

FINDING THE RIGHT SOLUTION

DAVID SAMS AND RICHARD HUMPHREYS OF BT GROUP TREASURY TRACK THEIR GROUP'S PROGRESS IN DEVELOPING, SELECTING AND IMPLEMENTING A SUCCESSFUL EURO CASH MANAGEMENT SYSTEM.

Euro cash management solutions have become an accepted part of the treasurer's armoury. BT Group has recently implemented a cash sweeping structure, and this article reviews the key steps the group took in the implementation of this solution. However, it is not intended for this to be a technical treatise, rather we aim to highlight the practical points in managing this project effectively. In part two next month, we will consider in more detail the key fiscal considerations in developing a euro cash management solution.

BT Group is a leading European telecoms provider in the UK and Europe, supporting global corporations, with subsidiaries in Ireland, the Netherlands, Germany, Spain and Belgium trading under the BT Ignite brand. BT Group Treasury acts as a centralised treasury, with funds being raised through the capital markets and funded to local units as required. Within certain limits local units were allowed to maintain cash balances with local banks to support local liquidity needs – the goal was to capture these surplus balances in an efficient manner.

The key steps in the selection and implementation of our chosen cash management solution were:

- preliminary research;
- information gathering and cost benefit analysis;
- internal support;
- request for proposal (RFP);
- reference site visits;
- feedback; and
- implementation.

PRELIMINARY RESEARCH. As with so many areas of treasury, the arena of euro cash management is replete with its own jargon, much of which is bank-specific. Thankfully, there are also a number of useful web sites and publications that will guide the uninitiated through the maze. A brief review of past issues of *The Treasurer* over the past few years will also provide useful background¹

We also held initial meetings with relationship banks that have a proven record of excellence in pan-European cash management. These meetings served to get us up to speed on the latest developments, allowing us to discuss ideas for possible structures

and canvas opinions on this fast moving area. This also gave us the chance to analyse potential fee structures.

INFORMATION GATHERING AND COST BENEFIT ANALYSIS. A critical part of the assessment and the promotion of euro cash management is the cost benefit analysis. As a precursor, we implemented a daily balance report using SWIFT MT 940 messages to build up an accurate picture of the individual liquidity profiles of our overseas subsidiaries and provide accurate source data for calculations of the economic benefit.

We improved the cash forecasting processes by introducing a standard format across all overseas groups. Therefore, prior to the introduction of the pool we were able to benchmark operating units cash forecasting performance and identify areas for improvement.

The potential benefits of euro cash management solution are many and will vary for each company, however, the following are a summary of the key high level benefits from a BT Group perspective:

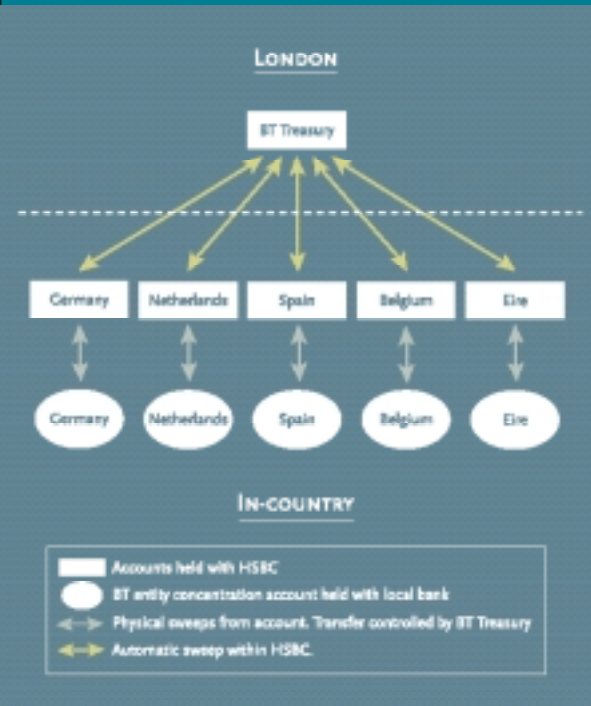
- improved controls over surplus cash investment through BT Group Treasury concentrating and investing cash;
- free local operational management from non-core investment decisions;
- concomitant improvements in local and central cash forecasting driven through the implementation process;
- automation of euro liquidity management solutions;
- cost saving through avoidance of costly lifting charges and cross border transaction fees; and
- improved rates of return on cash because of consolidating disparate balances and the ability of the BT dealing team to access the wholesale markets.

It is not all plain sailing, though. Existing local banking relationships must be considered. If local cash surplus balances are swept to group then what is the impact on local bank fee levels? Unfortunately there is no easy answer.

INTERNAL SUPPORT. The control of cash can be an emotive subject, with local units perceiving the implementation of a cash pool as loss

FIGURE 1
BT GROUP'S PREFERRED SOLUTION AND PROVIDER.

BT decided upon a physical cash sweeping structure using overlay bank accounts in each country. These accounts are owned by the local company.



This structure proved legally and fiscally robust for both the bank and the individual companies. No cross guarantees were required and, as BT has many existing intercompany relationships, the incremental administration managing the intercompany deposits resulting from the sweep is minimal and utilises well-documented procedures.

HSBC is a key relationship bank of the BT Group and was awarded this mandate because of its ability to provide a fully automated solution, which allows BT Treasury oversight of all aspects of the cash sweeping.

In addition, a broad range of bilateral agreements with third-party banks both supported the automated structure and provided a clear indication of HSBC's commitment to cash management in Europe.

of operational independence. During the early stages of the project, we visited all local units to present the project, discuss in detail the impact and deal with any concerns.

Key local finance and legal staff were identified and included in the core implementation team. In addition, all adviser fees (legal and taxation in particular) were covered centrally, although carried out by the local offices of BT's chosen advisers. Effective involvement of key local personnel has meant concerns could be addressed in a timely manner and ensured effective 'buy in' at all levels of the company.

REQUEST FOR PROPOSAL. By now the treasurer should have a good idea of what solution will fit. We developed a tailored RFP to go to a selected short-list of relationship banks. The drafting of the document will focus the treasurer on the key drivers that should determine the final selection. If the treasurer has not developed a clear goal of an appropriate structure, then how can he reasonably expect a bank to focus replies to his or her needs? For BT Group some of these drivers were as follows:

- **Notional pooling or physical cash sweeping?** The cross guarantees implicit in the notional pooling solution were not attractive to BT Group. Furthermore, initial meetings with banks had indicated that a notional pooling solution appeared more problematic for fiscal and bank operational reasons. We therefore steered banks to a plain vanilla physical sweeping solution.
- **Overlay structure or a pan-European single bank solution?** Do you want to maintain local banking relationships and simply insert an overlay bank to concentrate cash, or do you have the opportunity to concentrate all banking to one provider. As BT subsidiaries have efficient relationships with banks in-country, and the majority of benefits of concentration can be realised through the much simpler implementation of an overlay structure, we opted for an overlay approach. An overlay structure will, by necessity, mean that the overlay bank must be able to interact with our in-country banks via SWIFT messaging at a minimum. We found it illuminating to see which banks had already established a comprehensive set of bilateral agreements with other banks, pointing to a clear commitment to the development of a pan-European banking infrastructure.
- **Location of header account?** As the UK-based treasury operation of a UK company, a London header account was preferred, although header accounts could have been established in the Netherlands or even Dublin.

Time spent critically reviewing and formatting the RFP will pay dividends. In retrospect, the key points were:

- Present a small number of structures to banks you are comfortable with from a tax, legal and operational perspective. We limited our RFP to two structures.
- We found it useful to clearly separate the legal and fiscal issues (for example, are cross-border inter-company deposits generated through the pool operation?) from understanding how the pool will actually operate (such as what are the cut-off times for physical cash sweeps?). The RFP provides a mechanism for understanding the banks' propositions, but legal and fiscal matters should be referred to appropriate counsel.
- Use a standard response grid to force the banks to reply in a standard format clearly cross-referenced to the RFP. This will facilitate a quick comparison of the proposals. In addition, it will

provide a salutary lesson to see if proposing banks will read and comply with basic instructions.

- Provide a clear marking scheme so banks can easily identify the key issues for the tendering group and therefore what should drive the assessment and selection process. For example, for BT Group, the automation of the pooling process was a key goal – however, with an experienced dealing team, the availability and terms of the tendering banks' money market funds were unlikely to be a defining factor in our selection process.
- Provide a clear and manageable timetable for all parties – allow time for follow up questions or meetings.

REFERENCE SITES. While banks are unlikely to recommend reference sites that will not be positive, it was, again, interesting to see whether the bank could provide us with a reference site that had implemented a structure similar to our preferred solution.

By this stage in our selection process we were narrowing down our selection process and were looking for very specific independent feedback on bank propositions. We actively followed up on the reference sites arranging meetings or conference calls with the companies involved and the feedback we received was a key factor in our final decision-making process.

VALUABLE FEEDBACK. We made time available for all losing banks to clearly identify the good and bad points with proposals to explain our decision-making process. In many cases, our concerns had been recognised internally in the bank: clear customer feedback can only help the continued development of a number of competitive solution providers.

READY FOR IMPLEMENTATION. The implementation of the cash management structure will undoubtedly take longer than even your most pessimistic expectations. The main learning points we took out of the process include:

- Follow a rolling timetable of implementation in individual countries at one time. This is preferable to the 'big bang' approach, as it allows you to learn from previous experience while still progressing implementation in each country.
- Allow time to introduce standard support processes in advance of pooling.
- Clearly define the members of the implementation team and their specific responsibilities. Ensure the team includes in-country managers who understand and are supportive of the project.
- Appoint a project manager to act as a single point of contact for the bank and the overseas subsidiaries.
- Approach your local banks and discuss any specific requirements that they may have.
- Ensure that professional advice is obtained and relevant sign-off is available well in advance of the live date.
- Finally, build time into your plan.

David Sams is Treasurer International and Richard Humphreys is International Treasury Manager at BT.
david.sams@bt.com
richard.2.humphreys@bt.com
www.bt.com

Note

¹ To find Act resources relating to cash management, including past articles in *The Treasurer*, readers can log onto Act online at www.treasurers.org/ECP

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