Ping Shek Estate, Kwun Tong, Kowloon East, Hong Kong. **Image of the trap we are in.** Gazing straight up into the narrow square size space of sky at the bottom of floor, like we are trapped with the pandemic crisis resulting into a financial crisis, we don't know where it's going to, when we can get out of the "panic". (photo: Chenwei Yang)

The impact of Corona on global liquidity management

How COVID-19 re-emphasised that Cash is King for Treasury

By Jiaxin Huang

Agenda

- Evolution of Corporate Treasury
- Fundamental tasks
- Cash is king
- Isolated case / global negative shock
- The corporate debt market's reaction

- Mounting concerns on liquidity
- Cash flows and working capital
- A simple tool to the rescue?
- Take always and challenges
- Full set of the tools

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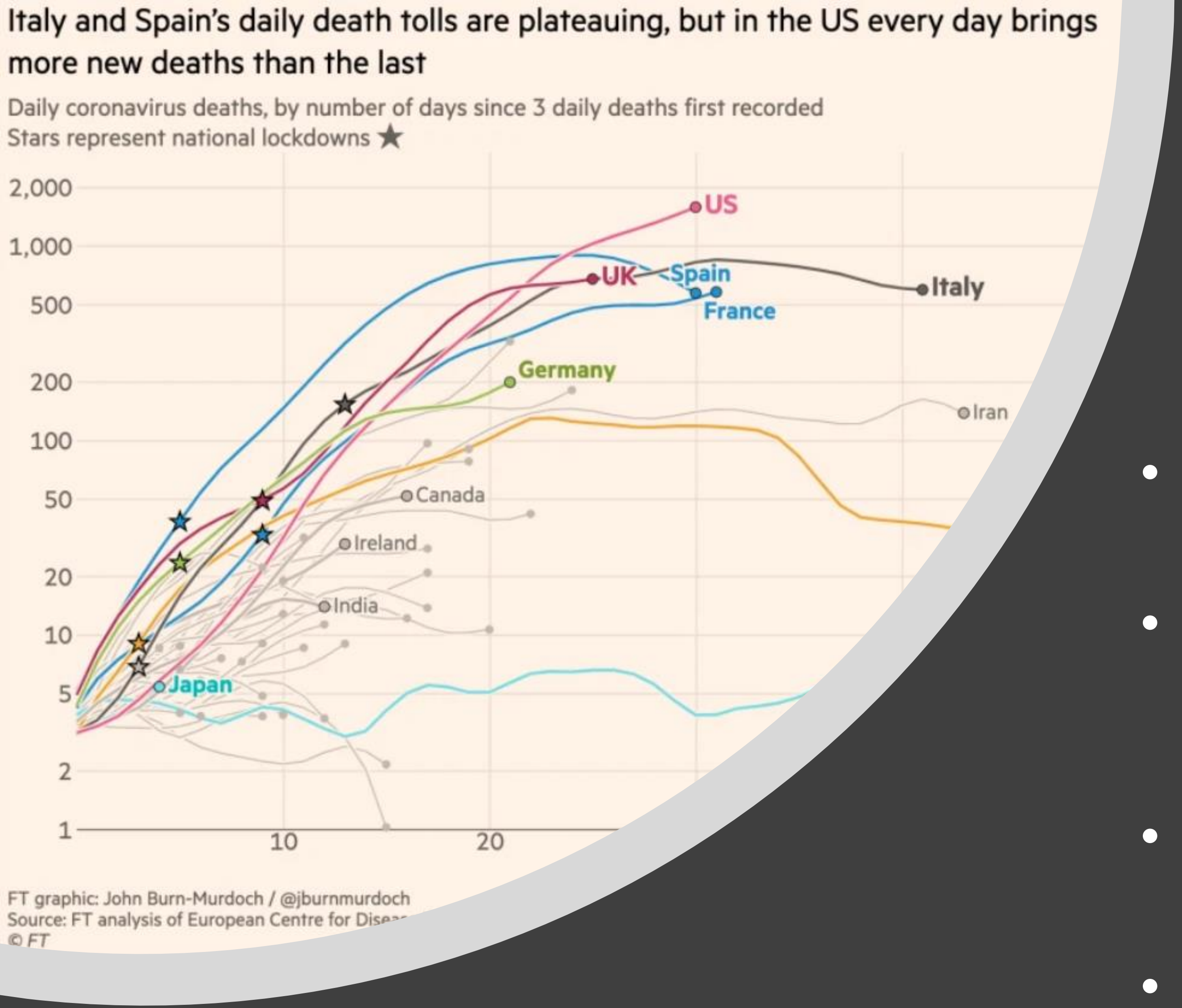
Evolution of Corporate Treasury

- Basically, the fundamental task of Corporate Treasury is to ensure a company’s financial health.
- Drivers of evolution: technology, business requirements and the economy in general.
- Several key functions and processes always remain.
- Instruments to carry out this task are for example:
  - Cash Management,
  - Foreign Exchange,
  - Risk Management,
  - Regulation,
  - Investment & Funding,
  - Financial Supply Chain, and
  - Technology.



Corporate Treasury's fundamental task in a different perspective

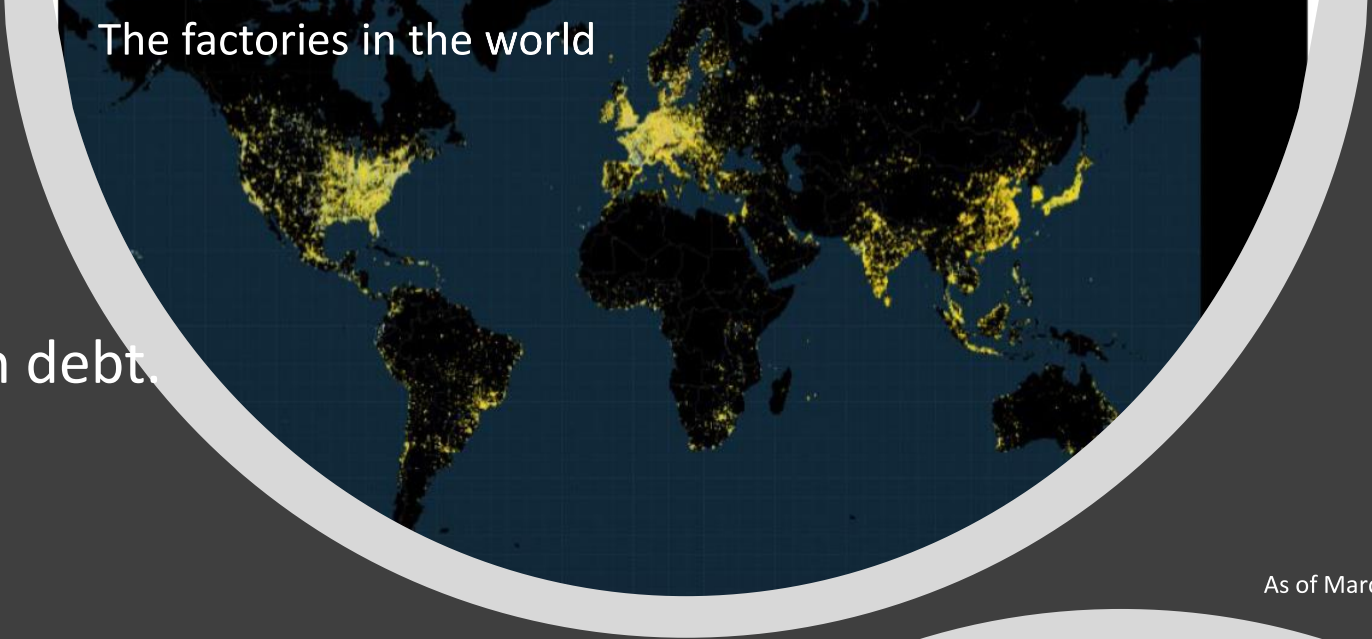
- The consequences of the corona pandemic have affected these instruments.
- The world's economic output will be significantly reduced as a result of a severe supply shock, followed by a demand shock
- Several more waves as regions get re-infected, as lockdown measures are relaxed.
- Contagion returns this autumn or in spring next year.

Check the latest figures as the pandemic spreads https://www.ft.com/coronavirus-latest

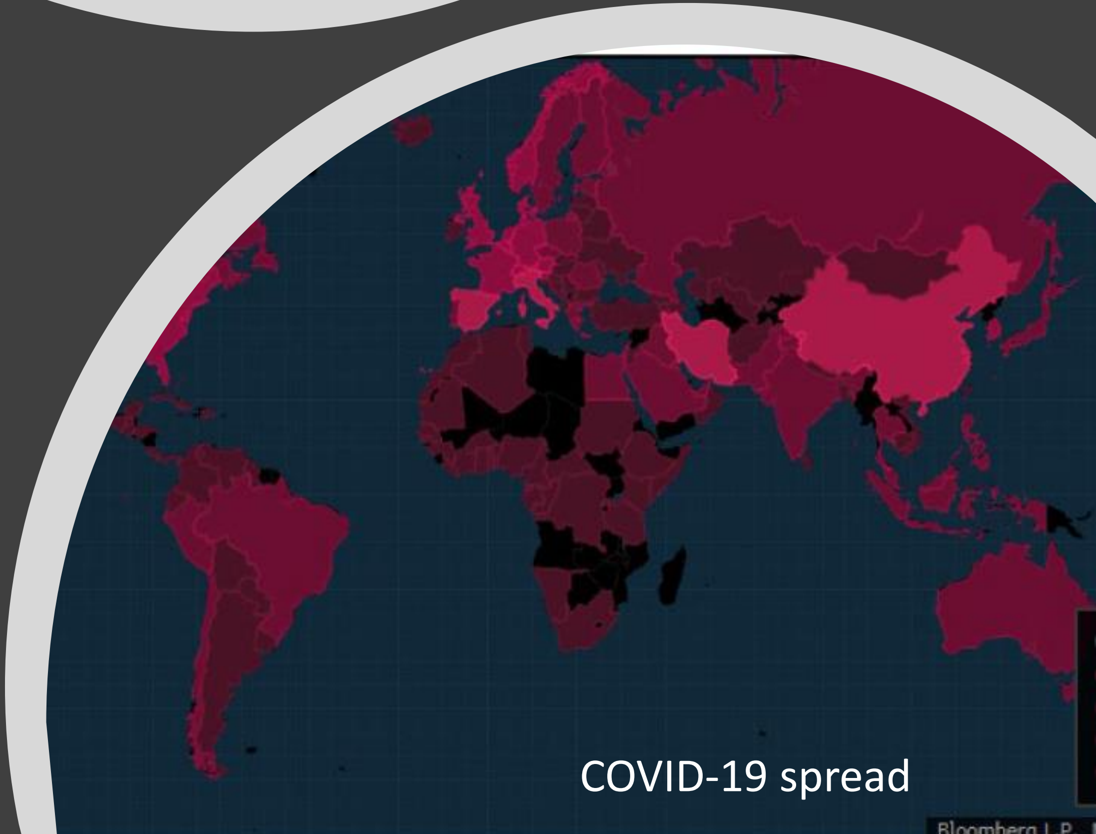
Cash is king

- Generate cash in order to meet business needs and avoid taking on debt.

- Introducing "COVID-19"
  - Take on (more) debt.
  - Corporate debt market in bad shape.
  - Stockpile liquidity.



As of March 18th 2020



- The coronavirus hits the Global Supply Chain, in a worldwide scale of shock.
- Many governments are trying to form a bridge over the lockdown period. Inject massive liquidity in the markets, cut interest rates in a striking time manner, also out of cycle……
- Will these measures work?

An isolated case versus a global negative shock

- Isolated negative shock;
  - -> able to obtain financing.
- Global negative shock;
  - -> uncertain outlook.

- Reasons for unavailability of financing;
  - Corporate debt markets.
  - Flow of cash.

- Payment obligations need to be honoured.

Ford downgrade consigns $36bn of its debt into junk market

Carmaker becomes largest 'fallen angel' to date as coronavirus roils corporate bonds

Claire Bushey in Chicago and Joe Rennison and Peter Campbell in London MARCH 26 2020 18

Markets

Dividend Halt Puts HSBC at Risk of Losing Core Investors

By Jeanny Yu
April 6, 2020, 11:42 AM GMT+8 *Updated on April 6, 2020, 4:17 PM GMT+8*

Honda, Nissan to lay off 10,000 workers each as coronavirus hits economy

The layoffs come as the COVID-19 pandemic presses pause on ca
sales worldwide.

The corporate debt market's reaction.

- Changing commercial and risk appetite of Financial Institutions'.
  - Market risk avoided.
  - Internal hurdles and sanity checks are up.

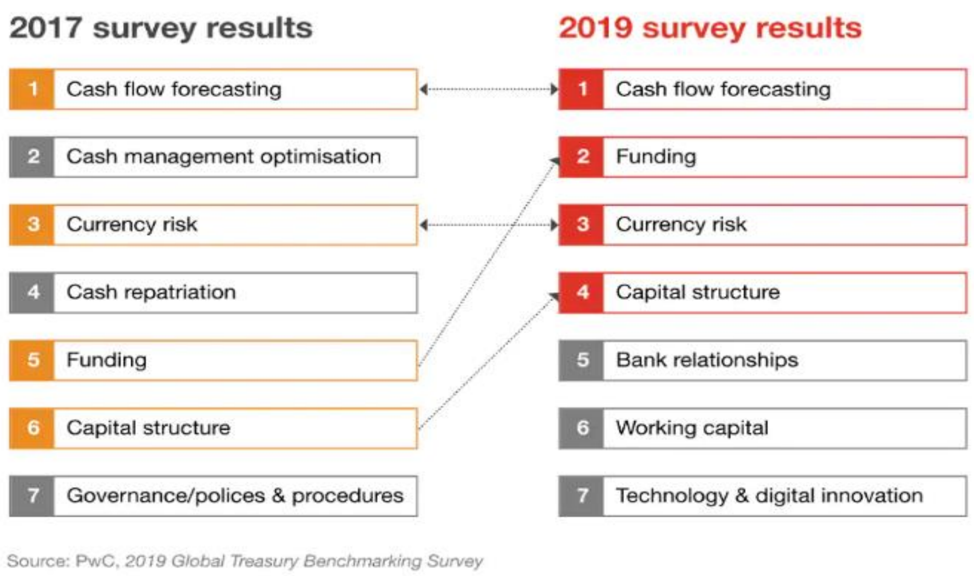
- Ratings agencies downgraded corporate debt.
- Bank loans to businesses are considered riskier.
- Basel 3 impedes banks to take advantage of Central Banks' low cost funding.
- Price of Credit default swaps (CDS) back at the 2008 levels.

- More pressure on many companies already struggling to cope (and started the crises with more debt than back in 2007).

Mounting concerns on liquidity

Highlights on the impact and outlook of global business…….

- A deep global recession is forecasted by Fitch Rating for 2020. The world real GDP growth to fall by 1.9% in 2020. US and Eurozone down by 3.3% and 4.2%.China is expected to grow by less than 2%.
- Huge fiscal stimulus packages have been announced in many countries worth 10% of GDP in the US and about 5% in Germany and the UK.
- "In the midst of the immediate health crisis, higher public spending can play an important part in cushioning the fall in activity but wider growth benefits from policy stimulus are unlikely to be seen until the health crisis subsides."
- Corporate debt, especially corporate debt bond market, which has made up the majority of corporate debt, now has been in its own state of turmoil. The spread on yields has been dramatically widening. (1) default rates are expected to climb; (2) credit rating have been downgrading at a rapid pace.
- Sectors such as the energy, air transportation sectors have seen the biggest jumps in yields.
- Questions to Corporate Treasury- if you have prepared for the winter? Reserve sufficient liquidity for the disruptions and pay down the debt.



The priorities to implement a global liquidity management solution

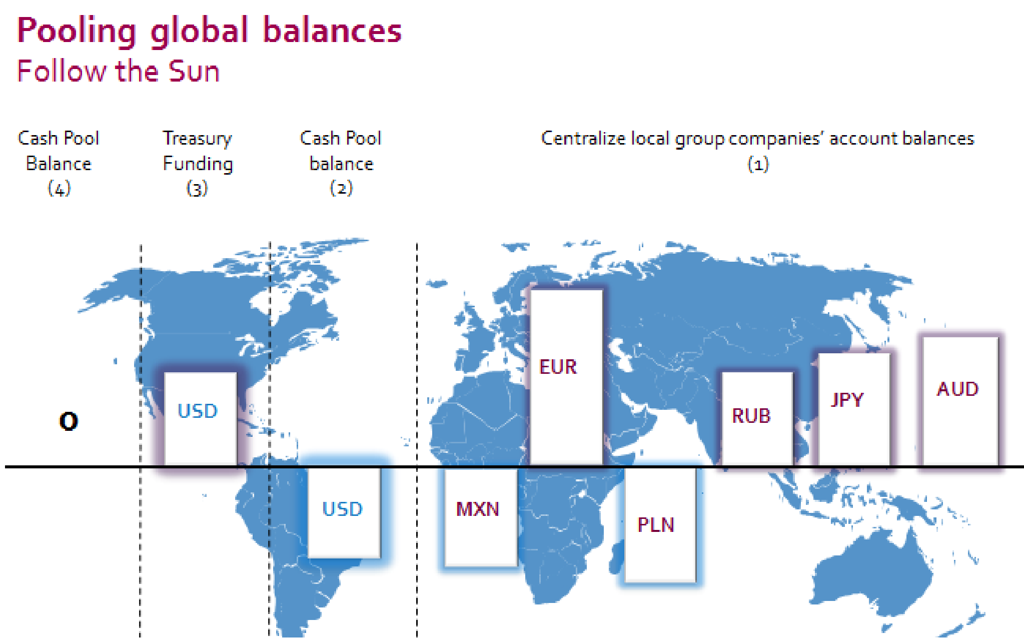
Cash flows and working capital.

- Options to address to immediate need to borrow to bridge the gap.
- An European subsidiary of an Asian headquartered multinational company (MNC) as illustrative example.
  - Loan in Euro from local bank
  - Utilize Uncommitted Overdraft Facility at a local bank.
  - Turn to the head office for funding

    Bottlenecks:
    - Borrowing likely not in Euros.
    - SWAP (assuming borrowing in local currency).
    - May introduce a foreign exchange exposure.
    - Meet criteria of Intercompany loan (arm’s length, properly documented and administrated).

Can a simple liquidity management tool come to the rescue?

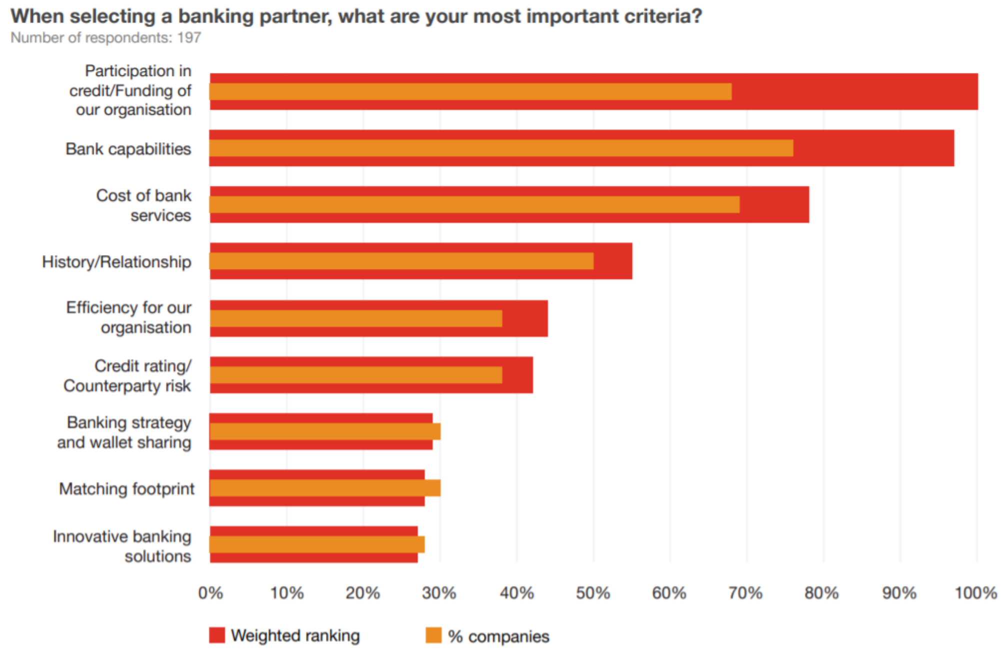
- Multi-Currency. 35+ currencies.
- Global and flexible. Follow the sun principle.
- Bridge liquidity between all continents and regions all valued same day.
- Multi-Entity. Subsidiaries globally (Foreign Exchange Controls permitting) participate.
- True Notional. Meaning:
    - No sweeps to a master account (no Intercompany Loans triggered).
    - No gross guarantees or cross indemnities (no Intercompany Loans triggered).
    - No foreign exchange, no swapping, currencies remain as is (no foreign exchange risk).
    - One single interest rate per currency (so spread between depositing and borrowing).



After 2008 Lehman crisis drove an important change in the role of Corporate Treasury in MNCs. It shifted the focus to managing liquidity efficiently- instant access to the liquidity and distribute wherever there is a need.

Here is what to be aware of:

- Select a bank which provides offset of debit and credit balances.
- How does Basel affect the Cash Pool.
- Overall (hidden) cost and how negative interest on selected currencies is charged.
- Down side, you can’t implement a Cash Pool overnight. It won’t help you right now, but it may be good to consider, in order help you prepare for the next crisis.



Challenges in efficient centralizing and distributing the liquidity across different jurisdictions

Although the challenge is clear, the reasons for the difficulties in global liquidity management often vary.

Four key questions to find the root causes.

Lack clear visibility over all of your bank accounts.

- *A frequent source of headaches for corporate treasury is poor visibility over bank accounts.*
- *Gaining a comprehensive overview of all the bank accounts and their up-to-date balances is a tedious task in an operating environment of multiple subsidiaries and business unites in the multi countries and banks.*

Experiencing working capital imbalance

- *The best performers in terms of working capital management are able to scrutinize their expenses and locate the liquidity needed for investment.*
- *The difference between the top and the median level performers can be surprisingly large- can even define the future success of the companies.*

Carry various processes and systems within group

- *The company can easily end up with a variety of payment systems and processes in different countries. We do observe that group treasury settle with weekly spreadsheet reports rather than real-time information.*
- *The process concerning the internal transactions remain disparate and inefficient, with the amount of trading and invoicing between subsidiaries has grown considerably.*

Subsidiaries' operations can run "unconsciously" over the budget

- *Subsidiaries' operations cannot be run as silos, otherwise group treasury may end up paying out unnecessary costs and banking fee.*
- *The discretional transactions at subsidiaries, can create surprising overrun in treasury's operational budget.*

Cash Pool
Free up working capital

› **Benefits**
› How it works
› Contact us

Cash Pool concentrates your company's available cash and borrowing needs. You can centralize all credit and debit balances of the subsidiaries whenever you want.

Minimize funding cost - maximize cash revenue
Cash Pool enables you to take control of decentralized cash without inter-company loans and to improve interest results at the same time. You can easily bridge liquidity gaps between regions, currencies and banks. Subsidiaries will no longer have to borrow from their local bank or leave cash idle. This will improve interest earnings and reduce interest expense.

Benefits
Cash Pool provides insight into your global cash positions and enables you to manage them in one daily transaction.

- No need to close local bank accounts
- Do without inter-company loans
- No foreign exchange and swap transactions
- Substantial improvement of interest results

Netting
Reduce administrative workload

Exposures & Cash Flows
Enable sound decision-making

› **Benefits**
› How it works
› Contact us

Exposures & Cash Flows gives you a clear overview of all cash flows of your subsidiaries around the world: past, present and projected. Accurate forecasting allows you to make the right decisions in line with your company's financial and risk policies.

Complex cash flows - one clear overview
As a treasurer in an international company you need to know all present and future assets and liabilities. Exposures & Cash Flows links into your systems and provides a daily calculation of all positions and cash flows. The forecasting tool allows you to determine future cash flows and currency exposures and to make appropriate hedging decisions. Sound decision-making requires clear intelligence.

Benefits
Exposures & Cash Flows collects all relevant information enabling you to manage future cash flows and currency exposures.

- A clear overview of the global treasury landscape
- Save specialist staff a lot of time
- Enforce corporate risk policies
- Directly execute deals with your subsidiaries

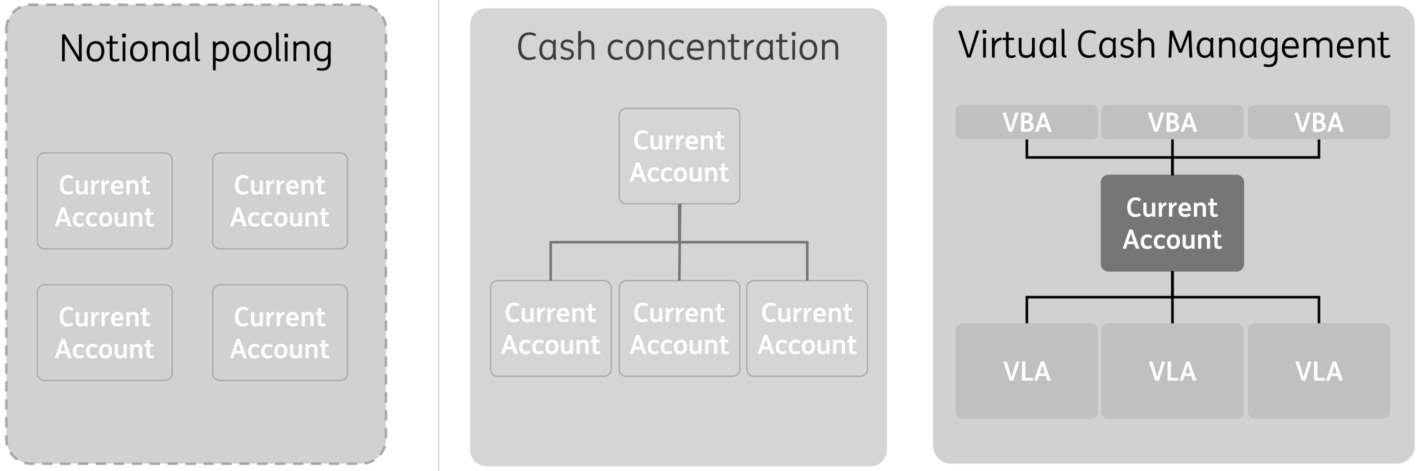
Full set of the tools.

What a sufficient liquidity management solution will achieve for corporate treasury?

Different forms of cash pool, devil is in the details

Overlay cash pool

A Virtual Cash Management solution at Transaction Banking level can be combined with a global overlay pool



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A lot of banks "seems" to offer (global overlay) notional cash pool same name different forms

Citi Launches Multi-Currency Notional Pooling Capabilities in the Netherlands

November 12, 2018 04:00 AM Eastern Standard Time

AMSTERDAM--(BUSINESS WIRE)--Citi (NYSE: C) has today announced the launch of its Multi-Currency Notional Pooling Capabilities in the Netherlands.

"The launch of Multi-Currency Notional Pooling capability in our Netherlands branch is in line with Citi's strategy to offer full cash management capabilities from our single EU bank that has a physical presence across 22 countries in Europe and offers connectivity to Citi's global network."

Tweet this

Citi has existing Multi-Currency Notional Pooling capabilities in London for its multi-national clients. By setting up capabilities in Amsterdam, Citi is now giving its clients choice and flexibility to enable them to better manage their working capital and liquidity according to their treasury models and needs.

Notional Pooling in Amsterdam allows Citi's clients to minimize bank interest costs by notionally concentrating end of day balances across multiple accounts held with Citibank Europe plc, Netherlands Branch, into a single net amount. Citi's clients will be able to achieve substantial liquidity, financial and operational benefits by automating the funding process, reducing bank interest costs and more efficiently using cash in their network.

DBS CORPORATE BANKING

What's the difference between Notional Pooling and Cash Concentration?

Cash Concentration involves the physical movement of funds into a concentration account. There is no physical movement of funds for Notional Pooling, because account balances are notionally set-off. However, Cash Concentration creates inter-company loans, because there's physical movement of funds between accounts belonging to different companies.

中国银行(香港)
BANK OF CHINA (HONG KONG)

Notional Cash pooling

You can also choose to maintain the autonomy of different group entities in account maintenance while benefiting from the optimisation of interest expenses through cash pooling. With Notional Cash Pooling, account balances held by different group entities are consolidated in notional terms to arrive at the group's net balance, so that negative balances will be offset by positive ones, to minimise your interest expenses.

To find out more, please call the Cash Management Services Hotline +852 3988 1288.

J.P.Morgan

Notional Pooling

Notional pooling is an alternative to physically consolidating operating cash. It's designed to solve many of the issues facing traditional consolidation. Instead of transferring funds into a single consolidated account, the subsidiaries keep their operating cash in their own accounts. For purposes of calculating interest, however, the bank refers to a "notional" position that combines the separate accounts of each subsidiary.

The single greatest advantage of notional pooling is the ability to operate in multiple currencies—an overseas subsidiary will not have to regularly exchange its currency to participate. Additionally, notional pooling allows subsidiaries to maintain greater autonomy over their balances; each participant keeps its own account and will not see the daily inflows or outflows from a central account.

Clients need to prepare themselves
Not be confused with Fed rates and bank borrowing rates……increase interest rates and "abnormal" rates in cash pool

- Lending banks withdraw the facilities when it "rains", or they increased the borrowing rates too high, even though the central banks have cut the rates.
- The cash pool banks are enjoying the liquidity that they are sitting now. They don't need to borrow in the cash market, hence the interest rates is much lower than lending banks.
- But, be careful with the negative interest rates for certain currencies. For example, JPY, EUR, SEK, CHF,CZK etc.
- Make decision by comparing holistic benefits with pure one or few currencies' economical benefit.


QUESTIONS
ANSWERS

现金管理观察

跨国企业流动性管理深度观察

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