

Treasury Consulting

Ihr Partner für effektives Cash Management



Cash Pooling

Cash Pooling

as an instrument for optimization of financial results by maximizing net-interest result and as a tool for efficient capital-sourcing

„Money is like an arm or a leg – use it or lose it.“

Henry Ford

Introduction

The primary target of every cash pooling is the optimization and use of excessive cash of all companies in a group.

Further interest-benefits will be achieved for all pool participants in multiple ways. This can be the case for companies which have cash and for companies which need cash.

But also secondary consequences dominate the benefits of cash-pooling.

Targets of Cash Pooling

Different kinds of approaches limit the target of cash pooling not only to optimization of liquidity by achieving interest benefits. They complete the target-area in practice as follows:

- Reduction of finance-costs on group level,
- Optimization of return on investment for group companies,
- Simplification of liquidity management on domestic level by centralization,
- Reduction of expenses for financial intermediaries (Banks),

Targets of Cash Pooling

- Optimization of planning by coordination of cycles,
- Optimization of financial image by reducing external financing and improved account of internal financial potential,
- Enhancement of group-wide controlling for financial activities due to a complete and formalised reporting,
- Optimization of information about cash positions of the subsidiaries.

Summarised:

Improvement of interest-expenses, simplification of the cash management and enlargement of liquidity!

Kinds of Cash Pooling

Limited by lawful restrictions (but not in Switzerland) two main kind of cash pooling systems are established:

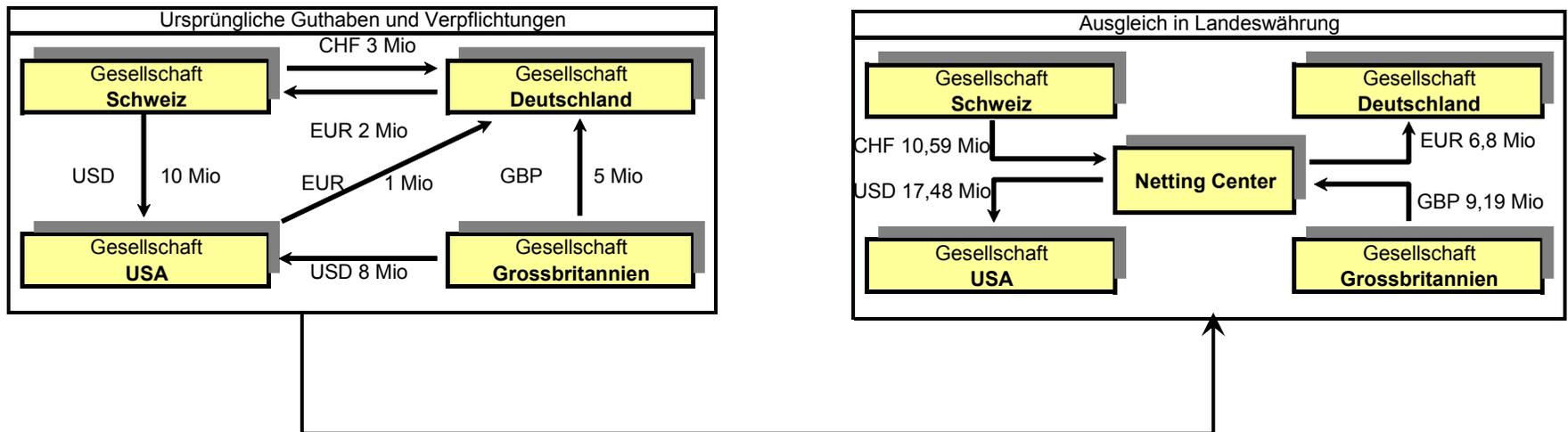
- **Netting (a preform, but not pooling inherently)**
- **Notional Pooling**
- **Zero Balancing**

These two forms have, each for themselves but also together, different sub-forms (e.g. concerning withholding tax).

Though, all kind of cash pooling have one common: they need an external partner, meaning a Bank (not for netting).

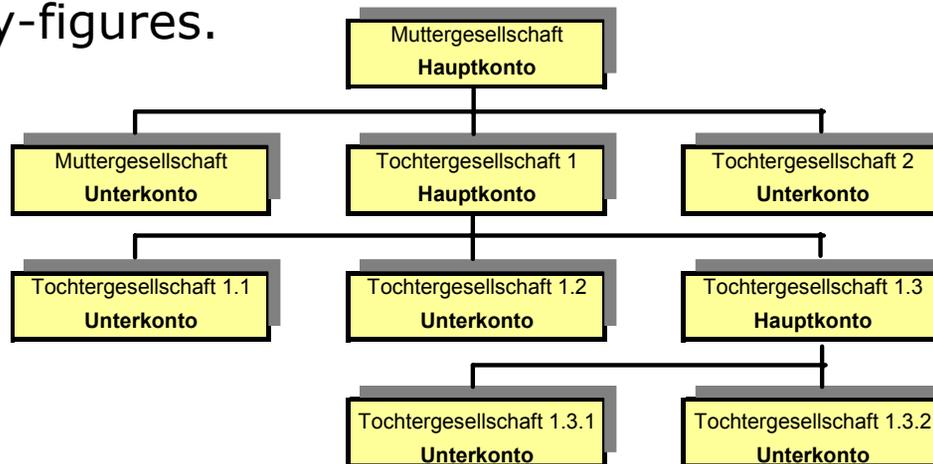
Netting

The preliminary stage to cash pooling is netting. That means real cash payments between group companies which netted against each other result in an essential smaller amount as the original flows together summarized are.



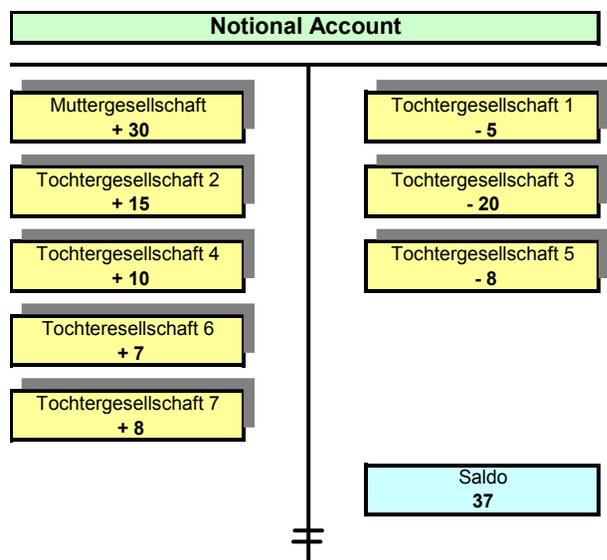
Zero (Target) Balancing

The zero-balancing, also called cash-concentration or sweeping, is in its form the easiest way to establish cash pooling. But there are also many disadvantages, i.g. **liability-questions** in case of a blackout of the pool-leader (see Erb-Gruppe and Swissair in Switzerland or Bremer Vulkan in Germany). Also there is a higher administrative work since all intercompany cash flows on a daily level have to be booked at the pool-leader. There are certainly also advantages, i.g. **reduction of the balance sheet total** which result in better key-figures.



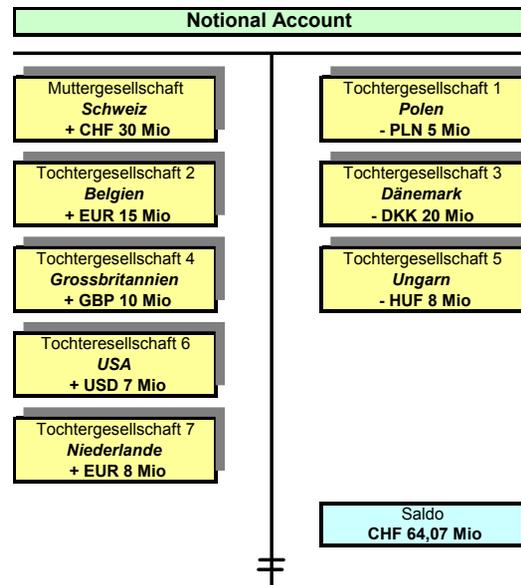
Notional Pooling

The meaning of „notional“ say it: this pooling form is not real. But is is a 100% interest optimization. There are **no physical transfers** between the accounts. The single balance accounts will be counted together and netted against each other. Therefore each pool participant belongs ist own bankaccount, but the full interest spread remain within the group.



Multi Currency - Cross Border Pooling

This kind of pooling is the most sophisticated possibility for an international group to use cash pooling highly efficient. In this pooling physical accounts in various currencies will be brought together and converted in one single currency total. In Switzerland no Bank is willing to offer this kind of pooling. But there are many Banks in the neighbourhood (D, A, NL, GB). The various models highly differ.



Secondary Effects

The primary targets of cash pooling are regulated by an agreement between Poolleader – Bank – Poolparticipant.

Furthermore this agreement has additional positive effects, because cash pooling brings automatically a comprehensive informationplatform which improve the transparency of financial goods and simplify all kinds of consolidation.

Even those information could be used now easier for an efficient currency-management and use of economies of scale effects.

Summary

- Large improvement in interest management, up to 6% (in CHF, other currencies even more).
- Optimization of key figures, such as debt-equity ratio.
- Best use for economies of scale effects.
- Better information about group-wide cash situation.

It is indispensable to request **high professional** and **independent** know-how to achieve the best possible result by implementing a cash-pool structure. There is often more than the one solution which is offered by the house-bank. And, there is no danger that any decision is made by calculating with following business (currencies, money-market etc.).

**We are glad to be your professional
and independent partner!**

Contact

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