

## **ERRATA**

Essentials of Treasury Management, 7<sup>th</sup> edition

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Page 611 – Calculation example should use 100 Million Yen not 1 Million. The corrected calculation read:

0.275 x 100,000,000 x <u>180</u> = JPY 1,375,000 360 

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## EXHIBIT 4.1 HOW CORRESPONDENT BANKING IS USED TO SETTLE AN INTERNATIONAL PAYMENT Correspondent TARGET2 RTGS Account Members BANKA **BANK US BANK GER** US Company's (EUR-denominated) Account German Company's (EUR-denominated) Account GERMAN US COMPANY COMPANY INVOICE €20,000

A US-based company imports goods from a German company for EUR 20,000. The US company holds a EUR-denominated account with its bank (Bank US) in the United States. The German company's bank (Bank Ger) is in Germany.

There is no direct relationship between Bank US and Bank Ger so the payment is transferred via the use of a correspondent bank. (For ease, the example assumes there are no transaction or other fees.) In this example, Bank US has a correspondent banking relationship with Bank A in the eurozone, which means Bank US holds accounts with Bank A. Bank A is connected to Bank Ger, as both are members of the TARGET2 RTGS system as eurozone banks.

The settlement process occurs as follows:

- Step 1. On shipment, the German company invoices the US company.
- Step 2. The US company instructs its bank, Bank US, to pay EUR 20,000 into the German company's account at Bank Ger in Germany. Bank US debits EUR 20,000 from the US company's EUR-denominated account.
- Step 3. Bank US instructs Bank A to pay Bank Ger EUR 20,000 from Bank US's account at
- Step 4. Bank A debits Bank US's account and transfers EUR 20,000 to Bank Ger through TARGET2.
- Step 5. On receipt of funds through TARGET2, Bank Ger credits the German company's account with EUR 20,000.