

# IT'S TIME TO START TALKING



IN THE FINAL OF HIS THREE ARTICLES ON PAN-EUROPEAN CASH POOLING, **BOB LYDDON** LOOKS AT BOXING THE SOLUTIONS AND STARTING DISCUSSIONS WITH THE BANKS.

The purpose of this last article of three is to support the treasurer in converting the materials supplied in the previous two articles and in the remainder of the Association's exercise into a discussion with banks about a solution. The materials referred to are the following:

- **First article** – different techniques used, pitfalls, and contractual issues, matching of company profiles to the technique most commonly used by that type of company, and questions that companies should ask about their banking relationships before embarking on the analysis.
- **Second article** – a rough guide to assembling a high-level case for spending time on the subject at all by framing why there may be benefits, how significant these could be, potential barriers to implementation and internal support needed to proceed.
- **Questionnaire responses from banks** – range of services available from different cash management banks in euro.
- **Expert input** – on tax, legal and regulatory issues.

The starting point to finding a solution is the output to questioning raised in the first two articles: answering Steps 1 and 2 (in *Table 1*) should give a rough outline for Step 3.

**MORE ADVANCED TREASURIES.** If the parameters are basically that the company is free to move its business and has few internal barriers to overcome, it will often indicate that a treasury centralisation strategy has already been decided upon.

This makes implementation simpler, but it will have taken a long time for the company to reach this point. The company in this position can look at the outputs to the bank questionnaires and select banks to talk to on the basis of geographical coverage and product capability. Most treasurers will find themselves in a grey area where:

- they may not have all the organisational levers in their hands;
- an outline business case exists but it needs more detail; and
- they are not free to fundamentally alter the banking picture.

There can be a roadblock where the selected cash pooling bank requires a major portion of local operating business to be migrated to itself or its partners (either on principle or because the solution is ineffective if the business is not moved).

If this local business is being routed through the current bank in exchange for credit or other services, the business is not really free to be moved.

TABLE 1 A POSSIBLE SOLUTION – STEPS 1 TO 3.
<b>STEP 1 TIE-IN TO EXISTING BANKS</b>
<ul style="list-style-type: none"> <li>▪ Ability to go elsewhere for credit</li> <li>▪ Ability to award ancillary business to certain banks and away from others</li> <li>▪ Ability to grant security over cash at all/to certain banks</li> <li>▪ Embedded nature of existing relationships</li> <li>▪ Local operating needs</li> </ul>
<b>STEP 2 SIZING THE PROBLEM</b>
<p style="text-align: center;">The amount of money on the table X The company's need to capture that money X The propensity of the company to accept a solution</p>
<b>STEP 3 OUTCOME</b>
<p>A definition of what could be achieved in terms of a theoretical benefit, moderated by realism as to the parameters within which the company is working:</p> <ul style="list-style-type: none"> <li>▪ The sub-set of all group companies that may participate</li> <li>▪ The banks with whom it will have to be achieved</li> <li>▪ The techniques made available by the banks concerned (as visible from their questionnaire responses)</li> </ul> <p>The outcome is a Target Solution that draws out 80% of the benefits which are not 'roadblocked', for 20% of the time and effort. &gt;&gt;</p>

**PRAGMATIC APPROACH AND TECHNIQUES.** The pragmatic approach will take the Outcome at Step 3 in *Table 1* above and take the additional steps outlined in *Table 2*.

<b>TABLE 2</b> PRAGMATIC APPROACH – STEPS 4-7.	
<b>STEP 4 INITIAL DUE DILIGENCE</b>	
Apply known Due Diligence issues to your company's situation and strike out the participating entities and/or techniques where substantial prima facie roadblocks exist.	
<b>STEP 5 REVISE TARGET SOLUTION</b>	
Second draft of Target Solution that draws out 80% of the benefits which are still not roadblocked, for 20% of the time and effort.	
<b>STEP 6 REVIEW TECHNIQUES OFFERED BY BANKS</b>	
Look at the questionnaire responses from your hit of banks and isolate the techniques offered that fit what you want functionally and in terms of countries.	
<b>STEP 7 TARGET SOLUTION</b>	
<ul style="list-style-type: none"> <li>▪ The benefits targeted</li> <li>▪ The set of group entities to participate to begin with</li> <li>▪ The banks to be spoken to</li> <li>▪ A list of 2-3 techniques in order of preference and as made available by the banks</li> </ul>	
Techniques are discarded when roadblocks are identified in the detailed Due Diligence.	

Techniques used should be as efficient as possible as regards the proportion of total possible interest benefit that is captured, and minimising effort for the user. The techniques are outlined in *Table 3*.

The most efficient techniques once in production are the most complex to get into production and also raise the highest due diligence hurdles.

In the subjective ranking in *Table 3*, note the way that different techniques layer on top of one another.

**DUE DILIGENCE ISSUES.** By completing the stages of analysis described, the company will have a realistic outline of what can be achieved, and how, before entering into discussions with banks.

No doubt the company will need to take due diligence professional advice when studying solutions in detail, but at least the scope and cost of that advice can be controlled because the firm will not be looking at all possible permutations but perhaps three or four. It is to be anticipated that due diligence issues will rule out certain solutions because the solution would exclude entities/countries where benefits reside.

Readers of this article will certainly want to draw upon further material appearing in past and future editions of *The Treasurer* and the ACT website, written by businesses themselves. The bank's questionnaire responses and the material on due diligence issues will appear in *The Treasurer* in the coming months, and then there will be a further article summarising the work of The Euro Cash Pooling Working Group, what has been achieved, and how ACT members can access it.

Now it's time to dive in!

Bob Lyddon is Chairman of Lyddon Consulting and Adviser to the IBOS Association.  
[robert\\_lyddon@lineone.net](mailto:robert_lyddon@lineone.net)  
[www.ibosassociation.com](http://www.ibosassociation.com)

<b>TABLE 3</b> TECHNIQUES RANKED IN ORDER OF COMPLEXITY TO IMPLEMENT AND EFFICIENCY ONCE IN PRODUCTION.	
COMPLEXITY	TECHNIQUE
1	Notional pooling of funds held in distributed accounts at one bank and its local partners/service providers
2	Establishment of a set of concentration accounts with notional pooling in place at the centre, and ZBA in place from local level – with the Treasury Centre holding the central accounts
3	Establishment of a set of concentration accounts with notional pooling in place at the centre, and ZBA in place from local level – but central accounts are held by local entities
4	Concentration accounts linked to the local level by ZBA and enjoying “interest enhancement”
5	Concentration accounts linked to the local level by automated process running off yesterday's End-of-Day balances or today's intraday balance, with either pooling or interest enhancement running at the centre
6	Concentration accounts linked to the local level by manual process based on client decision and intervention using yesterday's End-of-Day balances or today's intraday balance, with either pooling or interest enhancement running at the centre
7	Subsidiaries open all accounts not held in their own functional currency at a single bank, and pooling or interest enhancement runs on those accounts
8	In-country concentration of funds between different domestic entities, using appropriate local technique at the centre
9	Alteration of terms of intercompany trade to boost liquidity in one subsidiary and reduce it in another
10	Reinvoicing centre so that terms of intercompany trade can be set by subsidiary, and one sub does not have to pay quicker if the other one needs to receive earlier