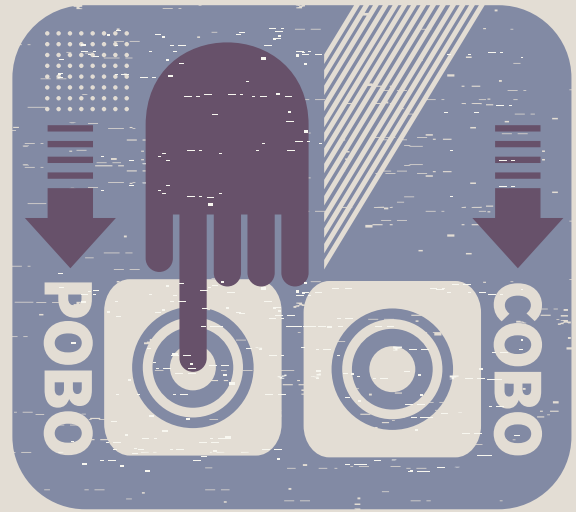


SECRET WEAPONS

POBO AND COBO WILL POTENTIALLY BECOME EVEN MORE POWERFUL TOOLS FOR LIQUIDITY MANAGEMENT UNDER SEPA. MICHAEL TURNER EXPLAINS WHY



The reality of the Single Euro Payments Area (SEPA) is now less than four months away. This is good news for companies operating in the eurozone, because payment integration acts as a catalyst for the automation, centralisation and rationalisation of treasury processes and systems. SEPA is an enabler that can also transform the way that companies manage payments and collections.

While payments on behalf of (POBO) and, to a lesser extent, collections on behalf of (COBO) are already established business practices, they have the potential to become even more significant under SEPA. Lack of standardisation pre-SEPA meant that the effectiveness of POBO and COBO was limited, since groups with one or both of these structures in place had no choice but to maintain 17 different local bank accounts

to handle local payments and/or collections on behalf of their subsidiaries. In addition, they had to use varying electronic formats for payments and collections in different countries, some of which could not indicate which entity within a group was making the payment.

Now, thanks to SEPA, groups will be able to rationalise their bank accounts and potentially operate with just one account for the entire eurozone – thereby enjoying greater visibility over cash and liquidity as a result. They can also use the structured fields in ISO 20022 XML, the designated format for SEPA transactions, to clearly denote that a payment is being made by a particular subsidiary.

More streamlined POBO and COBO structures will have numerous benefits for corporates. Their treasury teams will have limited

technological interfaces to deal with and fewer software licences to manage. They will also be able to simplify and consolidate their processes. As a result, groups that do not already have regional treasury centres, in-house banks, payment factories and/or collection factories will be well placed to establish them in future – and have the option to locate them anywhere in the eurozone.

In the past, the prevalence of cash and cheques in some European jurisdictions has led to corporates making less use of COBO than POBO. The SEPA direct debit scheme will be a great enabler of COBO going forward, because it allows responsibility for collection of receipts to be transferred from individual countries to the centre. While the cash flow and resource benefits of this approach are obvious, the inherent challenges may be less so.

When implementing a COBO structure, treasurers need to manage the risk exposure of individual entities within the group, as well as the group in its entirety. This is because debtors will be assigned to the individual entities and there is a risk that their discrete banking covenants might be breached if funds are diverted away. As a result, treasurers must ensure their group's application of COBO is well understood by their banks.

Treasurers must also be sure to take exceptions into consideration, since SEPA does not encompass all payment and collection types. The most notable exceptions are the electronic instruments used by Italy and France: the *ricevuta bancaria* (RiBa) and the *lettre de change relevé* (LCR). Treasurers will need to factor such concessions into their plans when implementing POBO and/or COBO structures, which can present an additional layer of complexity.

While the finer details of POBO and COBO are not without challenges, they are far outweighed by the advantages the structures can bring once SEPA is in place. Historically, many organisations have had very fragmented payment and collection processes. SEPA will make it much easier for them to centralise and rationalise their activities in these areas, and thereby take maximum advantage of the single European currency. ♦

TAX AND LEGAL IMPLICATIONS

◆ In any situation where one entity in a group is acting 'on behalf of' another, an intercompany position is created. Treasurers will therefore need to review the withholding tax and thin capitalisation implications of their group's POBO and COBO arrangements. In addition, transfer-pricing issues may occur, which could impact on the balance sheet.

◆ From a legal perspective, corporates that adopt a POBO or COBO structure will need to notify their clients. They may also need to adjust direct debit mandates and trade contracts, as well as investigate whether there is a requirement in a particular jurisdiction to collect money through a trust account rather than through COBO. Data protection is a further consideration since information is being shared across jurisdictions.



Michael Turner is head of cash management corporates UK & Ireland at Deutsche Bank

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