

Netting - Going Beyond Intercompany Invoices

The standard use of a multilateral netting solution is to net intercompany invoices around a global organization, reduce payment volume, centralize foreign exchange and put a procedure in place that every subsidiary adheres to when settling Intercompany Invoices.

However there are several uses of a Netting Solution that go beyond this and allow for a centralized Treasury Center to gain further benefits from using our Netting solution

1. Currency Asks and Offers

If a subsidiary has a surplus foreign currency balance sitting in a bank account or has a large foreign currency external payment it needs to make, the subsidiary can have the transfer of that currency happen through the netting settlement process and they will be charged or credited in their functional currency. Take the case of an Australian subsidiary that has accumulated a EUR 5M balance sitting in an account that it doesn't need, rather than the Sub selling that to a local bank and getting a poor exchange rate they can offer that to the Netting Center and receive the equivalent AUD through their netting settlement. This allows the central treasury to make the decision about what to do with the EUR balance and how to convert the AUD/EUR position.

2. Hedging Subsidiary Positions

Most invoices are small enough that a subsidiary will accept the netting rate for conversion. If there is a large known invoice that a subsidiary is paying or receiving they can also do a Forward FX Trade with the netting center and have that trade incorporated into the netting. This has the effect of overriding the typical monthly netting rate a subsidiary will receive and gives them some control over the process. If their monthly settlements are large enough they could also choose to hedge a percentage of their settlements each future month to set their rates instead of using the Netting spot rates.

3. Netting External Hedging Programs

To gain further benefits from an FX Hedging Program some of our clients also have all their external FX Hedges settle on the Netting date each month. They then upload their Trades into Coprocess and use the netting solution to net those trades with each FX Bank thus reducing the number of payments and simplifying the settlement process. We automatically feed the payment systems and giving the banks one statement detailing all the trades and the net settlements.

4. Third Party Payments

Corporates typically have thousands of vendor payments to be made every month. These payments are frequently made by the subsidiary without any centralized controls. Instead of doing the vendor payments at each subsidiary we centralize these payments and do a "to pay on behalf of" using the Coprocess netting engine. The subsidiaries are charged using the netting statements, the supplier is notified by statement and any Foreign Exchange is centralized at the Netting Center.

5. Treasury Loans/IHB

If you are running an IHB or just need to fund your subsidiaries from time to time you can incorporate the settlement of Loans and Interest into your netting settlement process. This cuts down on the number of settlements, centralizes procedures and can automatically feed to and from your IHB structure or payment systems.

These are just some of our thoughts around the potential uses of netting beyond just settling Intercompany invoices, if you have any others please comment on our linkedin page.

[Contact Coprocess](#) to see how we can help you expand the use of multilateral netting