

Treasury Management in Germany

[Copyright 2000 - Knowledge Management Applications - All Rights Reserved - Updated 2000-2-10](#)

Germany Overview

Germany is a large European country that serves as the headquarters for the European Central Bank and is challenging London as the financial center for Europe.

The unit of currency is the euro (EUR) which is divisible into 100 cents. The Deutsche Mark (DEM) became a denomination of the EUR on January 1, 1999 and will be eliminated as legal tender in 2002. Currently, the DEM is one of 11 currencies comprising the Euro (EUR) which is freely traded on the foreign exchange market. The locking rate of the EUR to the DEM is EUR 1 = DEM 1.95583.

The Deutsche Bundesbank is the central bank and regulates all financial institutions in the country. With the advent of the Euro a key role of the Bundesbank is coordination of the central monetary policy with the European Central Bank. Bundesbank reporting requirements impose a modest compliance burden on banks and their clients but in general have minimal impact on cash management activity. There are nine Landeszentralbanken (LZB's) in the various German states which are branches of the Bundesbank and are responsible for banking activity within their geographic area. The overall regulatory environment is open.

There are three clearing systems in Germany that relate to cash and treasury management.

1. The high value system (EAF-2 - Elektronische Abrechnung Frankfurt or Euro Access Frankfurt) is an inter-bank real time net settlement system (RTNS). EAF-2 is used by member banks for transfer amounts greater than DEM 50,000 domestically with no minimum for international transfers. EAF-2 is owned by the Deutsche Bundesbank and operated by the Landeszentralbank in Hessen (LZB Hessen or Land Central Bank Hessen) which is a branch of the Bundesbank.
2. An additional high value system, the ELS (Electronic Counter) is an RTGS system for all German banks including those participating in the EAF. It is principally used for large settlements between non EAF members or for transactions which failed to settle within the EAF. The ELS is also administered by the LZB Hessen which is a branch of the Deutsche Bundesbank. ELS is the RTGS link to TARGET in Germany.
3. There are also circuits for checks and electronic transfers which are administered by each of the nine Landeszentralbanken (LZB) and which settle through the EAF or ELS. The electronic transfer service is functionally similar to an ACH and is called DTA or Data Transfer Exchange. There is a one day clearing float cycle in the process for DTA and checks in addition to third party bank processing float.

A company incorporated in Germany or one with management or control in Germany is considered to be a resident company and taxed on worldwide income, unless otherwise provided in tax treaties. Non resident companies are taxed on German source income which includes earnings from branches. The

Weblinks

Sponsor

[KMAPPS](#)

Background

[USCIA](#), [US Department of Commerce](#), [US State Department](#), and [Library of Congress](#)

Government

[Euro Access Frankfurt \(EAF\)](#)
[Deutsche Bundesbank](#)

Consultants

[Ernst & Young](#)
[DTT WorldTax](#)

Associations

Banks

[HypoVereinsbank](#)
[Commerzbank](#)
[Deutsche Bank](#)
[Dresdner Bank](#)
[Citibank](#)

News

[FT Survey](#)

Specialist Sites

[Omikron - MultiCash](#)

current rate of tax on income is 40%.



Treasury Management

Germany has not been a financial center for treasury management activities like London or Brussels. However, the large and strong economy make it home to some of the world's most famous multinational companies. Germany's role as a treasury center may begin to change as a result of its hosting the European Central Bank and general regulatory liberalization associated with the Euro.

All common treasury management techniques are permitted in Germany including leading/lagging, re-invoicing, sweeping, and cash concentration. Multilateral netting is permitted without restriction. Pooling of Germany Marks is possible and the pooling of other currencies is not prohibited.

Multiple DEM accounts can be held to facilitate accounting objectives or as part of an overall treasury strategy. Sweeping (zero balancing) and concentration are permitted and are commonly used to concentrate collected funds across the various German states.

Accounts

The basic DEM operating account is referred to as a current account and may be held by resident or non-resident corporations. Banks are allowed to pay interest on current accounts maintained by corporations but because of reserve requirements with the Bundesbank the rate of interest paid is quite low. Overdrafts are permitted subject to mutual negotiation between client and financial institution.

Resident and non-resident corporations may hold accounts in Germany that are denominated in currencies other than the German Mark, Euro, and US Dollar.

Time deposits from one day to one year are a common short term investment along with T-bills and Repos. Private placements - in lieu of the developing commercial paper market round out the range of short term investment opportunities.

Overdrafts are permitted, with the amount and rate determined by each bank. Typically overdraft rates are borrowings against prearranged lines of credit and since bank finance remains a major source of corporate finance they are the principal source of short term financing.

Payments and Receipts

Checks and cash are used in retail settlements but are giving way to more popular ACH and EFTPOS systems. The highly efficient and lower cost ACH system (DTA) which can process debit and credit transactions to and from customer bank accounts is one reason for this change. Another is the decline in check float resulting from the use of electronic check presentment by the German banks. Electronic point-of-sale (EFTPOS) transactions using bank issued debit cards are have virtually replaced checks at the point of sale. Large payments - greater than DEM 50,000, can be processed electronically on a same day basis using the EAF system.

Lockbox type arrangements are permitted and commonly used because mail, processing, and deposit float are still significant parts of the cash flow timeline.

Controlled disbursement is not possible because the timing of cleared check presentment through the LZB and EAF cutoffs do not permit coverage of check presentments. A functional alternative is to have a disbursement account that is covered by book transfer from a surplus account at the same bank.

Technology and Marketplace

Germany has a modern telecommunications system including fiber optic cable and digital switches. Bandwidth is expensive but readily available. Electronic banking services to move money across accounts and manage balances are in common use through proprietary systems owned by the banks which are also moving to internet access for the same functionality.

A generic electronic banking system called MultiCash provides a standard for all bank reporting services. Developed for banks by an independent software house (Omikron) it covers bank systems and client workstations. Most banks in Germany are able to report account details into the MultiCash. In addition NDC, Fides and Banklink have links to enable non-German banks to provide data to MultiCash users. Internet banking is taking hold using Multiweb software and is offered by HypoVereinsbank, among others.

Germany is a heavily banked country and home to major local, regional, and international banks. The four largest banks - Deutsche Bank, HypoVereinsbank, Commerzbank, and Dresdner Bank offer a complete array of financial services and are known as universal banks. German reunification shifted the global focus of the universal banks inward but Deutsche Bank and to a lesser extent Commerzbank maintain a large global infrastructure in support of client cash management activity. In addition to the universal banks there are mortgage banks, agricultural banks, savings banks, and other specialized financial institutions many of which offer corporate clients current account services. The advent of the Euro has increased cross border competition but local services are very much the province of local banks. Befitting Frankfurt's emerging role as a financial center virtually all of the major international banks offering global cash management services have a branch presence in Frankfurt including HSBC, Deutsche Bank, Bank of America, HypoVereinsbank, Citibank, and Chase.

Treasury Management in Germany

[Copyright 2000 - Knowledge Management Applications - All Rights Reserved - Updated 2000-2-10](#)

About This Document - The copyright is owned by Knowledge Management Applications. The style comes from a document type definition which is the valuable intellectual property of Knowledge Management Applications. The references to sites on the World Wide Web are for your convenience. These sites are provided and maintained according to separate terms and conditions of use. You may display this document on a computer screen, print it on paper, email it to others, and store it in electronic form. You may not modify, extract pages, mimic the style, or restrict access to the document. The document is for your general information and does not constitute any form of advice, recommendation, or arrangement by Knowledge Management Applications. The information in this document is provided 'as is' and there is no guarantee as to accuracy, completeness, or fitness for a particular purpose.