

International finance paper



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International Finance Paper Many companies today have decided to take their business into the international marketplace. Costco is a company that has successfully entered the international marketplace with warehouses in several countries around the world. When Costco opened warehouses international it had to take into consideration Global banking and the risk it would have with the different exchange rates. Another issue that also had to be taken into consideration would be the different regulations that each country brings with it.

Team B has taken a look at all issues and will show how they affect Costco. Global Investment Banking Process Costco opened their first store in 1976 in San Diego, California and became incorporated in 1983 after merging with The Price Company. Today the organization operates 557 warehouses which includes 406 of these warehouses in the United States and Puerto Rico, 77 in Canada, 21 in the United Kingdom, seven in Korea, six in Taiwan, nine in Japan and another 31 warehouses in Mexico (Costco Wholesale, 2009).

Costco is a dominant club operator in many countries and have locations not only in the United States but they operate in nine Canadian Provinces, Puerto Rico, Mexico, United Kingdom, Japan, Korea, Taiwan and in the near future Australia. The Taiwan locations are through a 55%-owned subsidiary and the Japan and Mexico locations are through a 50%-owned joint venture (Costco Wholesale, 2009). Costco was able to begin offering stock to the public on December 5, 1985 and opens the first Canadian warehouse in Burnaby, British Columbia.

By 1992 Costco opened a warehouse in Mexico City, 1993 a warehouse opening in the United Kingdom in West Thurrock, Essex, England, 1994 Asia

followed with a warehouse in Seoul, Korea. The first warehouse in Taiwan, in Kaohsiung in 1997, and a Japan warehouse in Hisayama in 1999. The company's most recent store opening in the foreign market was on July 7, 2009 in Sin Masato, Japan (Costco Wholesale, 2009). The company relies primarily on the United States and Canadian financial and operational performance as these sectors represent 92% of the company's operating income.

The company's international operations of the business could become a larger part of the stability of Costco contingent on several factors such as political conditions, economic conditions, regulatory constraints, currency regulations, currency exchange rates, monetary and fiscal policies, laws and regulations, foreign trade, and foreign government. Other issues that are risky to Costco are the adverse taxes and managing the international operations (Costco Wholesale, 2009).

The company has reported an increase of \$27 million of interest income because of the cash and cash equivalents from short-term investing and the increase in the earnings of the investment in Mexico the 50%-owned joint venture. " The Company's investments in the Costco Mexico joint venture and in other unconsolidated joint ventures that are less than majority owned are accounted for under the equity method" (Costco Wholesale, 2009, p. 36). The company invested \$15 million into the Costco Mexico location and the partner who also is a 50%-owned joint venture also contributed the same amount to the investment (Costco Wholesale, 2009).

The company's Japanese subsidiary has a 10-year loan in the amount of \$27.6 million and this investment has a variable rate of interest in Yen. In

addition to this loan, interest on this loan is due semi-annually in June and December. Lastly, Costco has the majority of their foreign exchange contracts wholly-owned by the United Kingdom subsidiary so that the company could hedge the United States dollar merchandise inventory purchases (Costco Wholesale, 2009).
Regulatory Bodies and Financial Decisions

When discussing regulatory bodies and how these affect financial decision making most will look at regulatory bodies as a headache for the individual and the business. Understanding the importance of these agencies will define the role of each in the financial practices of all business operations. When conducting business on a broader international level the company must consider the various financial regulatory bodies and regulations to follow in order to conduct professional accurate reporting of the financial operations.

Depending on the area of the country the business is being conducting will determine the standards and regulations which must be followed. International business operations may be subject to any of the following agencies. The United States financial and regulatory agencies include Commodities Futures Trading Commission (CFTC); Federal Deposit Insurance Corporation (FDIC); Federal Reserve Board; Office of the Comptroller of the Currency (OCC); and Security & Exchange Commission (SEC). The international standard setting bodies include Basel Committee on

Banking Supervision; Committee on Payment & Settlements Systems (CPSS); International Accounting & Standards Board (IASB); International Association of Insurance Supervisors (IAIS); International Association of Insurance

Supervisors (IAIS); International Federation of Accountants (IFA); International Monetary Fund (IMF); International Organization of Securities Commissions (IOSCO); Financial Action Task Force on Money Laundering (FATF); Organization for Economic Cooperation & Development (OECD); and World Bank (United States Department of the Treasury).

These agencies are examples of those looking to regulate business practices for the future. Promotion of protection of the business, investors and public interest is the number one issue for all. The integrity of a company will be tested when following the standards set as only the highest standards and ethics are acceptable. In addition to these practices the company must be able to align with the standards in order to communicate across the international lines of finance. One example would be the accounting standards set for finance.

The standards of accounting may differ in required reporting procedures. The IFA sets standards which allow business to align in reporting practices in order to report information both nationally and internationally (International Federation of Accountants). The regulatory bodies are all working toward a common goal of uniform a procedure which protect the public's interest and promotes ethical reporting. The company must follow these standards in order to continue business practice both nationally and internationally or run the risk of public scrutiny and legal issues.

The future of a business will depend on the decisions made by officials and the financial practices chosen for the company. Contemporary Issues in International Financial Management There are several contemporary issues that involve the international financial management description. This paper

will include some of the issues that Team B thinks are the most appropriate for the financial market. The debate about international and globalization has made an enormous influence on the structure and procedures of international financial management (International Finance in the period of Globalization, 2008).

The constant trends propose that the course of private capital is rising at a enormous pace and the institutional investors are engaging on utilizing their leverage. The well-known issues in the international financial management at present are:

- Globalization & Development - The under developed nations have to face the sickening effects of the globalization of capital. In reality, the repayment of loans outcome in bigger national taxes, diminish in the switch of price for needed supplies and reduced expenses on public health, education and infrastructure.

It is thought that the deprived policies of the WB and the IMF would endorse at the state sector at the cost of the private sector.

- The Local Enforcement Problems - Certain detractors dispute that the present position is not favorable to globalization because the mainstream of applicants to the global marketplace are deficient in urbanized financial organizations, pitiable legal accounting and regulatory structure, history of political intrusion and cronyism.
- The Continuing Role of Debt - Right now, a range of nations are spending major sections of their GDP to repair the debts elevated on the international rank.

A debt assistance arrangement has been organized by the IMF and G7 nations particularly for the deprived states that are situated in Africa. Nevertheless, the main troubles confronting these plans contain their

disagreement with the IMF conditionality standard. •Alternatives to the Current Global Financial System - The demand for a number of options to the existing structure is gaining force. It is understood that the laissez faire approach is the perfect method to deal with the concerns widespread in a globalized economy. Still there is a bigger need for a globalized fiscal system.

Lastly, an improved monetary institutional system is alleged to provide as an additional long-standing option (International Finance in the period of Globalization, 2008). Consequently the globalization has certainly enlarged the interdependency of monetary and. fiscal policies, but at the moment the time has come to build certain modifications in the existing structure. In conclusion Costco has entered into the international marketplace after looking into several factors that would impact the business. The Contemporary issues of international finance management are not going to hinder the business as long as Costco is aware of the issues.

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