



Details of a Multi-lateral Netting Solution

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1. INTRODUCTION

Many organizations wish to consider the business case for a multi-lateral netting solution for their group. This document considers the benefits and costs involved and also the technology and process that should be evaluated.

2. BENEFITS OF NETTING

Multi-lateral netting is both a process and system that collates payables and receivables information between a set of participating entities, and offsets them against each other so that just a single cash flow to or from each participant takes place to settle the net result of all cash flows. Typically used for intra- group payments and receivable, third party payments can also be included. It consolidates transactions and calculates settlement on a net basis.

The main benefits of a multi-lateral netting solution are:

- Brings structure and discipline to inter-company payment processing and ensures settlement
- Dramatically reduces the costs associated with the inter-company settlement process:
 - Reduced funds transfer costs: by reducing the settlement process to a single payment
 - Reduced foreign exchange spread cost: local offices do not have to buy and sell currency
 - Reduced float cost: net settlement reduces the amount of cash being transferred
- Reduces foreign currency risk through the netting process
 - Different group entities may be independently buying and selling the same currency
- Improves and streamlines inter-company netting process. Simplifies payment and booking procedures. Simplifies inter-company reconciliation.
- Removal of the need for participants to execute foreign currency transactions.
- A significant reduction in the overall workload of the finance department of each participant.

A financial benefit evaluation can be undertaken to estimate the possible financial benefits arising based on the scale and scope of a group's activities. Financial benefits are possible from:

- Reduced foreign exchange spread cost: local offices do not have to buy and sell currency
- Reduced float cost: net settlement reduces the amount of cash being transferred
- Reduced funds transfer costs: by reducing the settlement process to a single payment.

3. A NETTING SOLUTION

The main components of a netting solution are as follows:

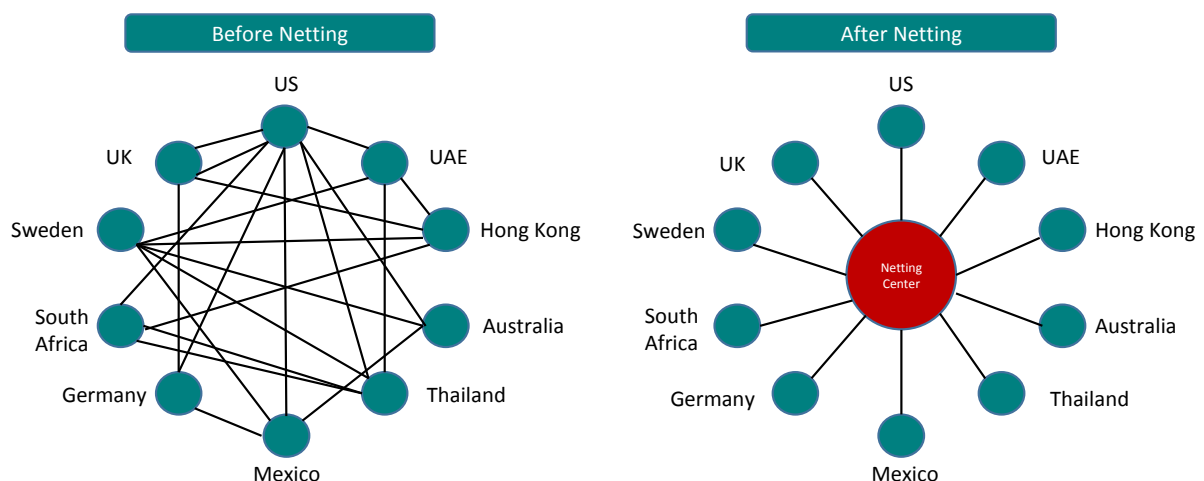
- State-of-the-art Netting System
 - Either receivables or payables based netting
 - Entities have web access and either input/upload receivable or payables information
 - Each entity (usually) pays or receives a single local currency balance, settled or posted as an inter-company transaction

Monthly (or more frequently) Netting Administration by a Netting Center

- Dealing with participant queries
- Monthly cycle administration
- Reporting and statement issuance
- Confirmations
- Preparation of inter-company file
- Preparation and execution of FX exposure position
- Settlement of netting payments
- Reconciliation

- Netting set-up and implementation
 - Solution design
 - Data collection
 - Systems & infrastructure set-up
 - Participant training
 - Solution testing

Netting results:



4. NETTING SYSTEM

The main features of a Netting System should include:

- The features necessary to establish users and static data for the netting and to maintain user ids and reset passwords. The system is entirely internet based allowing easy access by the subsidiaries.
- The System should maintain the records needed and generates instructions to debit and credit the netting center accounts. The system does not physically debit and credit accounts at the bank but provides information in the form of reports and export instructions, to be able to do so.
- The System should contain functions to send reports and notices to the client and by use of the netting center to check that items are in the system.
- The System should contain comprehensive reports, view screens with search capability to allow the netting center to enquire on details needed to answer any enquiries.
- Net position reports should be available on demand in the System whenever a subsidiary needs it. These can also be emailed in bulk at the end of the netting cycle so the user companies have a definitive final copy of the result of the netting

Companies should be able to create their own roles, according to their specific needs. All permissions should be handled through the use of roles. No one user should be given the full control of the application. Users are linked to roles to create profiles. An audit trail should be available that tracks every change, the use of contacts will allow the companies identify who made the creation/modification/deletion, and therefore enhances accountability.

5. NETTING PROCESS AND CYCLE

The Netting Center should draft a netting policy document and a participant process document that describes the policy guidelines that apply and the operating procedures for participants.

The main components of the process are:

1. All subsidiaries have internet access to a payables or receivables based netting system
2. All participants are familiar with the netting cycle and approach.
3. System Login IDs and passwords are provided by the Netting Center, who are the administrators of the netting system.
4. All invoices uploaded in the Netting System either manually or via a file upload. Uploads may be made at any point during the netting cycle from the settlement date of the previous cycle to the input closing date of the current cycle.

5. Invoice reconciliation and dispute resolution in the Netting System with exception/reporting/communication facilities.
6. The System may automatically perform a matching process of all payable items against all receivable items. Where there are mismatched payable or receivable items, these should be flagged as “unmatched”.
7. Unmatched items may be “discussed” by the receiver and the payer, by adding a comment to individual invoice items under investigation. In response to discussions, participants can make amendments to their data, either by uploading a corrected file, or by manually changing individual invoice items. Uploading a corrected file should not produce duplicate payables or receivables, as the system will ignore lines which are already present in the system.
8. In the event that agreement cannot be reached between both parties to a mismatched invoice, a process needs to be agreed and embedded in the System.
9. The Netting System nets confirmed invoices to one single payment per entity (usually the local base currency).
10. The Netting Center provides FX exposure information to Group Treasury.
11. Two days prior to settlement date, netting rates are fixed for the cycle, and a final netting statement is e-mailed to the participant. Netting statements should detail the net payable and/or receivable amount(s) for the participant.
12. Net values are usually cash settled but can also be settled over inter-company bank accounts.
13. On the day following the settlement date, a new cycle is opened and the participant may begin uploading, discussing and amending invoice items for the next cycle.

6. FTI TREASURY TURNKEY NETTING SOLUTION

FTI Treasury is a specialist treasury services company providing **Treasury Outsourcing, Consultancy and Support** to a diverse global client base of corporates, banks and public sector treasuries. Founded in 1988, FTI Treasury is based in Dublin's International Financial Services Centre (IFSC), the global center for treasury outsourcing.

FTI offers a netting service where:

- ✓ We set-up the process and system on your behalf. We train you staff globally
- ✓ We act as your Netting Center and administer the netting on an ongoing basis
- ✓ We maintain all static data, administer the users, provide support to participants and resolve queries
- ✓ We can execute the FX or provide you with the information to do so yourself
- ✓ We can settle the outgoing cash flows or provide you with the information to do so yourself.