

Defining a market-leading cash pooling solution: key considerations for bankers and IT executives

In today's market, where cash management is more important than ever, new cash pooling technology has the potential to drive significant efficiencies for both the bank and the multinational corporation. But providing world class solutions and selecting the infrastructure behind them is not easy.

Systems must provide all the bread and butter elements so they can run smoothly and reliably. And cost of operations is always a vital factor. So sometimes, the features that differentiate your offering from a growing number of banks providing these services can be lost in complex feature evaluations.

Misys Global Cash Pooling has been designed to allow banks to give clients world class global cash pooling capabilities and contain costs. This fact sheet lists some of the features that you should look for to attract and retain the best corporations and institutions as profitable clients of your bank.

For the corporation:

- + Pooling Services
- + Sweeping
- + Notional Pooling

For the bank:

- + Low Operational Cost Balance Reporting
- + Other Efficient Use of Resources
- + Interoperability

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"The most popular external service used by corporations is cash pooling"

– JP Morgan Global Cash Management Survey 2007

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For the corporation, the solution should:

Pooling Services

- + Provide all usual types of sweep including cash concentration and target balancing as well as all usual types of notional pooling. Sweeping and notional pooling across legal entities, across currencies, across country borders, across time zones and (even if not often used for notional pooling) across banks
- + Impose no limit to the number of children a parent account can have, no limit to the number of levels in any pooling hierarchy and allow accounts to participate in multiple hierarchies
- + Allow sweep initiation and notional pooling calculations on a regular basis, schedulable both at end of day at any frequency and (for sweeping) intra-day at any times, as well as on demand at any time
- + Handle the complexities of different time zones and different times of end of business day and other system close of business periods, for example so that sweeping times can be delayed and notional pooling calculations offset to adjust the date
- + Allow the corporation to print the contract schedule detailing the pooling rules, to which the corporation can then propose amendments to create a pending revised structure with associated contract schedule for signature, visible to both the corporation and the bank, which can take effect on a future date and when authorised by both (possibly even by electronic signature)

Sweeping

- + Provide cash concentration, target balancing, zero balancing, next day target balancing, deferred sweeping, reverse sweeping and other common sweeping services
- + Provide balance-based sweeping with separate trigger and target balances, separate sweep and floor limits using ledger or available balance or, for safety, the lower of both
- + Provide value-dated sweeping on the net movement per value date, the total credits and debits separately, or by each individual movement. This must correctly handle back-valued and forward-valued movements, with flexible limits on the number of days forwards and backwards
- + Preserve good value when the two accounts are held within the same banking group
- + Use flexible FX rates, with a spread if needed, and support fixing of FX and value dates anywhere in the messages so that back valued sweeping can take place with good value
- + Automatically record intercompany loans created by sweeping between subsidiaries for the corporation's use, to which they should be able to add other, non-sweeping, payments as further loans
- + Allow the corporation to set the interest rate on each of its intercompany loans, whether absolute, base-plus-margin, threshold or tier. Both loan accounts for each account

pair must automatically be kept in synchronisation, and interest settled according to flexible rules, again set by the corporation. Withholding tax should then be calculated automatically, so that it can be passed to where it can be applied

Notional Pooling

- + Provide standard netting, based on netting balances as well as netting interest alone are needed for efficient domestic notional pooling, whether inter-entity or intra-entity
- + Provide cross currency, cross border notional pooling through netting the bank's margin to generate a refund. This needs correct maintenance of the sub-accounts on separate balance sheets, which affects these calculations
- + Allow the correct FX rate to be used in currency calculations (even with a spread if desired)
- + Generate a clear and full calculation statement available to both the corporation and the bank, to avoid confusion, disputes and wasted time
- + Allocate interest, bonus/refund and also monetary reserve costs and capital adequacy costs correctly according to the bank's and corporation's agreement



"Banks expect a 14.4% increase in business from existing customers by offering cross-border cash pooling services"

- Finextra market intelligence report, 2008



For the bank, the solution should:

Low Operational Cost Balance Reporting

- + Create value-dated balance information automatically, irrespective of the source of information. This typically requires many parameters, but for safety a free format rules engine is needed, typically to process the output from old systems used by the corporation's other bankers
- + Include a re-formatting, routing engine (message manager) to manage the information coming from different places
- + Reconcile interim transaction reports and balances against each other and against the opening statement, and reconcile the closing statement against the opening and interim information
- + Unambiguously distinguish prior sweeps from other transactions, even if amounts, value dates etc are different because of fees, time zones or other effects
- + Detect and act correctly upon 'phantom transactions', that is, transactions reported on an interim transaction report that are not present on the closing statement, including correcting the corporation's intercompany loan position
- + Take more defensive action regarding discrepancies if the relevant banking system is not within the banking group itself, as the bank cannot guarantee the outcomes
- + Accept statement information at any time, be able to generate requests for

information (e.g. MT920s) and, critically, be able to report when expected information (either scheduled or requested) does not arrive

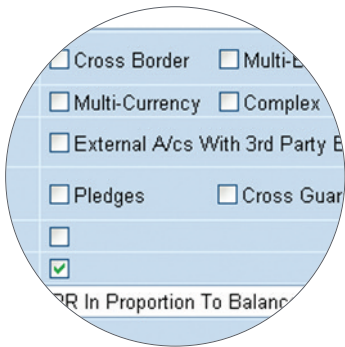
Other Efficient Use of Resources

- + Allow the bank to define and package standard cash pooling products with extensive defaulting so that they can be applied rapidly to specific contracts, with values overridden as allowed and needed
- + Allow the bank to record and display relevant contract information, including details of an image (e.g. PDF) of the contract, with the account structure when accessing the system. Contract schedule printing, useful for the client, is equally valuable to the bank, especially during take-on of the system to avoid errors
- + Make deductions, in cross-border notional pooling, to cater flexibly for monetary reserve costs and capital adequacy costs, to protect the bank's balance sheet. Also, these costs each have to be allocated correctly to the underlying accounts
- + Allow wide flexibility with fee options within the system, to help securing the deal with the client without incurring further cost. Fees must be jurisdictional-dependent at account level and sales tax (e.g. VAT) calculated, including catering for so-called force-attractive countries used in calculating EU taxation

- + Initiate cross-currency sweep payments so that this bank provides the FX at the correct customer rate and margin wherever possible
- + Promote other operational efficiencies such as tracking sweeps scheduled and in progress, repairing statements, flexible authorisation rules and exception handling, historical audits and information

Interoperability

- + Contain a comprehensive set of web services to allow easy connectivity to the bank's e-Banking system or portal. An associated cash portal offering from the same supplier can also be important, either if the Bank has no portal or wishes capability to create portlets
- + Be configurable to accept any format of statement, interim transactions or interim balances from the bank's own or other banks' back office systems, including SWIFT formats, BAI2 and flat file
- + Be able to generate payment initiation in any suitable way (typically MT101s or equivalent) and use a payments factory if the bank has one
- + Interoperate with an FX quotation system if the Bank uses one, or allow rate capture and modification, with override as needed, or delegate rates to a payment factory
- + Create accounting in formats easy to import to the bank's general ledger



Our solution

The benefits of effective cash management have never been more relevant and many corporations use a cash pool to maximise the value of their cash and reduce costs. Indeed, cash pooling has been a major driver towards the centralisation of corporate treasuries over the last decade.

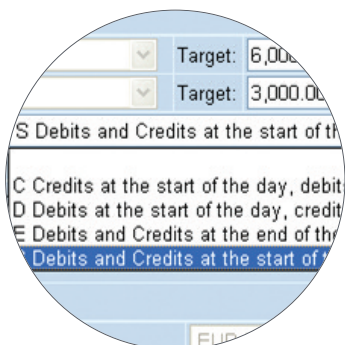
In today's market, corporate treasurers are now more global in their outlook and require their banks to provide cash pooling products on an international basis. For banks, however, cross-border cash pooling is highly complex, difficult to implement and costly...until now.

Misys Global Cash Pooling is the latest generation of Misys' award-winning cash management suite. Designed to co-exist with other back office systems, it delivers all the features banks need to offer advanced cash pooling services to corporations in an extremely cost effective way.



The solution consists of a single 'engine' to provide the database, calculations and processing for notional pooling and sweeping across multiple countries, currencies, banks and time zones. The system delivers a high level of automation to improve operational efficiency and the flexibility banks need to both define innovative pooling products and operate in multiple regulatory jurisdictions. Furthermore, all information related to the cash pool can be delivered to corporate treasurers online.

Ultimately, Misys Global Cash Pooling enables banks to win on customer service. Enhanced customer service helps you attract and retain corporate customers, increase your 'share of wallet' of those customers and develop new revenue streams.



To find out more about Misys Global Cash Pooling, please visit www.misysbanking.com for your local Misys office or online contact form

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