CASH POOL

15-11-2022

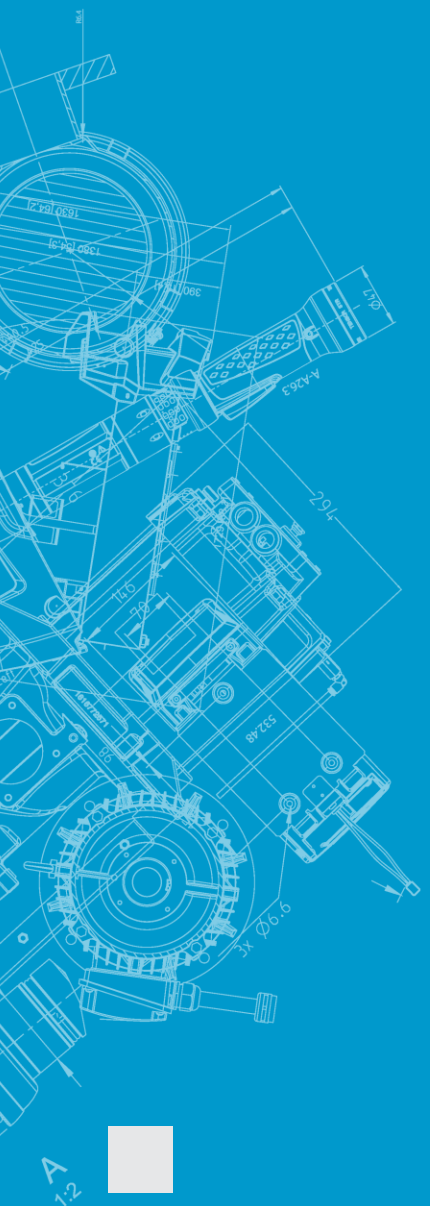
František Adamec

Presenter and the Company

Who are we?

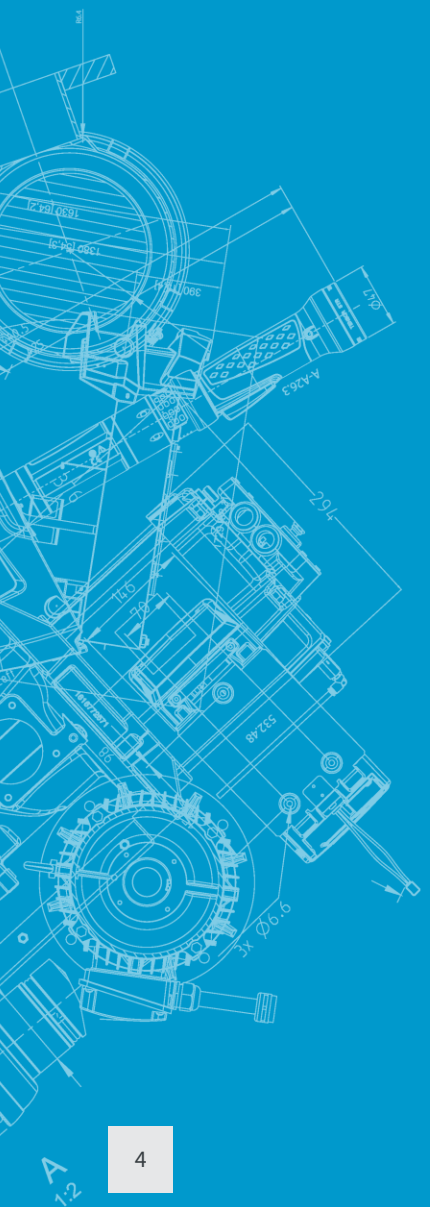
- František Adamec,
  - position: finance manager, Bank&Intercompany and Travel&Expense
  - regions of responsibility:
    - Europe and South America (direct)
    - North America and Africa (indirect)
  - education (fields):
    - finance (accounting, taxes and financial management), economy and insolvency (revitalization of economical units), law, secondary school teacher for professional subjects, European studies and public administration

- **Atlas Copco**
  - good to know: Atlas Copco is everywhere!
  - main areas: compressor technique, industrial technique, power technique and vacuum technique
  - **Third quarter results:**
    - Revenues increased 37% to MSEK 38 074 (27 824), organic growth 18%
    - Operating profit was MSEK 8 378 (6 000), corresponding to a margin of 22.0% (21.6)
    - Profit before tax amounted to MSEK 8 448 (5 945)
    - Operating cash flow at MSEK 5 705 (4 664)
    - Return on capital employed was 29% (27)
  - **More info:**
    https://www.atlascopcogroup.com/en



CONTENT

1. Cash pool
    a. Definition
    b. Account types
    c. Importance
    d. Governance
2. Cash Pool Booking
    a. Duties
    b. Booking conditions
    c. Recons
3. Automation
    a. How does it work
    b. How you can use it

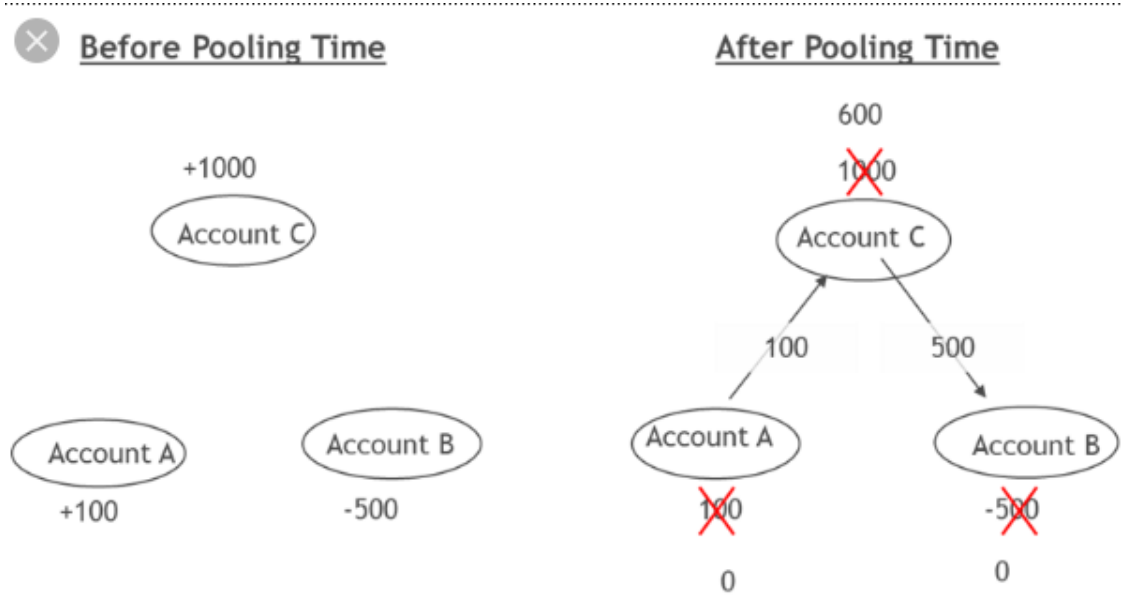


CONTENT

1. **Cash pool**
   a. **Definition**
   b. **Account types**
   c. **Importance**
   d. **Governance**
2. Cash Pool Booking
   a. Duties
   b. Booking conditions
   c. Recons
3. Automation
   a. How does it work
   b. How you can use it

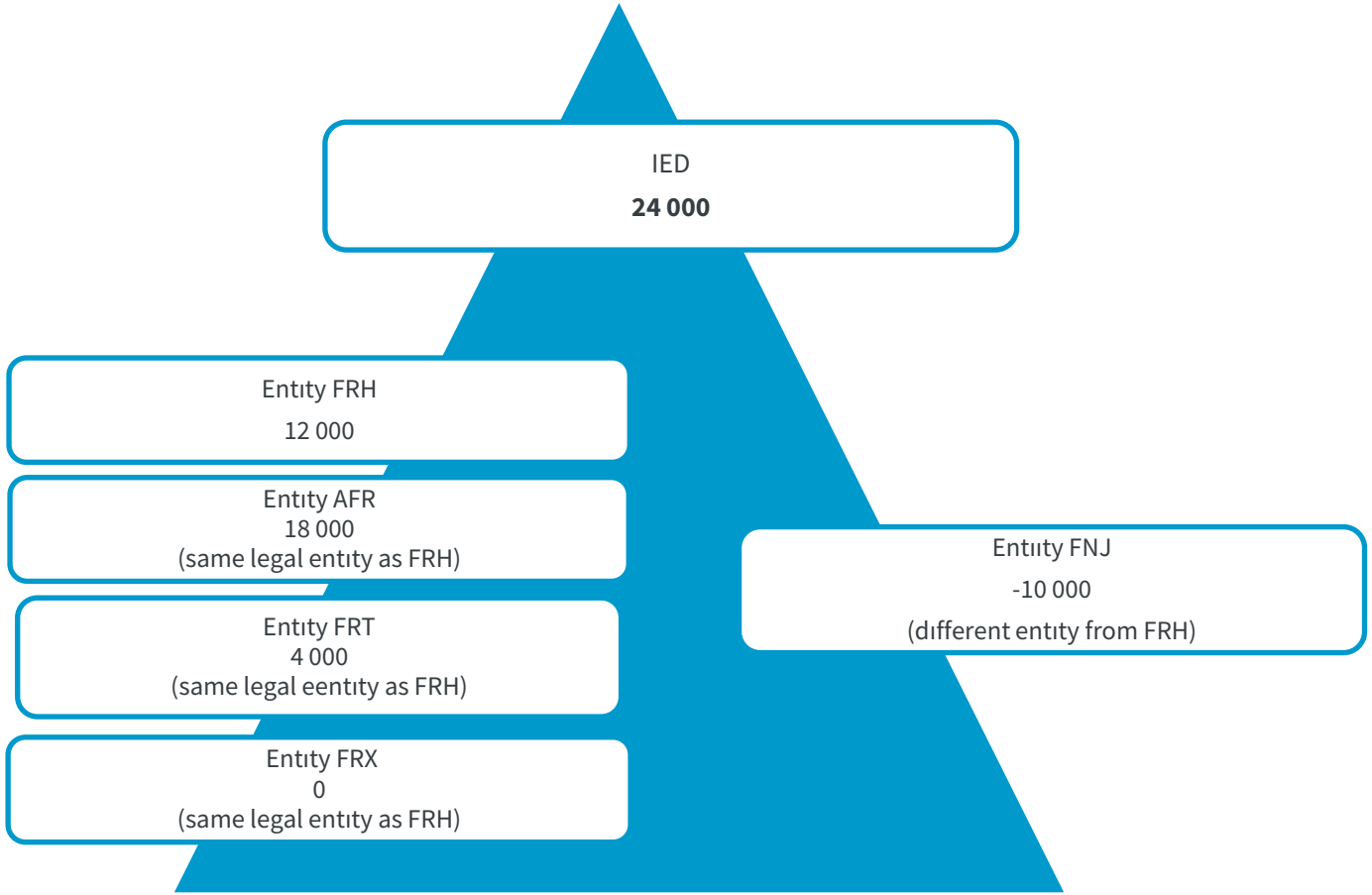
What is it and who is who – Cash Pool?

- **optimization tool for:**
  - ✓ business accounts
  - ✓ cash flow
  - ✓ P&L
  - ✓ risks
- **cash pool master vs. cash pool holder:**
  - ✓ cash pool master – collector for subordinate units and subordinate to cash pool holder
  - ✓ cash pool holder – money owner
- **in-house vs. bank managed cash pooling**
  - ✓ who is primary responsible for cash pooling procedures (each time you need an agreement with bank)
  - ✓ in-house usually only for large companies, bank managed available for all



AC Cash Pool and liquidity

How does it work?



Cash Pool and ımportance for bıg companıes

- **optımızatıon tool for:**

✓ busıness accounts

✓ cash flow

✓ P&L

✓ rısks

- Busıness accounts – many accounts ın the group, but also ın one legal entıty or entıty
- Cash Flow – better overvıew about money owner, total amount per country, net ıncome (real money or only accountıng money?), lıquıdıty (very ımportant)
- P&L – lower bank costs (no need to borrow money outsıde), transfers wıthout fees among busıness accounts and on day when sıgned ın bank (also for ınterbank transfers!), possıbılıty to lend other (legal) entıtıes
- Rısks – mıtıgatıon (e. g. no rısk for AC as group)

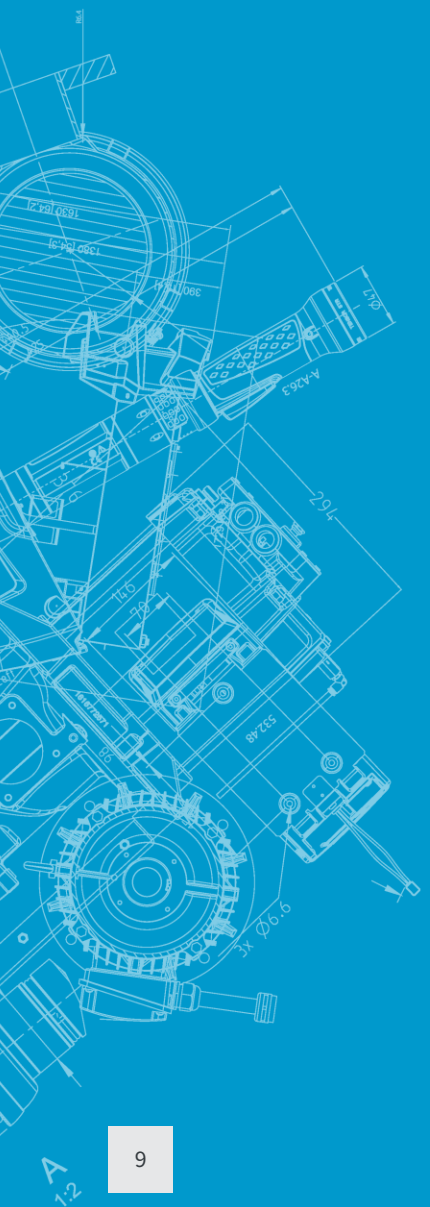
Atlas Copco

Governance

If you are big, corporate governance is a must

- Governance is a must if your shares are available for public (market).
- Governance system (rules) which defines rights and duties among stakeholders
  - coordination among inside bodies (executive management, employees, shareholders etc.) and external bodies (suppliers, customers, banks, public authorities etc.)
  - guide and principles
- Governance in cash pool is one of the most critical one:
  - operations with disposable money
  - international environment with all consequences
  - very individual in each company/group

- Practical example in AC
  - THE WAY (The Way We Do Things)
    - described relationships,
    - vision, mission, long-term goals,
    - standard (operation) procedures,
    - how to handle with exceptions,
    - who accountable when / for
  - Standard procedures for finance – cash pooling
    - if possible, bank accounts of each entity must be under cash pool (exceptions only after approval)
    - currency orientation in cash pool (more currencies, not only local/domestic one)
    - responsibilities of Atlas Copco Finance (treasury), Atlas Copco Board (presidents/vice-presidents), entities (general managers, business controllers, finance managers) etc.
    - who can see what, when



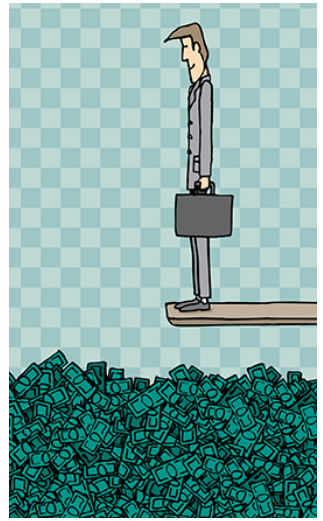
CONTENT

1. Cash pool
   a. Definition
   b. Account types
   c. Importance
   d. Governance
2. **Cash Pool Booking**
   a. Duties
   b. Booking conditions
   c. Recons
3. Automation
   a. How does it work
   b. How you can use it

Types of Cash Pool – how does it work?

- **there are two main types of cash pool:**
  - *financial (direct, real) cash pool*
    - real money transfers from one account to top account (cash pool account)
    - rule base (after each payment, one per day, week, month, after conditions meet
      - zero balance, target balance, fork balance)
    - special type: reversal cash pool
  - *fictional (indirect, unreal) cash pool*
    - no real transfers
    - independent accounts
    - only for P&L

- **tricky fields – cash pool**
  - internal or unfinanceable cash pool (no cash pool, only pretending – similar to liability and claims)
  - exchange cash pool (if you are cash pooling foreign currency to home currency of top account)
  - cash deposit pool – deposit on top account on behalf of subordinate account (entity)
  - legal holder vs. real holder



AC Cash Pool - booking

Why should we book?

- accounting point of view and obligatory for real cash pool (there are real transfers on statement)

if you do not book it, then it is neglect of duty

not only wrong records,

but also can be classified as a crime

threat for a legal entity and entire group

Cash pool – accounting

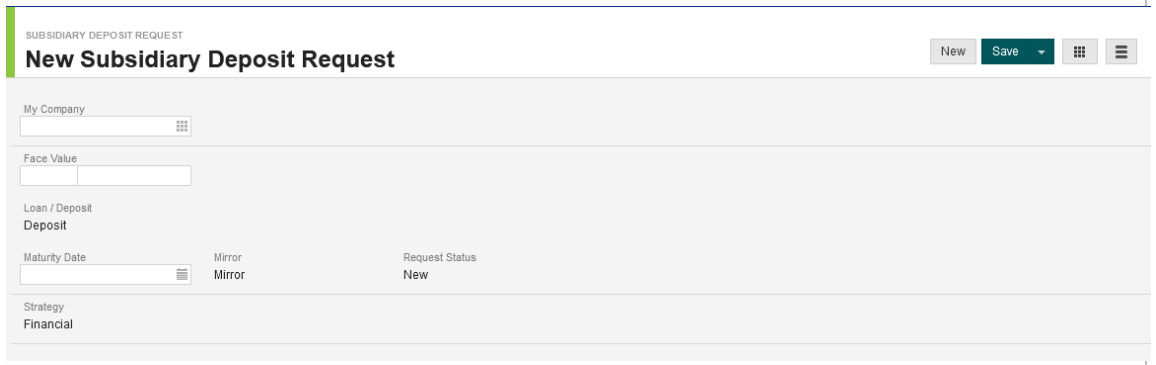
- **real Cash Pool has to be booked in accounting**
  - it is a standard operation in bank, so movement is booked on statement
  - cash pool statement should be available for each account to check balance
  - cash pool has to be booked as liability operation or claim (asset) operation
- **general booking**
  - if amount on statement is positive, the same amount has to be deducted and sent to top account (and on the contrary)

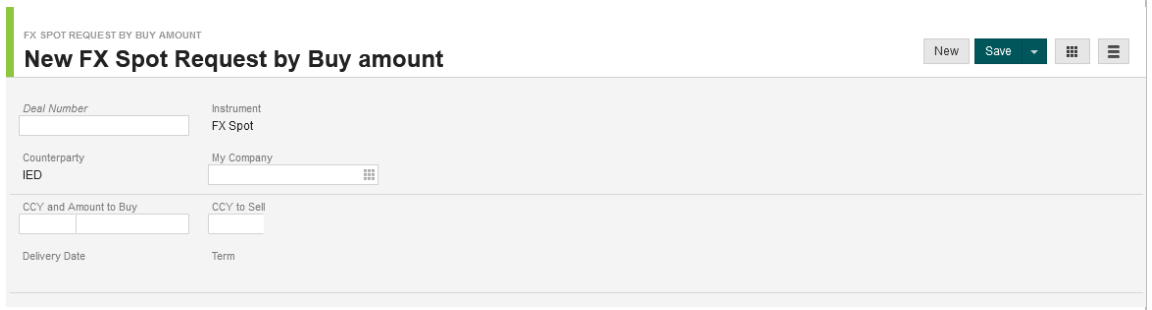
- **fictional Cash Pool is only recon**
  - can be booked in accounting or not (depends on business decision)
  - can be booked only as non-financial operation! (another line in general ledger)
  - no risks of sharing money (money are still under its real owner)

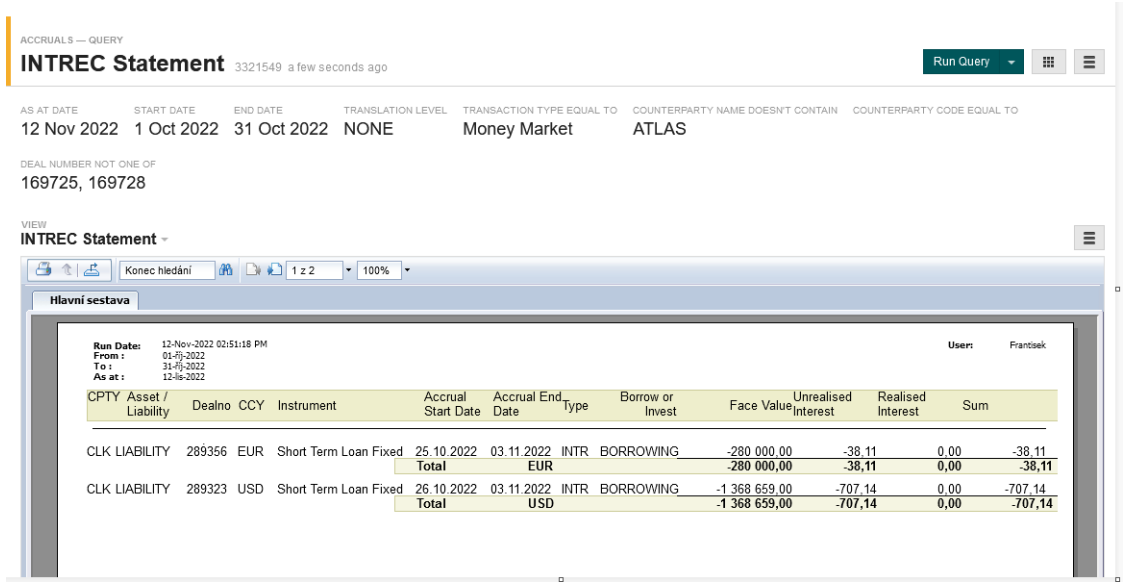
Treasury Management Systems (TMS)

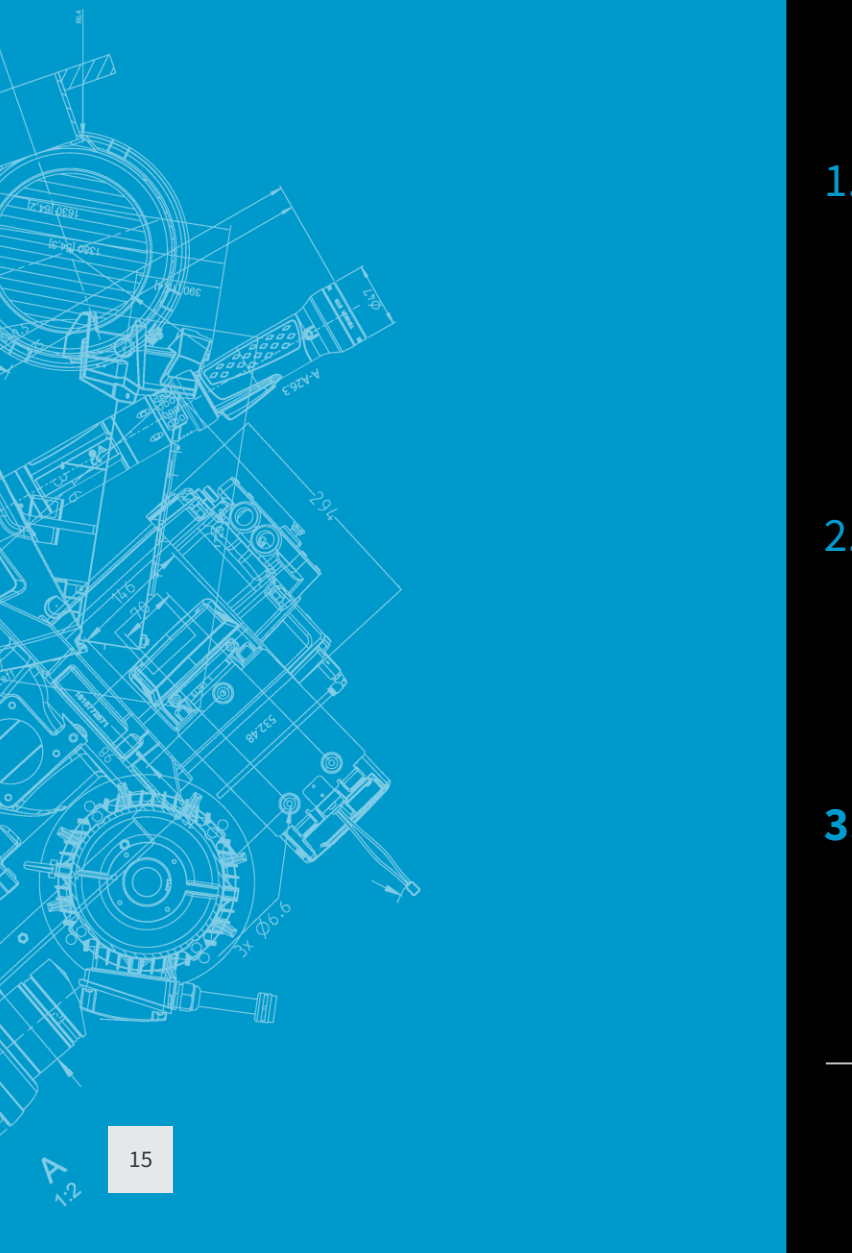
- big companies have TMS which allows:
  - all activities related to areas on the picture next to
  - automated solutions for bank statements, cash pool statements, interest statements etc.
  - automatically identification of incomers and debtors
- practical example in AC
  - treasury system FIS/Quantum
    - immediate access to the latest date of liabilities, assets, positions of each company in cash pooling
    - creation/agreement for bank guarantees
    - request for intercompany loans and deposits
    - FX spot request
    - interest calculation

Examples from Quantum/FIS





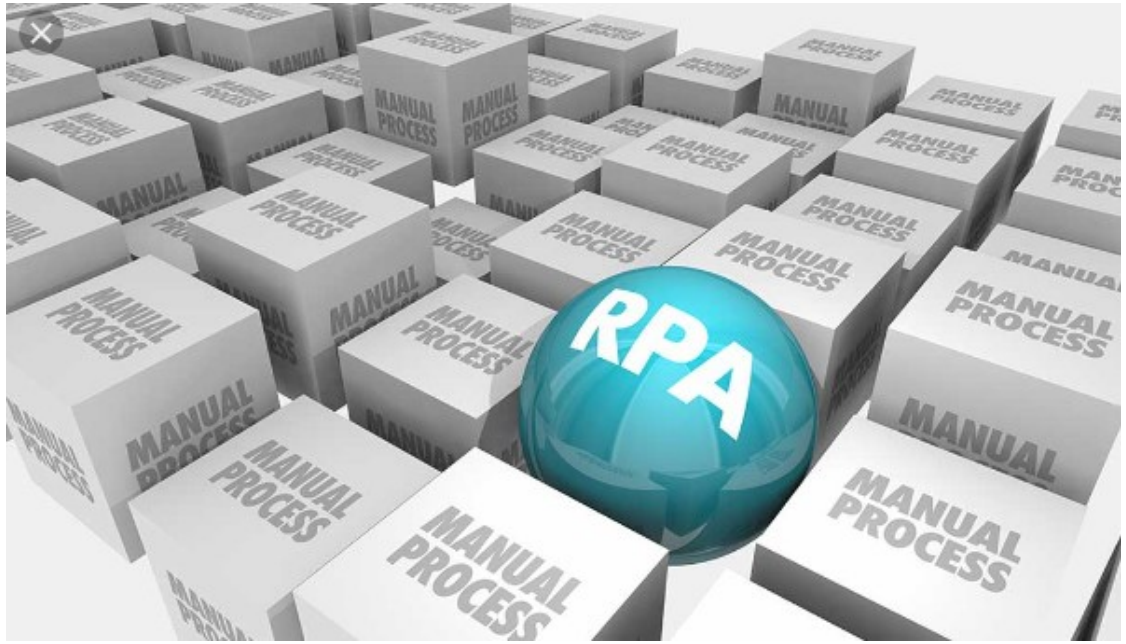




CONTENT

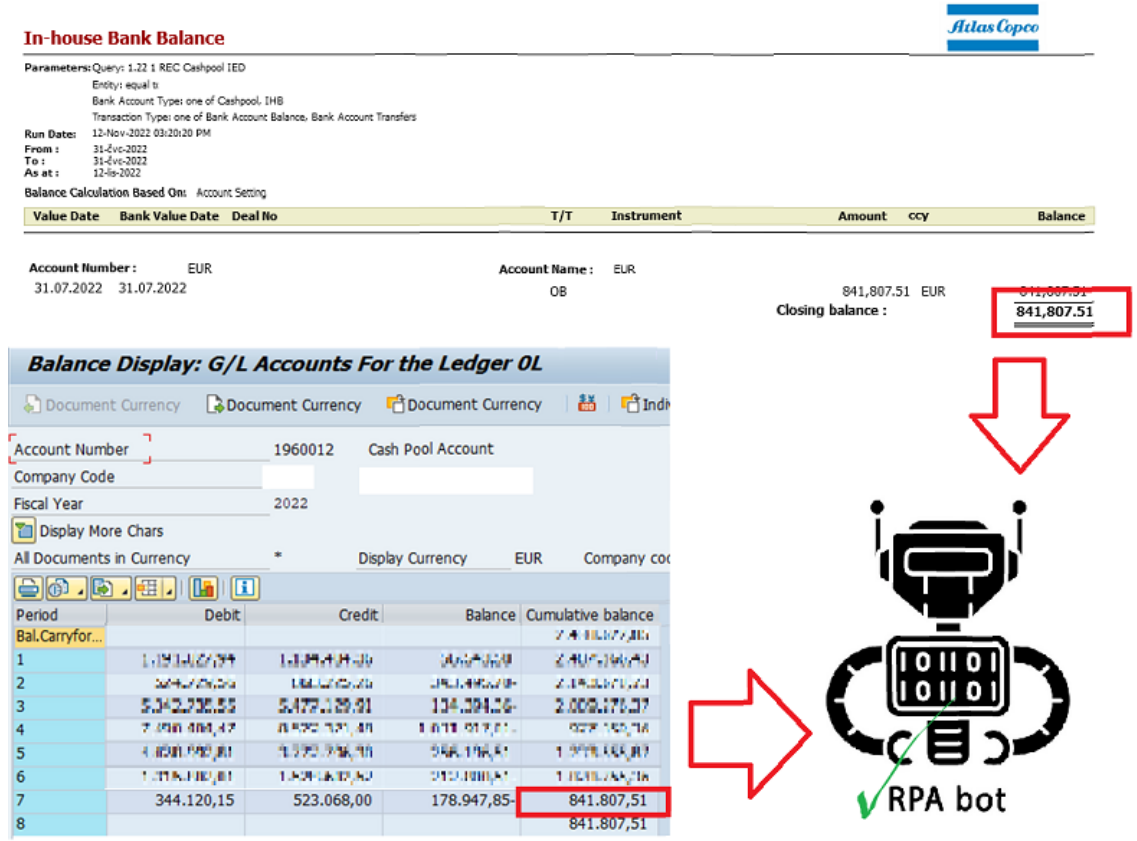
1. Cash pool
    a. Definition
    b. Account types
    c. Importance
    d. Governance
2. Cash Pool Booking
    a. Duties
    b. Booking conditions
    c. Recons
3. **Automation**
    a. **How does it work**
    b. **How you can use it**

AC Cash Pool - booking



- **current status in Atlas Copco**
  - cash pool movements are booked fully automatically via bank statements and cash pool statements
  - recons and reporting are done fully automatically – own RPA solution; if difference > alert bank&intercompany specialist (balance check each day!)
  - TMS collects all info from all core banks and transfer them into in-house banking system > visibility for all responsible people and automated solutions

Practical example



Practical usage of TMS in FX risks

How it can work?

- **rule: hold only local currency, only minimal balances of other currencies (due to FX change risk)**

RPA solutions checks vendors items for upcoming payment run (within 2 business days) and identifies selected foreign currencies

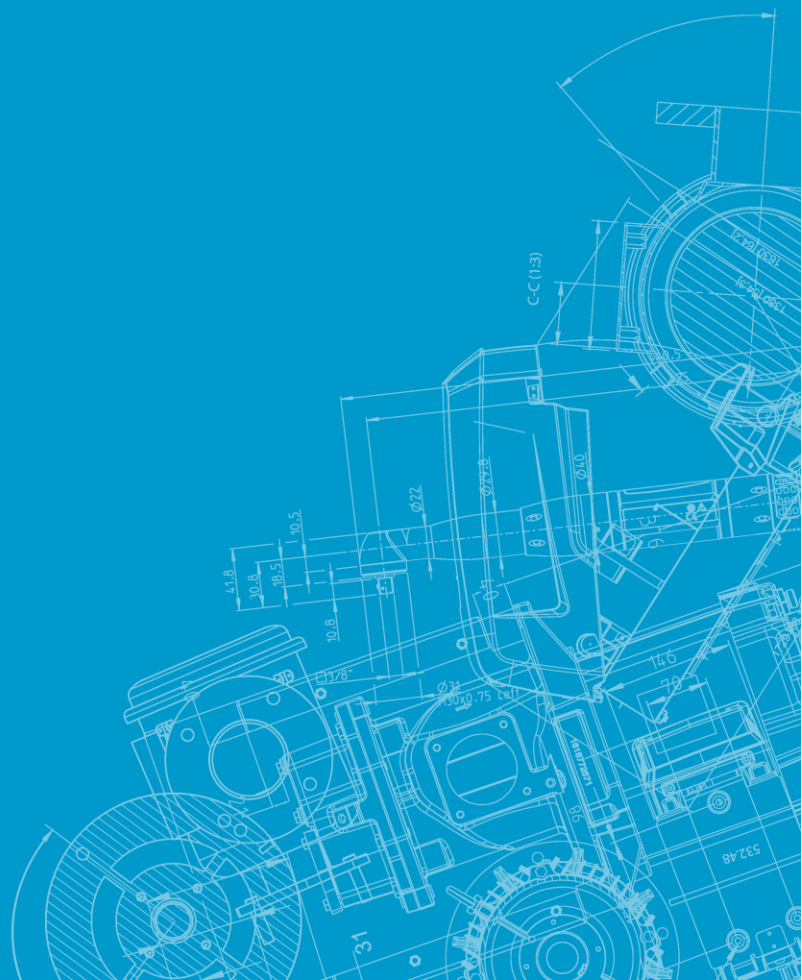
raise a request in FIS/Quantum for exact amount of selected foreign currency (flow started)

payment date – RPA prepares the runs, foreign currency ready for release on the same date when runs is done (minimal FX risk)

Atlas Copco

Atlas Copco

Interested? Want to join?

https://atlascopcoservices.jobs.cz/

Atlas Copco