EUROPEAN ASSOCIATION
OF CORPORATE TREASURERS

Stefan Ingves
Chairman
Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002, Basel
Switzerland

7 September 2016

Subject: Consultation on modifications to Basel III Leverage Ratio Framework

Dear Mr Ingves,

We are writing to you concerning the recent consultation on the proposed changes to Basel III leverage ratio framework[1]. We understand that our letter comes after the official consultation period, but we do hope that our comments can still be taken into consideration.

We would in particular like to comment on one specific aspect of the consultation paper, namely the treatment of cash pooling. In particular with regard to notional cash pooling, the consultation proposes that the balances be reported on a *gross* basis, which does not allow netting of assets and liabilities or the recognition of credit risk mitigation techniques.

For many non-financial companies, cash pooling is a much needed and necessary cash management tool and it is important in our view to have a regulatory framework in place that recognizes corporates' needs. Cash pooling facilitates efficient and effective cash management procedures, and reduces costs. The different kinds of notional pooling structures (single vs. multi entity, single vs. multi-currency and domestic vs. cross-border) are very common in many EU countries and have been used for a long time, with what we believe is an appropriate level of credit risk mitigation.

In particular we are concerned about the following aspects of the proposed treatment of notional cash pooling:

- Grossing up the exposures within a notional pool will increase the pricing of these efficient and effective products but will not reduce the credit risk. In fact, a bank does not have a greater overall risk with netted cash pool accounts than with gross positions, as in both cases the cash pool accounts are held within the same company or the same group of companies. Therefore the increased capital requirements are not

[1] https://www.bis.org/bcbs/publ/d365.pdf

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justified by a greater risk for the bank.

- The guarantees provided and procedures applied within a notional pool converts the risk profile into a comparable risk profile of a zero balancing structure
- Corporates using cash pooling would face increasing costs due to:

    - one-time adjustments costs to change the applications in the financial supply chain
    - one-time costs to change the contractual arrangements with the banks
    - one-time adjustments costs to train personnel
    - on-going administrative costs as zero balancing account transactions need to be recorded and accounted for
    - reduced benefit of notional pooling due to increased transaction costs (bank transfers)

- Basel III provides financing arrangements for trade financing, which allows offsetting cash receivables and cash payables. The (positive and negative) positions within a notional pooling have similar characteristics, can be legally enforced to be netted out and could in our view be treated in a similar manner
- In some cases with cash pools in different time zones it is very difficult to use a physical cash pool structure as it will not be possible to make the necessary transfers by cut-off times

Given the significant impact on non-financial companies of the revision regarding notional pooling we would strongly recommend to conduct an in-depth impact analysis and to reconsider the appropriateness of this revision. We believe that non-financial companies should continue to have the choice between notional and physical cash pooling, or a combination of the two.

We of course remain at your disposal for expanding on our concerns at your convenience.

Yours sincerely,

Jean-Marc Servat
Chair – European Association of Corporate Treasurers

Cc:

<u>European Commission:</u>

Valdis Dombrovskis, Vice President for the Euro and Social Dialogue, also in charge of Financial Stability, Financial Services and Capital Markets Union

European Parliament:

Roberto Gualtieri, Chair Economic and Monetary Affairs Committee