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Michael Kent, CFO Colorado Rockies
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2020 ROCKY MOUNTAIN SUMMIT



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Learn All About Opportunity Zones!*

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Fall Conference- 2020 Desert Summit- September Date & Venue to be announced

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***Webinar Event- Thursday, April 16th 12-1 p.m. Central Time
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Treasury Alliance Group optional webinars

***Trends in Global Payments
Thursday, April 9th 10-11 a.m. Central Time***

***Risk Elements in Payments
Thursday, April 16th 10-11 a.m. Central Time***

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John Kruger specializes in treasury and risk management, cash management, forecasting, payments, cash accounting process, training and development, support process review. In his past roles, Mr. Kruger supported all Cash topics including Bank Account Reconciliations, Payments, Liquidity Planning, Cash Accountings and documentation, SaaS implementations, project management, and relationship management. He has also provided best practice functional and technical support within the Treasury Cash Management space. He earned his B.A. in Business from Five Towns College.





Cash Me Outside: A Look At Cash Pooling

"How to Increase Your Treasury Efficiency with Modern Techniques"

John Kruger
Manager, Actualize Consulting



BEST PROPS AWARD

JOHN KRUGER, MANAGER



What's on the Agenda?

- **Overview**
 - Physical
 - Notional
 - Hybrid
- **Considerations**
 - Restrictions
 - How to “Future Proof”
- **Virtual Accounts**
 - Is This New?
 - How Can Virtual Accounts be Used?
- **How A TMS Can Help?**
 - Which Comes First - the Pool or TMS
 - What Can Your Vendor Do For You?
- **Next Steps**



Overview

Cash Pooling - Overview

Cash Pooling can lead to improved efficiency in a global treasury operation. Structures have been used by Treasury Professionals for years, but there is no one-size-fits-all solution and with a greater number of options Corporates are getting more and more creative.

**Tax and Legal Departments should be engaged to understand restrictions and implications.*

What is a Cash Pool?

How Do Funds Pool?

What Does Pooling Achieve?

Physical Pooling

Physical pooling involves the physical movement of cash from one account to a header or master account. All cash balances on participating bank accounts are physically transferred to the header account. This header account is usually held in the name of the group treasury or headquarters, or in the name of a separate treasury company. There are a number of different ways to operate a physical pooling structure:

Automated Zero Balance (ZBA)

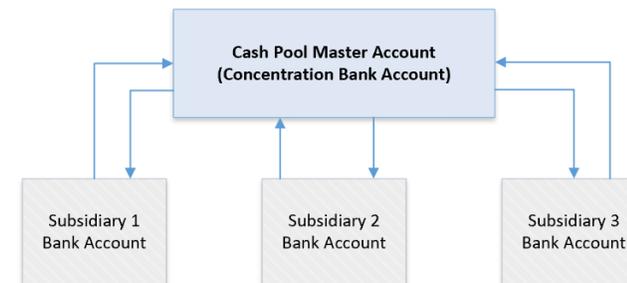
- *Simplest form of sweep.*
- *Enabled at bank level.*

Automated Target Balance

- *Alternative from ZBA.*
- *Either enabled at bank level or in TMS solution.*

Physical Pools can be any combination of the following:

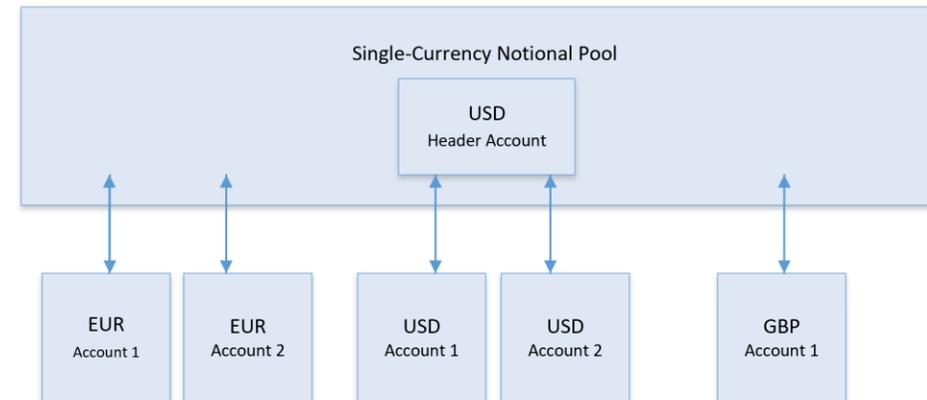
Participation	Mandatory	Voluntary
Action	Automated	Manual
Timing	Daily	Periodic
Balance	Zero Balance	Target Balance



Notional Pooling

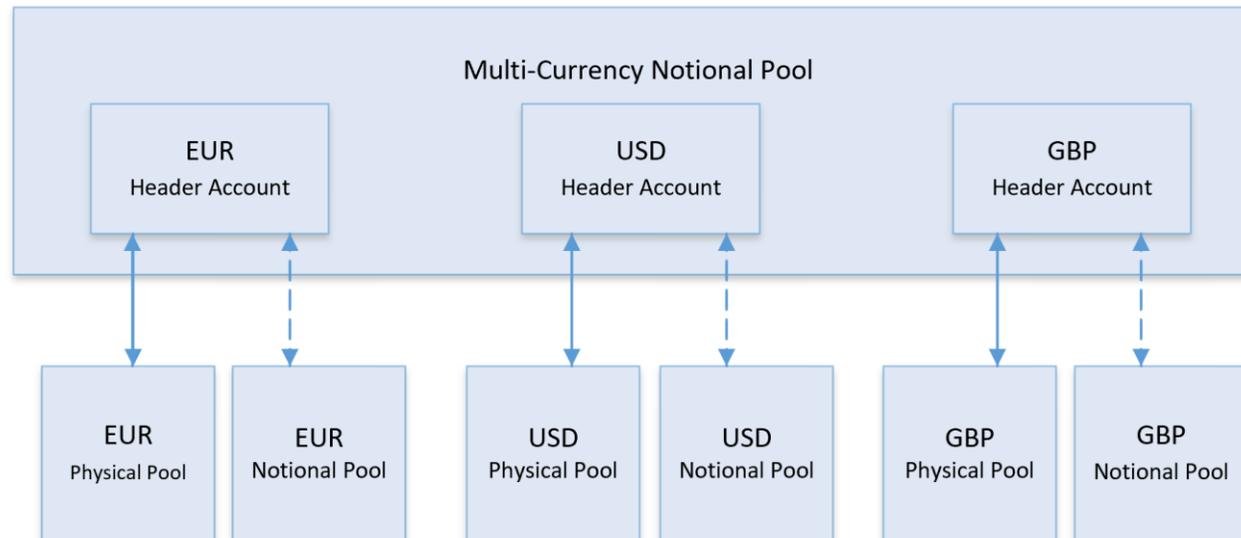
Notional Pooling does not involve a movement of cash, but still enables Global Treasury Departments to earn interest on net positive balances. While becoming more common, this is not available in all countries (e.g. United States).

- Accounts must reside at the same bank for Notional Pool to exist
- All or nothing approach (full balance will be pooled - no target balancing)
- No transfer fee since funds do not move
- Interest credited to positive accounts and deducted from overdrawn accounts
- Unfortunately, this technique is becoming less attractive and more difficult for banks under Basel III regulations



Hybrid - Combined Physical & Notional Pooling

Notional pooling does not involve a movement of cash, but still enables Global Treasury Departments to earn interest on net positive balances.



Scenario 1
All the EUR accounts in Germany, France and Spain are **physically** concentrated in **Germany** and then the net balance sweeps cross border to the EUR account of the notional pool in the **Netherlands**.

Scenario 2
All the EUR accounts in Italy, Poland and Greece are **notionally** concentrated and then the net balance sweeps cross border to the EUR account of the notional pool in the **Netherlands**.

Scenario 3 +
Scenario 1 and 2 are repeated for USD and GBP denominated account balances in



Considerations

Considerations

If you decide to begin or expand your cash pooling structure it is important to give consideration to the following.

Type of Pooling

- Bank Automated Physical Sweeps
- TMS Automated Physical Sweeps
- Periodic Manual Sweeps
- Notional Sweeping

Locations

- Header Account(s)
- Regulations
- Time Zones
- Is Local Office Required?

Currency(ies)

- What currency is debt issued in
- Do you want multi-currency pool

Agility

- Can you react to changes in regs
- Can you react to M&A
- Can you change banks

Restricted Countries

This list is derived from AFP's country profiles available at www.afponline.org

- Brazil
- India
- South Korea
- Mexico
- Puerto Rico
- Sweden
- Turkey
- United States
- Venezuela

Sample Table by Country

Country	Physical Pooling	Notional Pooling	Comments
Australia	Available on domestic and cross-border basis.	Available on an in-country basis. It is not generally practiced on a crossborder basis.	It is possible to include resident and non-resident accounts, as well as accounts from different legal entities, within the same structure.
Brazil	Available on a domestic basis. Local firms may establish cross-border cash concentration structures in which one multicurrency account acts as a header account, but BRL-denominated accounts or domestic bank accounts may not be included.	Not permitted	
Canada	Available. Physical cross-border sweeping with USA common. Pools denominated in CAD and USD.	Available for accounts with the same beneficial ownership.	A number of Canadian banks also provide interest compensation structures.
China	Available to residents via entrustment loans. Entrustment loan agreements require regulatory approval. Available to qualified non-residents on an in-country basis. Some foreign currency cash concentration is also permitted.	Notional pooling is now possible in China, both in RMB and foreign currency, domestically and cross-border.	
Hong Kong	Available on domestic and cross-border basis.	Available on domestic and cross-border basis. Different legal entities and both resident and non-resident bank accounts can participate in the same structure.	

How to “Future Proof”

Because the setup can take significant time, Treasurers will want to avoid a situation where a pooling structure is not used efficiently or lacks flexibility to respond effectively to an unexpected event.

- Regulatory Change
 - Basel III
 - Tax Law
 - New Restrictions
 - New Opportunities
- Market Events
 - Interest Rate Changes
 - Brexit
 - Bank Failure
- Company Change
 - Expansion
 - Divestitures
 - Re-Org



Virtual Accounts

What Are Virtual Accounts

Virtual Accounts have been around for nearly 10 years, but recently have been given a facelift by banks so that they look and feel like real bank accounts. A corporate has one set of main accounts per currency and creates a virtual account for each subsidiary. The relationship between a virtual and physical account can be compared with a PO Box and a mail address.

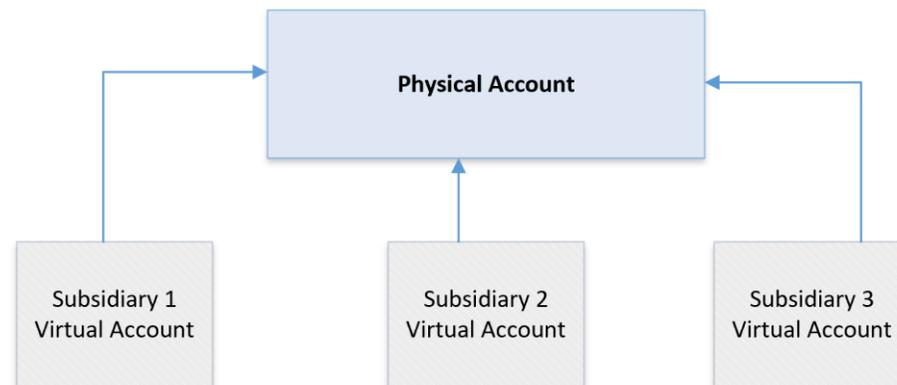
Key Benefits:

- Enables quick reconciliation
 - Especially if using a TMS with reconciliation rules available
- Can be reported via MT940, BAI or CAMT
- Reduces bank mandate letters for opening new accounts
- Reduced footprint of physical accounts

How Can Virtual Accounts Be Used?

Banks continue to expand their offerings and I highly recommend engaging with your relationship manager to better understand what your banking partners can currently provide and what they may have on the roadmap.

- There is no one-size fits all solution, but you can picture the physical/notional pool structures shown before and replace the lower tier accounts with virtual accounts
- Any activity in the virtual accounts would be reflected on the Physical Account
- Unique bank account details can be provided to customers to track settlement
- Can be used for Payments on Behalf of (POBO) and Collections on Behalf of (COBO)
 - Thus being a conduit for In House Banking
 - Banks can identify the subsidiary of the virtual account within payments





How A TMS Can Help

Which Comes First the Pool or TMS?

Believe it or not this is not a simple question to answer - many corporates have leveraged TMS solutions to begin their Cash Pooling initiatives. A mature TMS can handle the physical sweeping requirements/automation or report on notionally pooled funds.

- Set clear objectives and define a pooling structure.
- Solutions like notional pooling or virtual accounts can only be offered by banking partners.
- You can leverage data in a TMS to mimic what-if scenarios to look back at the impacts that pooling would have had.
- A number of corporates have insisted they want to conduct pooling outside of a single banking partner, which TMS solutions enable.

What Can A TMS Do?

TMS capabilities continue to expand, but primary functionality when it comes to pooling consist of forecasting movements/notional balances, enacting fund transfers and tracking intercompany loans.

- **Forecasting Movements/Balances**
 - Account Groups
 - Forecasting Setup
- **Enacting Fund Transfers**
 - Payments Implemented
 - Target Balancing Rules
 - Approval Workflow Optional
- **Tracking Intercompany Loans**
 - Interco Balances
 - Interest Earned
 - Interest Owed
 - GL Postings



Potential Blockchain Impact

Are Companies Using Blockchain Today?

There are certainly opportunities for blockchain to be utilized in Treasury, but it is not commonly used today. However, some corporates are now accepting Bitcoin in stores and companies like Ripple continue to lead the way with banking solutions to enable real time payments.

- Ripple is conducting live payments with a number of banking partners and has announced some corporate partners as well (like Santander & Moneygram).
- SWIFT is allowing blockchain firms to access its GPI platform, a near real-time payment platform.
- JP Morgan has developed Quorum, an enterprise-focused version of Ethereum, for processing private transactions with a permissioned group of known participants.
- Corporates are accepting Bitcoin, but converting it to local currency via service providers.

What the Future Could Look Like

Cross-border cash pooling is often a costly and inefficient process. It is costly to move funds and it is inefficient when multiple banks, currencies and cut-off times are considered. A crypto-currency solution like XRP (by Ripple) can solve these problems **if they are able to create a liquid market.**

The key here is that the crypto-currency must be a liquid market to enable rapid transfers at competitive exchange rates. Additionally, it would be helpful to see investable solutions in that crypto-currency for those that are more adventurous (or expect volatility to settle down).

Benefits:

- Reduced Transaction Cost
- Real Time Funding (transfers take place in seconds)
- Competitive Exchange Rates - this is based on current case studies performed by Ripple
- Operational Efficiency - no cutoffs means you can have an around-the-sun pooling structure

Another thought is that the distributed ledger can be used to mitigate the need to physically move funds altogether, although this seems more hypothetical since it would take an even larger cut out of banking platforms.



Next Steps

Where Do You Start?

- Discuss with Tax and Legal Teams
- Talk to Banking Partners
- Talk to Peers
- Talk to Treasury Technology Partners
- Set Clear Objectives
- Set Desired Structure
- Discuss with Tax and Legal Teams Again
- Identify Implementation Approach/Strategy
- Assess Your Progress And Next Steps

Thank You For Your Time

Keep in Touch!

