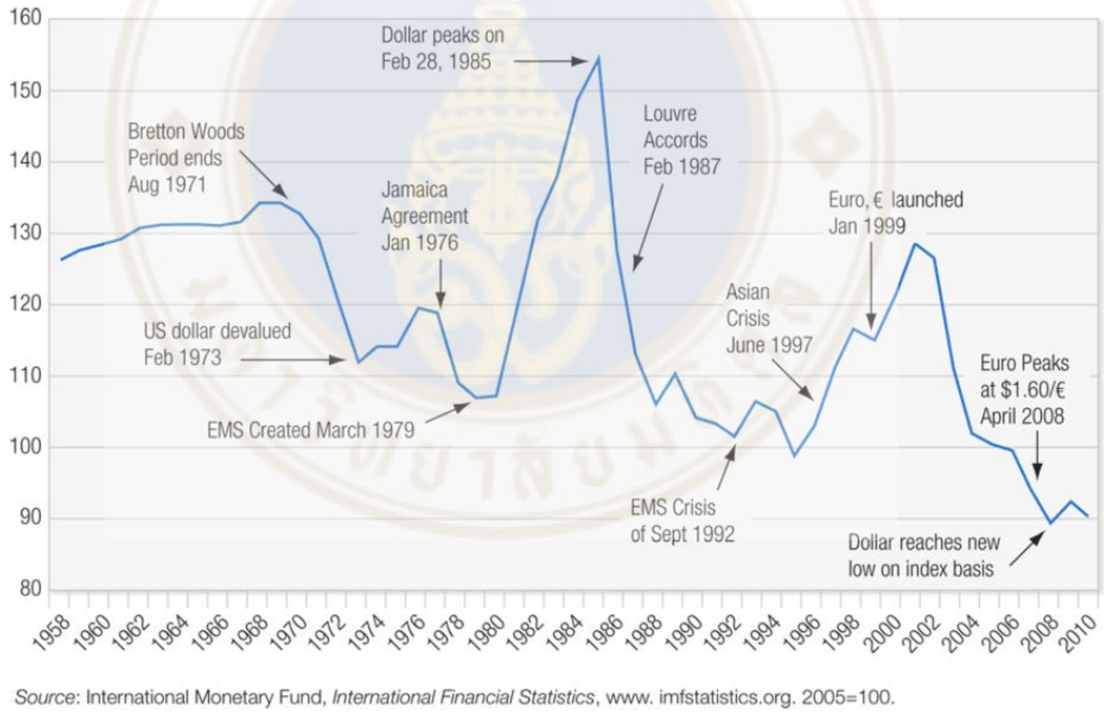


Figure 2.2 The IMF's Exchange Rate Index of the Dollar during last decades

2.2.3 IMF's Exchange Rate regimes classification

When talking about exchange rate regimes we can find two main classifications; de jure and the facto. The de jure exchange rate regimes reflects what the government of each country affirms they do in terms of the country's exchange rate. The de facto exchange rate regime shows what the country actually does, what can be, in some cases, very different from what the government affirms to do.

De Facto classification is based on the observations of the IMF's staff and not in the official announcement of the country, what makes it much more realistic and accurate. It is officially announced in IMF's annual report.

Since 2009, the IMF's adopted the following De Facto Exchange Rate Regime classification:

- "Category 1: Hard Pegs
    - Countries that have given up their own sovereignty over monetary policy.
    - E.g., dollarization or currency boards.
- Category 2: Soft Pegs
    - AKA fixed exchange rates
- Category 3: Floating Arrangements
    - Mostly market driven, these may be free floating or floating with occasional government intervention
- Category 4: Residual
    - The remains of currency arrangements that don't well fit the previous categorizations" (Eiterman, Stonehill and Moffett, 2013)

This classification depends on the extend the exchange rate is influenced by the market instead than by the monetary policies executed by the government or its monetary bodies.

The choice a nation makes of which regime to follow should mirror the nation's priorities in all economical aspects, like: interest rate levels, trade balances, inflation, economic growth and unemployment. If the priorities of the nation change, these preferences may also evolve with time.

Fixed exchange rate encourages trade and gives stability in international prices, as it lowers the exchange rate risk. It also encourages investment and provide nominal anchor for monetary policy. It avoids speculative bubbles and competitive depreciation, due to the anti-inflationary nature of fixed prices. However, it also brings some problems to the country's economy. To safeguard the fixed rate central banks will need to preserve big amounts of gold and hard currencies and gold. It is important to note the danger that fixed rates bear, as the banks could keep exchange rates at values which are not consistent with economic fundamentals.

With the use of floating rates, the country remains in monetary independence and the adjustment to trade shocks is produced automatically avoiding crashes that hit pegged rates.

An "Ideal" currency should possess three attributes that cannot be achieved at the same time. It is usually called the Impossible Trinity: monetary independence, full financial integration and exchange rate stability.

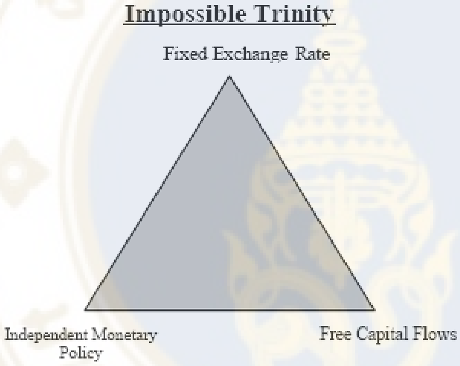


Figure 2.3 The Impossible Trinity

2.2.4 Exchange rate management techniques used by financial authorities

We can define exchange rate management as the use of official policies to influence the exchange rate that emerges in the foreign-exchange market.

It is basically done in 3 different ways:

- Monetary authorities intervene buying and selling currencies in the foreign-exchange market. The Central Bank of a country can influence the exchange value of a domestic currency by purchasing or selling a foreign currency, without changing the monetary base.

- Monetary authorities may use monetary policies to stabilize the long-run real exchange rate without associated reserve movements. They can use expansionary or contractionary monetary policy. With the use of expansionary monetary policy, the real interest rates will be reduced, what at the end will produce a decrease in the demand for the nation's currency and an increase for the demand of foreign currencies, what will lower the exchange rate of the local currency. With a restrictive monetary policy, the effect will be the opposite.
- Monetary authorities may use capital controls to stabilize at the same time exchange rate and the volume of money. Central bank or government will limit the amount of inflow and outflow of foreign capital into the domestic economy, influencing the exchange rate.

2.2.5 Exchange rate policies in South-East Asian countries

In past times, exchange rates in Asia used to be fixed. Nowadays, exchange rates regimes are different from one Asian country to another but there is a common movement towards more flexible exchange rate policies. However, central banks still intervene regularly regarding foreign exchange rate, notably to manage against a currency basket.

The region has rapidly built up reserves, what means that their currencies are undervalued, most probably in order to support an export-led growth.

"There are evidences of an apparent 'fear to depreciation' which is manifested as a willingness to allow depreciations but reluctance to allow appreciation. This policy of effective exchange rate undervaluation is consistent with their development policy, centered on suppressing the price of non-tradable goods relative to tradable" (Levy-Yeyati and Sturzenegger, 2007).

2.2.5.1 De jure classifications

Considering De jure classification in the countries where Black Pepper is working, we can see that Hong Kong currency board is pegged to US the dollar. "Singapore officially manages its currency against a basket of currencies, with the trade-weighted exchange rate used as an intermediate target to ensure that inflation target is attained" (Rajan, 2012). Malaysia works also in a currency basket regime. Thailand's exchange rate regime is officially defined as a managed floater, also operating with an inflation targeting arrangement. "Vietnam officially maintains a crawling peg and bound around the US dollar" (Rajan, 2012). And Philippines officially operates a flexible exchange rate regime, accompanied by an inflation targeting framework.

2.2.5.2 De facto classification

Considering now De Facto classification done by IMF, we can see that de jure and the facto regimes the same if we talk about Hong Kong. For Thailand, Malaysia and Singapore, we can say that their real exchange rate regime is broadly consistent with their official pronouncements. In the facto classification, Vietnam is considered to have a fixed peg regime, while this country officially maintains a crawling peg and band around the US dollar, as we have seen in the last section. Philippines is characterized as independent floater, as they officially assert, but it is important to remark that this country that has been rapidly building up reserves, what makes us doubt about this statement.

2.2.6 Types of exchange rate risk

For an international enterprise, operating in several countries and with different currencies, exchange rate movements can change the value of the firm, affecting the profit margins or the value of its assets (Madura, 1989). It is what we call the exchange rate risk.

In next lines we will define the types of exchange rate risk that we can find in international firms, how to measure and the strategies to manage it.

Multinational firms have inherent exchange rate risks due to its operations. If we want to manage these risks, the first step is to identify the specific types of risk from which the company is endangered and determine the optimal hedging strategy to control it.

We find three principal types of exchange rate risk (Saphiro, 1996; Madura, 1989):

- "Transaction risk: It is basically a cash flow risk. It is derived from the effect that exchange rate moves could have on money transactions, related to receivables (export contracts), payables (import contracts) or repatriation of dividends.

- Translation risk: It is basically a balance sheet risk. It measures how exchange rate moves can affect the valuation of a foreign subsidiary and affect the parent's company consolidated balance sheet. It is usually measured by the exposure of net assets to potential exchange rate moves.
- Economic risk: It is the risk beard when measuring the present value of firm's future operating cash flow. It basically concerns the effect of exchange rate moves on revenues and operating expenses" (Saphiro, 1996; Madura, 1989).

2.2.7 Measurement of exchange rate risk

It is of paramount importance when managing the exchange rate risk of a firm to measure appropriately the risk to which the firm is exposed. The most used method is the value-at-risk (VaR) model.

It is used to assess the riskiness of a foreign exchange position resulting from a firm's activity. With this method the risk is defined as the maximum loss that could take place for a firm for a given exposure over a given time horizon with z% confidence.

One of the main advantages of this method is that can be used to measure all exchange risk types. In the other hand, due to the fact that its interval of confidence is not 100% confidence and many firms usually set additional operational limits to attain greater coverage (Papaioannou and Gatzonas, 2002).

"The risk that a firm bear related to the exchange rate depends on three parameters:

- The holding period, the length of time in which the exchange position is planned to be held.
- The confidence level at which the estimate is planned to be made.
- The unit of currency used".

To calculate the VaR it exits three different models:

- Historical simulation that considers that the returns in a firm's exchange position will have the same distribution as they had in the past.
- Variance-covariance model that assumes that the returns in a firm's exchange position will always have a normal distribution.
- Monte Carlo simulation that considers that the returns in a firm's exchange position will always be randomly distributed" (Papaioannou, 2001).

2.2.8 Management of exchange rate risk

Once we have identified the types of exchange risk and the exposure associated to each of them, is time to decide if hedging or not these risk and the best way to do it.

The risk management strategy used by a firm will usually depend on the risk type prevalence and the size of the firm.

2.2.8.1 Hedging strategies

"Transaction risk is usually hedged tactically or strategically to preserve cash flows and earnings. Tactical hedging is most often used to hedge risk in short-term receivable and payable transactions. Strategic hedging is usually used for longer-period transactions.

Translation risk is not often hedged. It is not usually a priority for the management because it does not affect the income statement and because its long-term nature. For the translation risk of a subsidiary's value, it is a regular practice to hedge the net assets of this subsidiary that might be affected by exchange rate moves. It is also relevant to hedge the debt profile of a subsidiary, as, due to an adverse exchange rate move, can affect negatively the balance sheet of the parent company.

Economic risk is usually very difficult to quantify and it is generally hedged as a residual risk. It is often hedged over products lines and across markets, making the net economic small because of the offsetting effects. Inflation can also and affect a firm's subsidiary and erode its competitiveness. This economic exposure can be reduced by creating payables in the currency that the subsidiary experiences the highest inflation costs.

In general, we can say that corporations tend to develop integrated approaches to hedge the exchange rate risks and effective methods to measure the efficient frontier the cost of hedge against the degree of risk hedged" (Papaioannou, 2001).

2.2.8.2 Best practices for exchange risk management

In next lines we will develop an operational framework of best practices to manage effectively the exchange rate risk. These principles include:

- Identify types of exchange risks to which the firm is exposed and measure its exposure. We must identify if the firm is exposed to transaction, translation or economic risk and the specific currency related to each risk.
- Develop an exchange risk management strategy. This strategy must specify how to deal with each risk and the hedging objectives of the firm. Within the strategy must be detailed the execution process, the recommended instruments to employ and the procedures to monitor to hedge the risks.
- The firms must create an entity to assure the completion of the hedging strategies. It will be under the responsibility of this entity to forecast exchange rate, to evaluate the hedging mechanisms to be used, to set up and monitor the accounting methods to control the currency risk, to estimate and optimize the cost of the currency hedging and to stablish the benchmarks for measuring the performance of the currency hedging.
- The firm must establish a series of controls to monitors the exchange rate risk and ensure that the taken measures are appropriate. This controls should include setting the optimal position for each hedging instrument and monitoring its performance.
- The firms must stablish a committee to approve the limits in position taking, to examine the risks calculations and used hedging instruments and to audit the risk management policies regularly.

Nowadays, firms consider exchange risk management as a crucial way of reducing multinational firm's vulnerability. The popularity of the previously presented methods and procedures has gained great popularity during the last decades subsequently of a large number and importance of currency crises in the last years (Van Deventer, Imai, and Mesler, 2004).

2.2.8.3 Hedging instruments for managing exchange rate risk

In the market there are available a large amount of hedging instrument. The used of one instrument or another will depend, among many other factors, in the type of firm we are dealing with. We can differentiate two different type of firms, OTC and exchange-traded firms, that will use different hedging instruments. An OTC firm (Over the counter) is a firm which stocks are traded via dealer network and not via a formal stock exchange market, as the Paris stock exchange or New York stock exchange. Exchange-traded firms are traded in formal stock exchange markets.

The most common hedging instruments for OTC companies are currency forwards and cross-currency swaps. We can define currency forwards as buying a currency contract that will be delivered in a future, for a price set in the present time. The most adopted forward contracts are the outright forward and the non-deliverable forwards. In outright forward contract the currencies are physically delivered, while in non-deliverable forwards the contract is settled on a net cash basis. The main advantage of the forward contracts is that the firm is completely protected. In the other hand, these kind of contracts is costly and the exchange rate could also move to a more advantageous rate for the enterprise in a future, that will not be able to enjoy.

In cross currency swaps, the most used instruments are the cross-currency coupon swap and the cross-currency basis swap. In cross-currency coupon swap we buy a currency swap paying a fixed quantity and receiving floating interest payments. This instrument allows firms to manage foreign exchange rate and interest rate risk in the way they prefer. However, the firms are not completely protected against currency and interest rate risk. In cross-currency basis swap we buy a currency swap paying floating interest in one currency and receiving floating in another one. This instrument has the advantage of allowing the firm to grab prevailing interest rate differentials but it overloads the company with an interest rate risk.

For exchange-traded firms, the most commonly used hedging instruments are currently options and currency futures. Among the currently options the most adopted is the ‘plain vanilla’. When making use of this hedging instrument we buy an upside strike in an exchange rate for which we have no liability to use (Allen, 2003). This instrument is straightforward and predicts potential maximum loss. Its cost is moderated, but higher than other options.

Currency futures are contracts in which there is a definite volume of a currency to be exchanged on a settled date. It is a comparable contract to currency forwards.

As the cost of hedging is usually high, there are firms that consider the possibility of hedge ‘naturally’ (Madura, 1989). For instance, they can use matching. It consists in combining inflows and outflows of a foreign currency in terms of amounts and timing. We could also use netting, which consists in consolidating payables, receivables and debt between all the subsidiaries of the parent company. Another natural hedging would be invoicing in a foreign currency. This measure helps to reduce transaction risk principally associated to imports and exports.

2.3 Implications and recommendations for Black Pepper

Our company, Black Pepper, is mainly exposed to exchange rate risk, due to its nature of multinational company trading in several countries. The company is beginning its activity yet and the risk that it bears is not so dangerous yet. But it would be wise to monitor the company exposure, control the risk and be prepared to hedge it in a future.

Table 2.1 Local currencies used by Black Pepper's suppliers and customers

Black Pepper's suppliers local currencies	Black Pepper's customers local currencies
EUR – Europe	THB – Thailand
CLP – Chili	SGD – Singapore
AUD – Australia	HKD – Hong Kong
NZD – New Zealand	CNY – China
ZAR – South-Africa	MYR – Malaysia
ARS – Argentina	VND – Vietnam
USA – United States	KHR – Cambodia
	MMK – Myanmar
	PHP – Philippines

The company is already affected by transaction risk, as exchange rate moves between the countries with which Black Pepper works can affect its cash flow. Incomes of the company come from its suppliers, who pay Black Pepper, for representing and selling their wines and fine foods in the Asian continent. Suppliers come from many different territories such as Europe, Australia, Chili, South Africa, New Zealand…. Each supplier would prefer normally to pay in its local currency; EUR, AUD, USD, NZD…. To promote and commercialize the wines, Black Pepper attends to fairs and travels in different Asian countries, incurring in expenses in a variety of currencies; THB, SGD, HKD, VND…

Taking all these things into consideration we realize that transaction risk could have consequences in the firm. To illustrate it lets imagine a situation. In this moment the exchange rate between Thai Baht and Euro is 1 EUR = 39,35 THB. Thai Baht strengthened during last months until 36 THB per Euro, but in last days Thai Central bank has intervened weakening their currency to keep country's competitiveness in exports. Imagine Black Pepper makes a commercial mission in Thailand, for which we pay 100,000 THB or which amounts to the same, 2541 Eur. If after this commercial mission our company gets a sale and the European supplier pays a commission of 3000 EUR to Black Pepper, the company is making profits of the mission. There is always a time delay between when incurring in an expense for a commercial mission and getting a commission for a sale. If during this time there is a major change in the exchange rate between both currencies, for instance, 1 EUR becomes 30 THB, the income that we will get for this transaction can be changed into 90,000 THB. This amount does not cover the expenses for the commercial mission and, in case the company needs to change this Euros back and expend them in THB, we will be losing money. The change in the exchange rate we used in last example could be seemed as exaggerated. But if we look at the 2017's historic exchange rate between Euro and Thai Baht, we can see that on April 16th one Euro was officially changed for 36,40 THB. On August the 29th for one Euro we were given 39,92 THB. There was a depreciation of the Thai Baht compared to the Euro of almost 10%, 3,52 THB, in less than 5 months. This fact proves the transaction risk existing in Black Pepper operations. We should consider as well the possibility of abnormal situations like economic crisis and wars. South-Eats Asia is still a developing territory and we should not neglect the risk of internal conflicts to occur in some countries, like Cambodia or the Philippines. Economic crisis come in many cases without prior notice, like Tom Yam Kung crisis that shocked South-East Asia in 1997. Transaction risk will be present also when repatriating money and, if quantities are big, choosing the right moment to transfer the money or the right hedging strategy will be of paramount importance for the success of the operation.

Translation risk is not a priority for Black Pepper in this moment. Currently, the only existing company is registered in Hong Kong, with no subsidiaries abroad. But, as already stated, this paper does not intend to deal only with situations that the enterprise currently faces situations and tries to anticipate financial and accounting situations that will most probably emerge in a future. As Black Pepper is trading in several countries, it could be an interesting possibility to set up a subsidiary in another country, so translation risk should be considered in a future.

Economic is a risk that Black Pepper also faces. If Euro weakens substantially against Asian currencies, the firm could face difficulties and would probably need to find new revenue streams.

It does not seem to be a priority in these days to quantify and measure the exchange rate risk that the firm currently faces. It seems more judicious to simply have a qualitative idea of the exchange rate risks the firm experiences in this moment and the ones that could arrive in a future. When the firm will grow we will have to deal with to the quantification of these risks.

As Black Pepper is a Start Up company and has limited resources and manpower, we have to be very careful in choosing the fields to emphasize. We should take into consideration the high cost that hedging strategies imply and the difficulty that setting them up for a first time will entail. In this moment, simplicity should drive our actions. In our opinion, exchange rate risk is important, as it can easily squeeze profits. It will become much more relevant in coming years, so we need to start managing it.

Transaction risk will be managed strategically, being aware of exchange rate movements and choosing the right moment to transfer money. For translation and economic risk, we no need to take actions for the moment, just to monitor them.

Euro and U.S. Dollar are considered as the sole safe haven currencies. For this reason, and looking again for simplicity, Black Pepper's bank account is in Euros and the company only invoices in this currency. This measure substantially reduces the exchange rate risk for Black Pepper during its first years of existence.

CHAPTER 3
TAXATION

In this section we will present how taxation structure in Hong Kong is and we will deepen in establishing the source of profits, what is a fundamental element for determining how to proceed with taxation in Hong Kong. Finally, we will deepen in the particular case of Black Pepper and will give some recommendations in how to deal with taxation.

3.1 Taxation Overview

Hong Kong tax systems is one of the less burdensome regimes among the developed economies. It embraces a territorial source principle taxation. This principle implies that only the profits obtained from a Hong Kong trade or business are subject to profit tax. Any other foreign-source income is not taxable, even if it is transmitted to Hong Kong.

The main tax authority is the Inland Revenue Department (IRD) and the principal tax legislation is the Inland Revenue Ordinance (IRO).

3.1.1 Residence

A corporation is considered as resident if it is incorporated or managed and controlled in Hong Kong.

3.1.2 Principle of taxation

The profit tax in Hong Kong is 16,5% and there is no distinction between public and private companies or distributed or undistributed profits.

For local companies or branches of foreign companies the same tax rate is applied.

Only income and profits produced in Hong Kong are subject to tax in the country.

3.1.3 Taxable income

We consider as taxable income for a company the net profit originated in Hong Kong, excluding offshore profits (produced in another country) and the profits produced for the sale of capital assets.

The taxation principle is simple and clear, but its application sometimes can be complex.

3.1.4 Basis on taxation principle

"As stated in the Inland Revenue Ordinance, a person is chargeable to Profits Tax under the following conditions:

- This person carries on a trade, profession or business in Hong Kong
- The trade, profession or business derives profits
- The profits arise in or are derived from Hong Kong

The first two conditions are straightforward. The third one, determining the source of profits is more complex and requires of further study." (IBP USA, 2010)

Hong Kong Quick Facts for Companies	
Corporate income tax rate	16.5%
Branch tax rate	16.5%
Capital gains tax rate	0%
Basis	Territorial
Participation exemption	No
Loss relief	
– Carryforward	Indefinite
– Carryback	No
Double taxation relief	Yes
Tax consolidation	No
Transfer pricing rules	No mandatory documentation requirements
Thin capitalization rules	No
Controlled foreign company rules	No
Tax year	1 April–31 March
Advance payment of tax	Provisional payment
Return due date	1 month from the date of notice
Withholding tax	
– Dividends	0%
– Interest	0%
– Royalties	4.95%/16.5%
– Branch remittance tax	0%
Capital tax	No
Social security contributions	5%
Real estate tax	15%
Ad valorem stamp duty	0.2% (value of shares), 0.25% to 1% (lease of immovable property), HKD 100 to 8.5% (sale and conveyance of property)
Special stamp duty	10%/15%/20%
Buyer's stamp duty	15%
VAT	No

Figure 3.1 Taxation in Hong Kong

3.2 Basic principles for determining the source of profits

"The following principles can help us to determine the origin of profits. They came up from previous court decisions:

- Matter of fact

It is difficult to determine the locality of profits. It is a practical matter of fact. There is not a universal rule that can be used in all cases. Locality will depend on the nature of the profits and on the transactions that give rise to such profits.

- The operations test

We have to look at what the tax payer has done to earn the profits and where he has done it. In other words, we have to identify the operations which produced the profits and where they took place.

- Antecedent or incidental activities

We do not look at all taxpayer activities' location, just at the most important for producing the profits.

- Place where decision is made

The place where day-to-day investment/business decisions take place is a factor to take into account, but it is not usually the deciding factor.

- Gross profits from transactions

The distinction between Hong Kong profits and offshore profits is made by reference to the gross profits arising from individual transactions.

- Business presence overseas

The absence of a business presence overseas does not mean of itself that all profits are derived from Hong Kong. In most cases, when the principal place of business is located in Hong Kong and there is not overseas presence, the Profits Tax are likely to be charged in Hong Kong.

- Taxes with sale or purchase commissions

For Black Pepper profits will be in most cases generated in the form of commissions.

To determine where profits are taxable when commissions from sales or purchases take place, we can follow the following general practices:

  - The profit should be taxable in the place where the service is performed. In other words, the source of income is the place where the activities of the commission agent are performed

- Some factors such as where incidental or antecedent activities are performed or where the principals are located are not normally pertinent for determining the source of the commissions
- If the commission is earned by a person who carries a business in Hong Kong but commissions are produced outside, commissions are not taxable in Hong Kong." (Inland Revenue Department, 2017)

3.3 Implications and recommendations for Black Pepper

For our subject of study, the company Black Pepper, we have several aspects to consider. The decision of how dealing with taxes will depend on and, at the same time, will affect money repatriation and accounting.

Black Pepper operates in several countries, including Hong Kong. Following the principles and practices developed in previous paragraphs, the company will have to pay taxes in Hong Kong only for the commissions produced in Hong Kong. So, what happens with commissions produced in any of the other countries?

In theory, commissions can be paid in the country where they are produced. But, with the company not registered as tax resident in any of these countries, to do so will be of a great complexity and cost, just considering the bureaucratic procedures.

One possibility is to take advantage of kind of legal void that is produced in this situation. Profits not produced in Hong Kong are not taxable in Hong Kong and other countries' tax authorities have not idea that those commissions were produced in their territories. At a first glance, it can be tempting to follow this approach but it can bring to the firm several difficulties. When time of sharing profits will arrive, this non-declared commissions will need to pay taxes somehow and will be probable expensive and time-consuming to do so. From an accounting point of view, if profits produced in other countries do not pay taxes in Hong Kong and the cost associated to these operations cannot be written in the accounting books as lost and subtracted to the income to calculate the profit. Lost can be carried forward indefinitely in Hong Kong and the company is accumulating lost in this beginning period. If this lost is declared in Hong Kong, the taxable profit of the company would be reduced substantially than if it is not.

There will be a significant reduction in the amount taxes paid while the money generated will be totally legal. If this costs produced in other countries are declared in Hong Kong the profits produced in those countries should as well.

Taking into account all these elements and looking for the necessary simplicity when setting up a Start Up, the recommended solution for Black Pepper is to pay taxes from all profits in Hong Kong, disregarding where they were produced. As the company has business in Hong Kong it is not considered as an offshore company and the company has the possibility of paying all it taxes in this country.

The proposed solution totally fits the current situation of the company. However, in a future, when the company will produce considerable benefits, it would be wise to recheck this matter and again optimize tax payment. There are many possibilities and many different approaches to follow and it will be necessary to hire professional services in this field.

CHAPTER 4
MONEY REPATRIATION

The company just begun and we are not repatriating money yet. But repatriation will become an urgent matter soon, when the Black Pepper begins to generate important profits. This paper intends to treat about the current situation of the company and solve its current problems. And also to collect and analyze interesting information to anticipate important financial decisions to come.

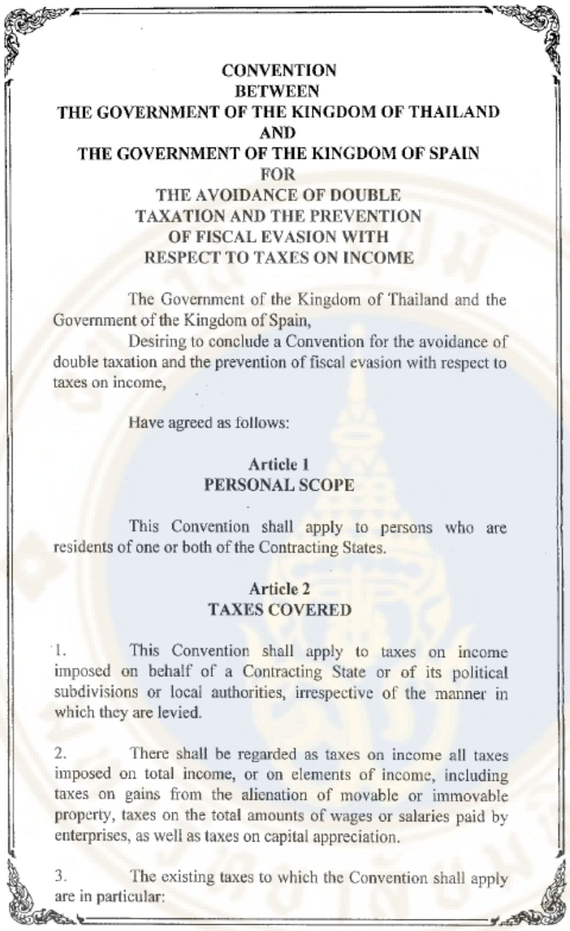
In this section we will deepen in how repatriating money. For that, we will deepen in the treaties that allow us to repatriate money to our home country and we will revise different options in international money transfer providers that exist nowadays in the market. We will analyze pros and cons of each provider with the aim of finding an optimal solution when repatriating our money.

4.1 Double taxation relief treaties

If we talk about money repatriation, the first thing we think is about how to repatriate money from Hong Kong to Spain. As the company is registered in Hong Kong and has no branch in any other territory, for the moment, the only way to repatriate money to Europe is to share profits or pay salaries with the company's shareholders and them to repatriate this money to their home countries. There is a Tax treaty between Hong Kong-Spain and Hong Kong-France to relieve taxpayers' resident in any of these countries from double taxation.

But, when profits are paid by companies to shareholders, the person who receives them need to pay the corresponding income tax in his/her country of residence. In the case of Black Pepper, shareholders are resident in Thailand, one Spanish and one French national. So, tax corresponding to these profits must be paid in Thailand and later they will have the possibility to repatriate this money to Europe. In this paper we will study how to repatriate money from ours Hong Kong company to Spain, going through Thailand. Therefore, the treaty that applies in this case is the Thailand-Spain double taxation relief.

We will summarize in next lines the most important and most interesting ideas contained in this treaty that can be used in a future for Black Pepper.



CONVENTION
BETWEEN
THE GOVERNMENT OF THE KINGDOM OF THAILAND
AND
THE GOVERNMENT OF THE KINGDOM OF SPAIN
FOR
THE AVOIDANCE OF DOUBLE
TAXATION AND THE PREVENTION
OF FISCAL EVASION WITH
RESPECT TO TAXES ON INCOME

The Government of the Kingdom of Thailand and the Government of the Kingdom of Spain,

Desiring to conclude a Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income,

Have agreed as follows:

Article 1
PERSONAL SCOPE

This Convention shall apply to persons who are residents of one or both of the Contracting States.

Article 2
TAXES COVERED

1. This Convention shall apply to taxes on income imposed on behalf of a Contracting State or of its political subdivisions or local authorities, irrespective of the manner in which they are levied.

2. There shall be regarded as taxes on income all taxes imposed on total income, or on elements of income, including taxes on gains from the alienation of movable or immovable property, taxes on the total amounts of wages or salaries paid by enterprises, as well as taxes on capital appreciation.

3. The existing taxes to which the Convention shall apply are in particular:

Figure 4.1 Double taxation relief treaty between Thailand and Spain

Convention between the government of the kingdom of Thailand and the Government of the Kingdom of Spain for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income. 1998.

This convention was signed between the government of the kingdom of Thailand and the Government of the Kingdom of Spain for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income.

This convention was signed in Madrid on October 1997 by the Spanish and Thai Ministers of Foreign Affairs.

"As stated in its First Article, this convention applies to residents of one of the Contracting States, Spain or Thailand.

It applies to taxes on income imposed on behalf of any of the Contracting States. It includes all taxes imposed on total income, or on elements of income, including taxes on gains from the alienation of property, taxes on wages or salaries paid by enterprises and taxes on capital appreciations. This convention applies in particular to the following taxes:

- For Thailand:
    - Income tax
    - Petroleum income tax
- For Spain:
    - Income tax on individuals
    - Corporation tax

As stated in the Article 4, it is considered as tax resident any person who, under the law of any of the Contracting States, is liable to tax therein by reason of his domicile, residence, place of incorporation, place of management or any other criterion of a similar nature. This term does not include any person who is liable to tax in that State in respect only of income from sources in that State. In the particular case of Black Pepper, both shareholders are tax residents in Thailand.

The Article 7 makes reference to Business Profits. It says that the profits of an enterprise of a Contracting State shall be taxable only in that State unless the enterprise carries on business in the other Contracting State through a permanent establishment situated there in. This article has not a direct relationship with Black Pepper in the present time, but could be important in a future, for opening a branch or relocating the enterprise in other State than Hong Kong, with the aim of optimizing taxation of the firm.

The Article number 10, be for the future. It covers the topic of how paying taxes on the dividends produced in a company. It affirms that dividends paid by a company which is resident of a Contracting State to a resident of the other Contracting

State may be tax in that other State. However, such dividends may also be taxed in the Contracting State of which the company paying the dividends is a resident and according to the laws of that State, but if the recipient is the beneficial owner of the dividends, the tax so charged shall not exceed 10 per cent of the gross amount of the dividends.

The Article 15 describes how to pay taxes in case of Dependent Personal Service, what includes salaries, wages and other similar remuneration, and is the subject of greatest interest for our case. It says that any salaries, wages, or similar remuneration derived by a resident of a Contracting State in respect of an employment shall be taxable only in that State, unless the employment is exercised in the other Contracting State.

Notwithstanding the provisions of previous paragraph, any remuneration derived by a resident of a Contracting State in respect of an employment exercised in the other Contracting State shall be taxable only in the first mentioned State if:

- The recipient is present in the other State for period or periods not exceeding 183 days within any 12 months' period
- The remuneration is paid by, or on behalf of, an employer who is not a resident of the other State
- The remuneration is not borne by a permanent establishment or a fixed base which the employer has in the other State.

An easy way of distributing benefits from Black Pepper to its shareholder could be by paying a salary. In this case, even with the company registered in Hong Kong, taxes on the salary will be paid in Thailand.

The Article 16 makes reference to the Director's Fees, saying that fees or other similar payments earned by a member of the board of directors of one company resident in one Contracting State may be taxed in the Contracting State in which the director is resident.

The Article 23, about the elimination of the double taxation, states that the laws in force in the Contracting States shall govern taxation, except when a provision on the contrary is made in this provision. When income is subject to tax in both Contracting States, relief to double taxation shall be given in accordance with the following paragraphs:

- Double taxation will be avoided in Spain when a resident of Spain derives income that may be taxed in Thailand. In this case, Spain will allow a deduction from the income tax of that resident equal to the tax paid in Thailand
- In the case of a resident in Thailand receiving income from Spain, the same law will be applied

The Article 24 talks about Non-discrimination, saying that nationals of a Contracting State shall not be subjected in the other Contracting State to any taxation or any connected requirement which is more burdensome than the taxation and connected requirement to which nationals of that other State in the same circumstances are or may be subjected. This article also applies for national enterprises from a Contracting State residents in the other Contracting State.

This convention applies between Thailand and Spain in the present time but it is important to know that it will not last for forever and we should be aware if any change is produced. The termination of this Convention can be done in any year, by any of the two Contracting States, giving to the other party a written notice of termination." (Convention between the government of the kingdom of Thailand and the Government of the Kingdom of Spain for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, 1998)

4.1.1 Implications and recommendations for Black Pepper

Shareholders are tax resident in Thailand and the company is registered in Hong Kong and has no other branch overseas. The easiest way of repatriating money to Europe is by distributing profits. This profits distribution can be done in different ways such paying salaries, director fees or simply distributing profits. In any case, this money will need to pay taxes in Thailand and, due to the Double Taxation Avoidance Treaty between Spain and Thailand, should be straightforward to bring it to a Spanish personal bank account.

There is another detail we should not forget in all this equation. It could be very costly to get money out of Thailand. It could even jeopardize final profits of shareholders. For this reason, it is essential to analyze properly and give it due importance, as we will do in the following section.

4.2 Getting money out of Thailand

When we think of getting money out of Thailand, the first thing that comes to our minds is to internationally transfer this money from our Thai to our Spanish bank account. There are also a number of different alternatives that will allow us to repatriate our money and could be more advantageous depending on the case. We will study them in next lines.

When sending money overseas we have to consider different details. One of the most important is transfer fees. These fees can be fix, like in banks, can be a percentage, like some credit cards when used abroad, or a combination of both, like PayPal. It is of paramount importance to also consider the fees hidden in the exchange rate. Sometimes companies call them ‘hedging fee’ and can account for up to 4% of the transferred amount. Another variable to consider is the transfer speed. A bank transfer usually takes between 2 and 3 business days, while other money transfer services, like Transferwise could take from 3 to 5 days.

When choosing the way of internationally transfer we have to consider that the cheapest money transfer provider will depend on:

- the amount we send
- the country we send money from and the country we send money to
- the payment option
- the chosen time delay

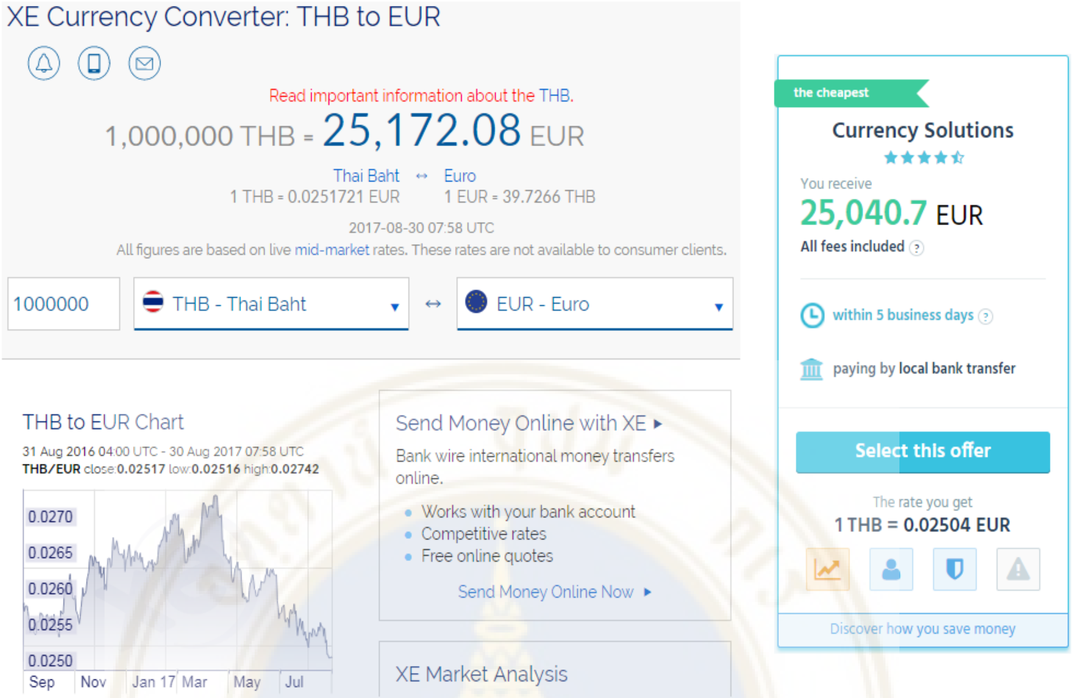


Figure 4.2 International transfer simulation made using Monetys.com and XE.com

Before checking transfer options, we have a couple of interesting websites to visit, always with the aim of optimizing international transfers. Moneytis.com and XE.com. The first one helps us to find the cheapest money transfer provider for our country and the second gives us the official Exchange rate, updated each 2 minutes. If we do a simulation using both webs, we can see in the next image that the official exchange rate for 1,000,000 THB in this moment is 25,172 Eur. The best option offered by Moneytis.com is a company called "Currency Solutions" which, including all fees, will transfer from Thailand to Spain an actual amount of 25,040 Eur. The total fee taken in this operation will ascend to 0.52 %, what can be considered as a very low fee, proving the effectiveness of these 2 webs.

Following, we will analyze the transfer options more used nowadays. As said before, their main differences will be in cost, speed and convenience.

- International bank transfers: Could be a good option when sending big quantities of money abroad. We need to take into consideration what are the fees charged from the sending and receiving bank. This could vary significantly from one bank to another. One excellent option could be to open an account in a bank with branches in both countries. In some cases, fees are almost inexistent, as they are considered to be like internal money transfers. For the particular case of Thailand and Spain there is not yet a bank established in both countries.

- Transferwise: This international transfer provider is gaining a lot of popularity in last years. It is considered as a peer-to-peer currency exchange. The idea is that they find a partner who wants to send money in the opposite direction, matching us up. Instead of doing an international transfer, each of us will do a domestic transfer. For example, if we want to send money from Thailand to Spain, they will find someone in Spain willing to send money to Thailand and they will match us. Each one will transfer the money in his/her home country and this money will arrive to the matched partner account. Charges will usually be around 1 % to 1.5 %. This option will be interesting for payments of less than USD 2000, for which fixed bank fees per transaction would be more expensive.

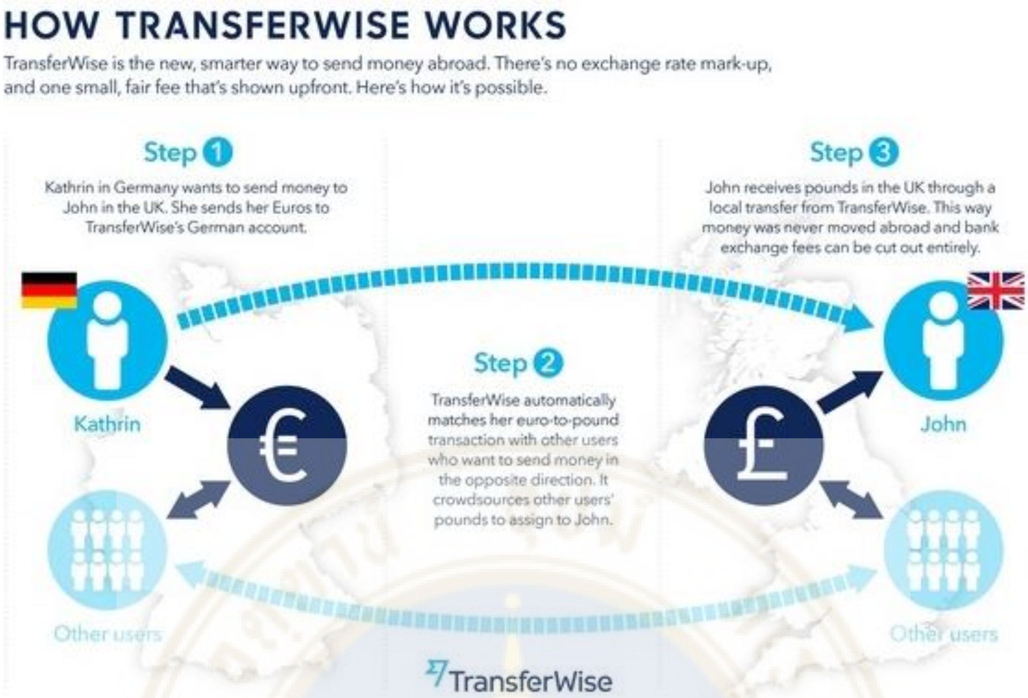


Figure 4.3 Explanation of how Transferwise works

- Xendpay: It is another international transfer provider. Its biggest advantage is that they quote the rate and all the fees in advance, taking out some uncertainty from the operation. Most providers will not give this information in advance. Total fee we will pay is about 0.5 % and it is interesting to use if we are planning to send amounts of less of 5000 Eur.
- Western Union: One of the most well-known providers. Their biggest advantage is their speed. They can make cash available to a recipient worldwide within a matter of 2 minutes. Fixed prices vary from 10 to 50 USD. But the highest is hidden in the exchange rate. It starts at 4% and adding all fees can go until 7.5 % of the transfer amount.
- Paypal: It is a convenient way to send international transfers as long as the amounts are not so big. It can add a fee of about 3.5 % and, due to

its easiness of use can be the preferred method for transfers less than 1000 Eur.

Figure 4.4 Images of most well-known international money transfer providers

- Cash: As we will probably travel from Thailand to Europe, a way of repatriating money that we should not neglect is bringing cash with us. This could be a good option as professional money changers offer usually the cheapest exchange rate that can be as low as 0.1 % of the changed amount. The quantity of money we can bring with us into the European Union without declaration is limited to 10,000 EUR.

CHAPTER 5
ACCOUNTING

Once examined the best way of repatriating money from our Hong Kong's company to our personal accounts in Spain, it is fundamental to deal with is accounting.

In this section we will revise the accounting methods used in Hong Kong and how we can deal with them to optimize also our bank costs that are quite important.

5.1 Accounting system in Hong Kong

Accountancy in Hong Kong is regulated by the HKICPA under the Professional Accountants Ordinance. In 2005, HKICPA, adopted most accounting and auditing standards from the IFAC.

"IFAC or International Federation of Accountants is a global organization for accountant profession. Its aim is to serve the public interest and strengthen the accountancy profession by:

- Supporting the development of high-quality international standards
- Promoting the adoption and implementation of these standards
- Building the capacity of professional accountancy organizations
- Speaking out on public interest issues." (IFAC, 2017).

For the Black Pepper it is important to know which are the accounting standards used in Hong Kong, for several reasons. First of all the company is obliged to submit its accountant documents and audit results once a year.

For this paper, we will develop the accounting tools that we can use to optimize the financial of the enterprise.

5.1.1 Bank account for a Hong Kong enterprise

Opening a bank account in Hong Kong has become an “impossible mission”. It is due to the new worldwide regulation “Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017”, aka MLRs 2017, which obliged all banks to report about the ultimate owner of any account and to share this information with authorities all over the world. Most banks require business owners to have a Hong Kong residence, to have a very high and constant balance in the account (from 10,000 Euros on) and probe that the company have business in Hong Kong to open a bank account. In Black Pepper, we could not fulfill all these requirements, so we found ourselves with a company registered in Hong Kong and with not bank account to work with. We had to find a solution.

After many inquiries and several failed attempts, we succeed to open a business bank account in Singapore. Everything looked like solved, but nowadays we are facing huge commissions that are threatening our financials. The amounts of money we are transferring in this moment, like salaries, or payments for some services, are not really big and the fixed fee we pay for each transaction done with our bank is too high. For transfers lower than 1000 Euros sometimes we pay between 50 and 15 % of the transferred amount in commissions. Following we can observe remittances fees in the concerned Bank.

REMITTANCES

			OCBC	OCBC Premier
Inward Remittance	**Telegraphic Transfer**	Credit to Fixed Deposit Credit to SGD or FCY Account	Free S$10	
	MEPS (Electronic Payment System)	Incoming Payments	Free	
	Demand Draft (Credit to SGD or FCY Account)	Drawn on OCBC Bank	Free	
		Drawn on other bank	1/8% commission (min S$30) + Agent Fees and/or Postage (if applicable)	
Outward Remittance	**Telegraphic Transfer to non-OCBC accounts**	Commission: Debit SGD Account	1/8% commission (Min S$10, Max S$100)	50% Discount (Min S$5, Max S$50)
		Debit FCY Account (involving Foreign Exchange)	1/8% commission (Min S$10, Max S$120)	50% Discount (Min S$5, Max S$60)
		Debit FCY Account (not involving foreign exchange)	1/8% commission (Min S$10, Max S$120)	50% Discount (Min S$5, Max S$60)
			and 1/8% commission in lieu of exchange[3] (Min S$25, Max S$120)	
		Cable Charge	S$20	
		Agent Fee (if applicable)	Fixed fee based on remitting currency[6]	
	Telegraphic Transfer to accounts within OCBC Group[†]	Commission	Same as fees for 'Telegraphic Transfers to non-OCBC accounts'	Waived
		Cable Charge	S$20	Waived
		Agent Fee (if applicable)	Fixed fee based on remitting currency[3]	Waived
	Outward Remittances through Online Banking	**Telegraphic Transfers/ Overseas Fund Transfer** Account Holder: Debit from SGD Accounts	Same/Third Party: 1/8% commission (Min S$10, Max S$100) + Agent Fee (if applicable): fixed fee based on remitting currency[3] + Cable Charge (flat fee of S$20)	Commission and Cable Charge waived. Agent Fee apply.
		MEPS (MAS Electronic Payment System)/Same day Fund Transfer Out-going Payment	S$5	

Figure 5.1 Remittances fees in Black Pepper's current bank

REMITTANCES

			OCBC	OCBC Premier
Outward Remittance	**Cashier's Order**	Payable to Own Name	Free	
		Payable to Third Party	S$5 per cashier's order	Waived
	MEPS (Electronic Payment System)	Outgoing Payments	S$20	
	Demand Draft (from SGD or FCY Accounts)[11]	Commission: Debit SGD Account	1/8% commission (Min S$15, Max S$100)	50% Discount (Min S$7.50, Max S$50)
		Debit FCY Account (involving Foreign Exchange)	1/8% commission (Min S$10, Max S$120)	50% Discount (Min S$5, Max S$60)
		Debit FCY Account (not involving foreign exchange)	1/8% commission (Min S$10, Max S$120)	50% Discount (Min S$5, Max S$60)
			1/8% commission in lieu of exchange[3] (Min S$25, Max S$120)	
		Postage (if applicable)	As per existing rates	
Cancellations / Amendments / Stop Payments	**Cancellations**	Cancel Cashier's Order	S$5 per cashier's order	
		Cancel Demand Draft[7]: SGD Account	S$10 per draft	
		Foreign Currency Account:	US$5 per draft	
	Stop Payment	Cashier's Order	S$20 per cashier's order	
		Demand Draft[7]: SGD Account	S$20 per draft	
		Foreign Currency Account	US$10 per draft	
	Amendment	Amendment/Investigation: Telegraphic Transfer	Cable Charge (flat fee S$20) + Agent Fee (if applicable)	
Other Fund Transfer Services	**GIRO**	GIRO standing Instruction	S$10 per transaction	
		Outward GIRO Return	S$10 per item	
		Inward GIRO Return	S$0.50 per item	
	Standing Instructions (Telegraphic Transfer / Electronic Payment System)	Set-up Charge	S$10 Standard charges apply	
		Amendment/Cancellation	S$10	
		Rejected items due to insufficient funds	S$30	

Figure 5.1 Remittances fees in Black Pepper's current bank (cont.)

5.2 Implications and recommendations for Black Pepper

The solution we found to avoid the burdensome bank fees is to transfer big amounts of money to our personal accounts and register it in the books as cash. When we talk about "big quantities" we are referring to a minimum of three thousand euros per transaction. We will use one account from a Thai bank and one other from a French bank. This way we will pay just once the bank transfer fees and, having money in our personal account, we could use any of the international money transfer alternatives we have described before. We will also have the possibility of buying plane or hotel tickets, withdrawing money in the countries we travel and paying bills from direct expenses with our credit cards. To find this solution we needed to consult several professional in the topic, going through a difficult path of uncertainty until finding a solution, as it happens many times when beginning an entrepreneur activity like Black Pepper. In a future we plan to open a business account with an European bank, what will simplify and reduce our bank expenses.

CHAPTER 6
FINAL CONCLUSION

The purpose of this paper was to analyze financial issues that Black Pepper is already facing and will face in coming years and anticipate the solutions to optimize it.

We dealt with exchange rate, taxation, money repatriation and accounting and banks. For each section we found a bunch of recommendations and possibilities that will help the company to solve any related issue. These solutions will allow Black Pepper to focus its efforts in other activities that will, hopefully, lead to an important growth in coming years.

We analyzed how the company is exposed to exchange rate risk and the measures that can be taken to control it. We realized the company is currently mostly affected by transaction risk. This risk will be managed strategically. Translation and economic risk are not a priority yet and will be monitored for the moment and managed when they will become a priority. Looking for simplicity, Black Pepper decided to issue all invoices and to receive all payments in Euros. This measure will reduce the exposure to exchange rate risk notably during the first steps of the company, with an acceptable cost.

We went through several alternatives in the way of paying taxes. Decision in this matter will affect money repatriation and accounting. We decided to declare all profits and costs in Hong Kong and pay all taxes there. This solution will simplify accounting and taxation and will allow us to repatriate money in a simple manner.

For repatriating money, we realized that the most convenient way to do it is distributing this money to its shareholders. We analyzed the different profit sharing possibilities and the steps needed until finding this money in our personal accounts in our home country. We also analyzed the different alternative we have to internationally transfer money. The best option will depend in several factors, like the time interval to receive it and the transferred amount.

We also went through the costs we bear with our current bank account and found an accounting solution to reduce them.

With this paper we found a path to follow in all this financial issues and we solved the puzzle we had at the beginning of this paper, when considering all matters and possibilities.

Figure 6.1 Solved financial puzzle we can find in multinational Start-Ups

We substantially advanced in finding solutions to financial issues that Black Pepper is facing or will face, while selling and promoting wine in Asia. We should consider this paper as an important step for our company. And we be must aware that we will need to continually research in this fields, hire professional advisors and keep advancing through this financial path during the lifetime of the company if we want to achieve great success in the future.

REFERENCES

Allen, S.L., 2003, Financial Risk Management: A Practitioner's Guide to Managing Market and Credit Risk, (Hoboken, New Jersey: Wiley).

Annual Report on Exchange Arrangements and Exchange Restrictions 2016, International Monetary Fund.

Argi, V., 1982, Exchange Rate management in theory and practice (New Jersey, Princeton Studies in International Finance)

Convention between the government of the kingdom of Thailand and the Government of the Kingdom of Spain for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, 1998. (Available in: http://www.dezshira.com/library/treaties/convention-between-the-government-of-the-kingdom-of-thailand-and-the-government-of-the-kingdom-of-spain-for-the-avoidance-of-double-taxation-and-the-prevention-of-fiscal-evasion-with-respect-to-taxes-on-income-2829.html. Consulted on August 18th, 2017)

Eiterman, D., Stonehill, A., Moffet, M.. 2013. Multinational Business Finance. Chapter 3. Pearson Education

IBP USA. 2010. Hong Kong Offshore Tax Guide Volume 1 Strategic and Practical Information Paperback

The international Federation of Accountants, 2017. About IFAC. (Available in: https://www.ifac.org/system/files/callouts/IFAC%20Build%20Sustainable-Final%207-26-13.pdf. Consulted on July the 7th, 2017)

Inland Revenue Department. 2017. A Simple Guide on The Territorial Source Principle of Taxation. (Available in: https://www.ird.gov.hk/eng/paf/bus_pft_tsp.htm. Consulted on June 25th 2017).

Jorion, P., and S.J. Khoury, 1996, Financial Risk Management: Domestic and International Dimensions, (Cambridge, Massachusetts: Blackwell Publishers).

Kritzman, M., 1993, "The Optimal Currency Hedging Policy with Biased Forward Rates," Journal of Portfolio Management, Vol. 19 (4), pp. 94–101.

Levy-Yeyati, E.L., Sturzenegger, F., 2007. Fear of Floating in Reverse: Exchange Rate. Policy in the 2000s.

Madura, J, 1989, International Financial Management, 2nd ed. (St. Paul, Minnesota: West Publishing Company).

Marrison, C., 2002, The Fundamentals of Risk Measurement, (New York: McGraw Hill).

Papaioannou, M., 2001, "Volatility and Misalignments of EMS and Other Currencies During 1974–1998, " in European Monetary Union and Capital Markets, International Finance Review, Vol. 2, ed. by J. J. Choi and J. M. Wrase, (Amsterdam: Elsevier), pp. 51–96.

Papaioannou, M., and E.K. Gatzonas, 2002, "Assessing Market and Credit Risk of Country Funds: A Value-at-Risk Analysis," in Global Risk Management: Financial, Operational and Insurance Strategies, International Finance Review, Vol. 3, ed. by J. J. Choi, and M. R. Powers, (Amsterdam: Elsevier), pp. 61–79.

Rajan, R. S., Management of Exchange Regimes in Emerging Asia, 2012 (Singapore, Elsevier)

Shapiro, A.C, 1996, Multinational Financial Management, 5th ed. (Hoboken, New Jersey: Wiley).

Spain-Thailand. Convention between the government of the kingdom of Thailand and the Government of the Kingdom of Spain for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, 14 of November 1997, p. 01-31

Van Deventer, D.R., K. Imai, and M. Mesler, 2004, Advanced Financial Risk Management: Tools and Techniques for Integrated Credit Risk and Interest Rate Risk Management, (Hoboken, New Jersey: Wiley).

APPENDICES

Appendix A: De jure exchange rate classification in South-East Asia

De jure Exchange Rate Regimes in Asia (As per Country Central Bank Websites unless otherwise stated).

Country	Official Policy Pronouncements (direct quotes)
Bangladesh	The exchange rates of the taka for inter-bank and customer transactions are set by the dealer banks themselves, based on Demand and-supply interaction. The Bangladesh Bank is not present in the market on a day-to-day basis and undertakes purchase or sale transactions with the dealer banks only as needed to maintain orderly market conditions.
PRC	PRC announced on July 21, 2005 the adoption of a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. Since then, the new exchange rate system has operated stably, and the RMB exchange rate has been kept basically stable at an adaptive and equilibrium level. The exchange rate of the RMB against the US dollar has been moving both upward and downward with greater flexibility.
Hong Kong, SAR	Since 1983 the Hong Kong dollar has been linked to the US dollar at the rate of HK$7.8 to US$ 1. The link is maintained through the operation of a strict and robust Currency Board system which requires both the stock and the flow of the Monetary Base to be fully backed by foreign reserves. Any change in the size of the Monetary Base has to be fully matched by a corresponding change in the foreign reserves.
India	The exchange rate policy in recent years has been guided by the broad principles of careful monitoring and management of exchange rates with flexibility, without a fixed target or a pre-announced target or a band, coupled with the ability to intervene if and when necessary.
Indonesia	In July 2005, Bank Indonesia launched a new monetary policy framework known as the Inflation targeting framework, which has four basic elements as follows: (1) use of the BI rate as a reference rate in monetary control in replacement of the base money operational target, (2) forward looking monetary policymaking process, (3) more transparent communications strategy, and (4) strengthening of policy coordination with the Government. The rupiah exchange rate is determined wholly by market supply and demand. However, Bank Indonesia is able to take some actions to keep the rupiah from undergoing excessive fluctuation.
Korea	Inflation targeting is an operating framework of monetary policy in which the central bank announces an explicit inflation target and achieves its target directly. This is based on the recognition that to achieve sustainable economic growth, it is important above all else those inflation expectations, which have a great effect on wage and price decisions, should be stabilized. In this regard, inflation targeting places great emphasis on inducing inflation expectations to converge on the central bank's inflation target level by the prior public announcement and successful attainment of that target level. The exchange rate is, in principle, decided by the interplay of supply and demand in the foreign exchange markets. However, the Bank of Korea implements smoothing operations to deal with abrupt swings in the exchange rate caused by temporary imbalances between supply and demand, or radical changes in market sentiment.
Malaysia	On 21 July 2005, Malaysia shifted from a fixed exchange rate regime of US$1 = RM 3.80 to a managed float against a basket of currencies. Under the managed float system, the ringgit exchange rate is largely determined by ringgit demand and supply in the foreign exchange market. The Central Bank does not actively manage or maintain the exchange rate at any particular level – economic fundamentals and market conditions are the primary determinants of the level of the ringgit exchange rate. In this regard, the Central Bank intervenes only to minimize volatility, and to ensure that the exchange rate does not become fundamentally misaligned.
Pakistan[a]	Pakistan has adopted the floating inter-bank exchange rate as the preferred option since 2001. State Bank of Pakistan has attempted to maintain real effective exchange rate at a level that keeps the competitiveness of Pakistani exports intact. But, like other Central Banks, it does intervene from time to time to keep stability in the market and smooth excessive fluctuations. The current framework of monetary-cum-exchange rate policies and the underlying economic analysis in Pakistan can, thus, be broadly characterized as judgment- and discretion-based rather than model- or rule-based.
Philippines	The primary objective of Bangko Sentral ng Pilipinas' monetary policy is to promote a low and stable inflation conducive to a balanced and sustainable economic growth. The adoption of inflation targeting framework for monetary policy in January 2002 is aimed at achieving this objective. The Monetary Board determines the exchange rate policy of the country, determines the rates at which the Bangko Sentral buys and sells spot exchange, and establishes deviation limits from the effective exchange rate or rates as it deems proper.
Singapore	Since 1981, monetary policy in Singapore has been centered on the management of the exchange rate. (1) The Singapore dollar is managed against a basket of currencies of its major trading partners and competitors. (2) The Monetary Authority of Singapore operates a managed float regime for the Singapore dollar. The trade-weighted exchange rate is allowed to fluctuate within an undisclosed policy band, rather than kept to a fixed value. (3) The exchange rate policy band is periodically reviewed to ensure that it remains consistent with the underlying fundamentals of the economy. (4) The choice of the exchange rate as the intermediate target of monetary policy implies that MAS gives up control over domestic interest rates (and money supply).
Sri Lanka	The Central Bank continues to conduct its monetary policy under an independently floating exchange rate regime within a framework of targeting monetary aggregates with reserve money (i.e., high powered money) as the operating target and broad money (M2b) as the intermediate target.
Thailand	Since July 2, 1997, Thailand has adopted the managed-float exchange rate regime, in which the value of the baht is determined by market forces, namely demand and supply in both on-shore and off-shore foreign exchange market, to let the currency move in line with economic fundamentals. The Bank of Thailand will intervene in the market only when necessary, in order to prevent excessive volatilities and achieve economic policy targets. Under the inflation targeting framework, the Bank of Thailand implements its monetary policy by influencing short-term money market rates via the selected key policy rate, currently set at the 14-day repurchase rate.
Viet Nam	Viet Nam has adopted a crawling peg with the US dollar for its exchange rate. The State Bank of Viet Nam sets the official exchange rate daily, and commercial banks set their dealing rate within a trading band of plus or minus 0.25 percent. The State Bank of Viet Nam tends to keep the dong depreciated against the US dollar by keeping the exchange rate on an upward trend.

Appendix B: De Facto classification in South East Asia

De facto IMF Exchange Rate Classifications as of April 2008.

Country	As of April 31, 2008
Bangladesh	Other conventional fixed peg arrangement
PRC	Crawling peg.
Hong Kong, SAR	Currency board arrangement.
India	Managed floating with no pre-determined path for the exchange rate.
Indonesia	Managed floating with no pre-determined path for the exchange rate.
Japan	Independently floating.
Korea	Independently floating.
Malaysia	Managed floating with no pre-determined path for the exchange rate.
Pakistan	Managed floating with no pre-determined path for the exchange rate.
Philippines	Independently floating.
Singapore	Managed floating with no pre-determined path for the exchange rate.
Sri Lanka	Other conventional fixed peg arrangement.
Thailand	Managed floating with no pre-determined path for the exchange rate.
Viet Nam	Other conventional fixed peg arrangement.