BNP PARIBAS

Managing the almighty greenback – optimising your US dollar cash flows globally

The US dollar continues to be the most dominant currency for global trade flows. Most multinationals are forced to deal with significant USD flows throughout their financial supply chain around the world. Managing these flows across different regions, time-zones and regulatory environments can be very challenging, whether organisations are collecting USD from customers, paying USD to their suppliers or investing excess USD. For those excess funds, what options are available to optimise returns on USD located around the globe? In a recent webinar hosted by Treasury Today, senior executives from BNP Paribas discussed why the USD is the most dominant currency globally.

Walid Shuman
Managing Director, Head of Cash Management Americas, Corporate & Institutional Banking, BNP Paribas

Jan Rottiers
Managing Director, Head of Liquidity Management Products & Projects, BNP Paribas

James Santoro
Managing Director and Head of Liquidity & Investment Advisory Americas, Corporate & Institutional Banking, BNP Paribas

Walid Shuman opened proceedings by identifying the key challenges in managing USD flows globally: control, visibility, time zones, regulations and cost/efficiency.

The presentation emphasised that a myriad of opportunities exist to most effectively manage your USD and optimise returns on your cash. With the multitude of investment options, irrespective of a centralised or de-centralised treasury structure, it is important to work with your banking providers to understand what solutions best enable your company to optimise its cash.

Shuman recommended corporates should "speak with their banking partners to source advice on whether a centralised or de-centralised model makes more sense and where to locate the company's US dollars."

BNP Paribas regularly receives questions from its clients on structure types such as:

"Can I centralise my USD accounts globally in the US and manage my payments and collections worldwide centrally?"

"Could this structure type (centralised/decentralised) work for my company and, if so, what are the pros/cons?"

For some companies a centralised structure in the US works very efficiently and achieves all of the benefits without losing any local advantages.

The global functional currency...yield generating currency

James Santoro discussed the question of centralised vs decentralised structures and the three key pillars of any investment decision, namely liquidity, yield and risk. Please see the table below. He also spoke about Basel III and how banks, such as BNP Paribas, are dealing with the Liquidity Coverage Ratio (LCR) requirement.

The presentation also explained that not all liquidity is valued equally by banks. As Santoro explained, "The ability to provide banks with additional transactions or the ability to place funds 'out along the curve' will translate into the highest yields." ■

Treasury considerations for optimising USD structures

Jan Rottiers moved the conversation into the area of centralisation and decentralisation enablers and how the two approaches will impact the cash pooling (notional and/or physical) solutions available: "Centralisation is not a goal in itself" he explained.

The presentation concluded by revisiting the three key questions posed at the opening of the webinar:

What are best practices for establishing USD cash management structures worldwide?

- Degree of centralisation.
- Key drivers and considerations.
- Cost/benefit.

What opportunities and benefits can be gained by managing USD more efficiently?

- Optimise yield.
- Cost efficiencies.
- Working capital.
- Non-economic benefits.

Are centralised treasury structures or decentralised structures better for increasing investment returns on USD?

- Opportunities exist, irrespective of structure.
- Decentralised structure – products that enable 'aggregating' cash.
- Centralised structure – products/providers that value incremental cash.

Three key pillars of any investment decision

LIQUIDITY

- Payment needs will determine 'liquidity' requirements.
- Working capital needs require products offering daily liquidity.
- Reserve/strategic cash can seek yield in longer tenor options.

YIELD

- Opportunity for yield with every liquidity product.
- Often not primary 'driver' of investment decisions with 'treasury' cash, but still extremely important.
- Has to be compelling enough to compensate for 'switching' costs.

RISK

- Principal preservation is often cited as primary concern (validated in IPS).
- Treasury cash is for working capital needs/shareholders, not generating investment returns.
- Demonstrating soundness of principal requires 'right' product and provider.

If you missed the live webinar and would like to watch the full presentation it is available at ***treasurytoday.com/webinar***