

Douwe Dijkstra

- 30 years of (international) treasury experience
- Strong emphasis on cash management, FX management, Interest management, bank charges reduction
- 1980-2007: Several treasury roles (on the payroll) at Wolters-Kluwer, Royal Wessanen, Sara Lee DE
- 2007-current: Freelance treasury consultancy at Q8 Petroleum, ING Real Estate, Royal BAM Group, Naspers, VION Food
- Certified Register Treasurer (RT) and DACT member

Storms ahead for pooling or business as usual

Target balancing versus notional pooling

Target balancing

- Ultimate form: zerobalancing to one bank account
- Thresholds
- Triggers
- Commingling of funds -> tangle of IC-loans-> reconciliation/interest allocation

Notional pooling

- Bank balances remain on their accounts
- Balances are aggregated for interest calculations
- Bank allocates interest to all individual participating accounts

Another basic difference

Network Banks:

Preferring deployment of their international network and reduce use of your current local banks

Cash pool solution providing bank:

Daily collections and disbursements stay with your local bank

Hurdles and challenges

- **Fiscal hurdles**
- **Legal hurdles**
- **Accounting hurdles**
- **Hurdles in practice**

Fiscal hurdles and challenges

- **Transfer pricing**
- **Withholding taxes**
- **Limitations on interest deductability**
- **Country specific regulations**

Legal hurdles and challenges

- Know your client (KYC)
- Cash pool documentation
 - - Negative pledges
 - - Pari passu
 - - Cross defaults
 - - Right to offset debit and credit balances

Accounting hurdles and challenges (1)

- Both Bank and Corporate want to off set debit and credit balances
- IFRS
 - Both parties would need the legal right to offset the recognized amounts
 - The intention to settle on a net basis needs to be demonstrated

Accounting hurdles and challenges (2)

- Both Bank and Corporate want to off set debit and credit balances
- Basel III
 - Strengthen the capital basis of banks
 - New financial ratio's: Liquidity capital ratio (LCR)
 - Negative balances will target the Risk Weighted Asset (RWA) of the Bank

Hurdles in practice

- **External mitigating factors**
- **Internal/organizational mitigating factors**
- **Psychological mitigating factors**
- **Relationship banking**

External mitigating factors

- Different time zones
- Mentioned tax, legal and accounting issues
- Central bank regulation
(non convertibility/transferability)
- Relationship banking
- Amounts too limited to justify participation
- Footprint of banks
- Documentation requirements too heavy to justify participation

Internal/organizational mitigating factors

- Bank “around the corner” gives practical benefits (petty cash, cheques, salary payments)
- Minority shareholders
- Psychological mitigating factors
- Centralized / Decentralized organisation

Psychological mitigating factors

- **What I see in practice (very general observation):**
 - **Centralized companies -> target balancing**
 - **Decentralized companies -> notional pooling**
 - **Centralized companies -> network bank**
 - **Decentralized companies -> cash pool solution providing bank**

Relationship banking

- **Past:**

“Different bank for different purposes”

- **Today:**

Divide your side business between banks which are providing credit facilities to your company

Businesscase Naspers Ltd



- South African based e-commerce and media company predominantly active in emerging markets
- Cash pool solution for Central and Eastern Europe
- Decentralized company

Which bank to invite

- 17 banks in Revolving Credit Facility (RCF)
- Bank that proposed the idea already to Naspers

- Network Bank
- Cash pool solution providing bank
- Bank with prominent presence in the region

RFP: Benefits to be realized

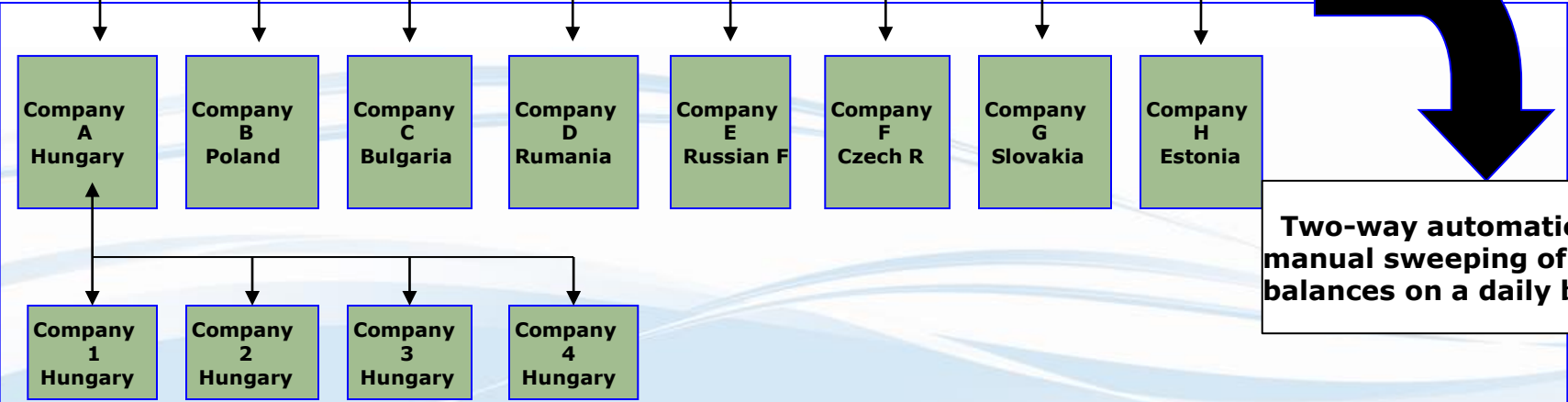
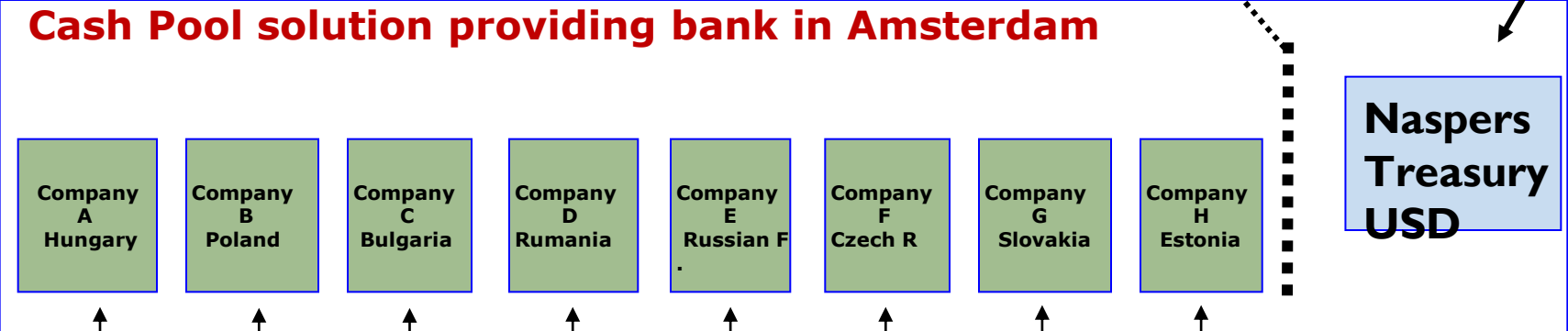
- Cash surplus balances are used to reduce debt
- Local subsidiary cash should earn interest on competitive rates
- Increased visibility, control and access to regional cash
- Reduction of cross-border payments, draw against credit balances

Outcome Request for proposal

- **Network bank:**
Notional cash pool using the banks network in the region
- **Cash pool solution providing bank:**
Notional cash pool as overlay while continuing using all local banks
- **Bank with prominent presence in the region:**
No solution yet given this RFP

Notional calculation of the overall cash pool balance in USD

Reduce Ancillary/RCF drawings



Local Banks (domestic environment)

Conclusion:

**storms ahead for notional pooling
or business as usual?”**

I prefer the last with a big “BUT”

Carefully assess every document from your bank

Consult your:

- Tax advisor
- Legal advisor
- Accountant

Proverbs 15 verse 22:

**“Plans fail for lack of counsel, but
with many advisors they succeed”**

Bible, New International Version (NIV)

Thank you