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# Liquidity Management in Europe

Moving to the Next Phase of Regional Consolidation

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ABN·AMRO

Working Capital

# European Landscape for Cash Management

## Current Situation

- 25 EU member states
- Large market, 450 m people
- 12 EURO-countries, CEE preparing for entry
- Fragmented payments process, low STP rates, 34 ACH's
- Payment & collection instruments and legislation different for each country

## Single European Payments Area

- Regulators pushing for Pan-European ACH & Instruments
- Single Legal Framework
- Large investment required (USD 6-9 bn according to BCG)
- Timelines – 2008 first instruments  
– 2010 infrastructure

## What will Happen?

- Uncertain if banking community is ready to make significant investment in SEPA
- Upcoming referendum may slow down European momentum
- Payments market may remain fragmented, but transparency will improve

# Current Practices and how they will evolve

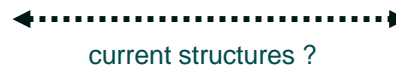
## 60-80% of Cash Centralised

- Business concentrated with only a few banks
- Centralisation of liquidity in EUR-area completed
  - XB pooling in place
  - Single or multi-entity pools on top
- Investment solutions linked to cash pools

## Regulatory Issues

- **Opportunities**
  - Abolishment of WHT
  - EU Regulation on XB payments
  - New Legal Framework (2007)
- **Challenges**
  - New Accounting Rules
  - Minimum capitalisation rules
  - Basel II

Need to fine tune

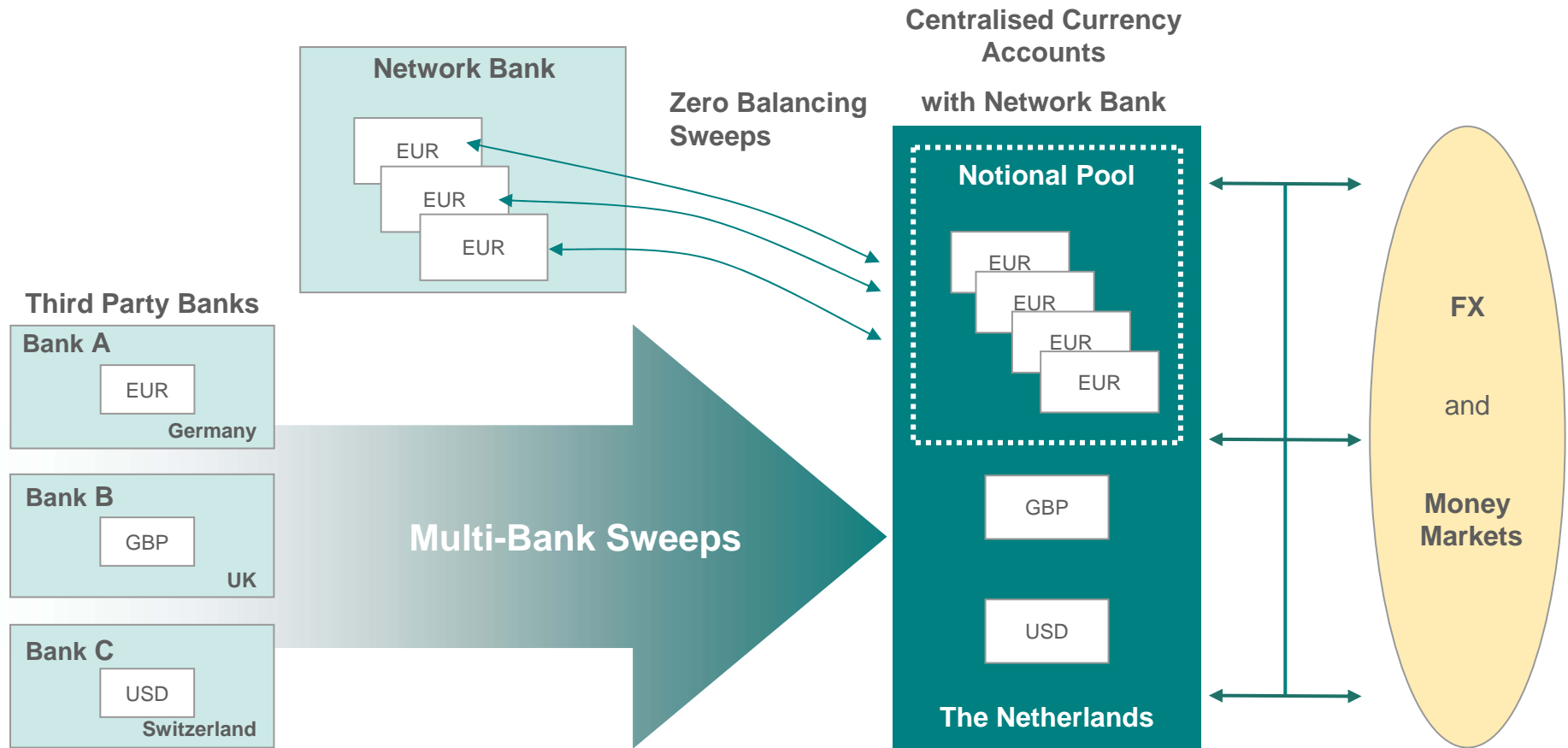


Companies will  
Further centralise and  
outsource

## Next steps in Regional Concentration

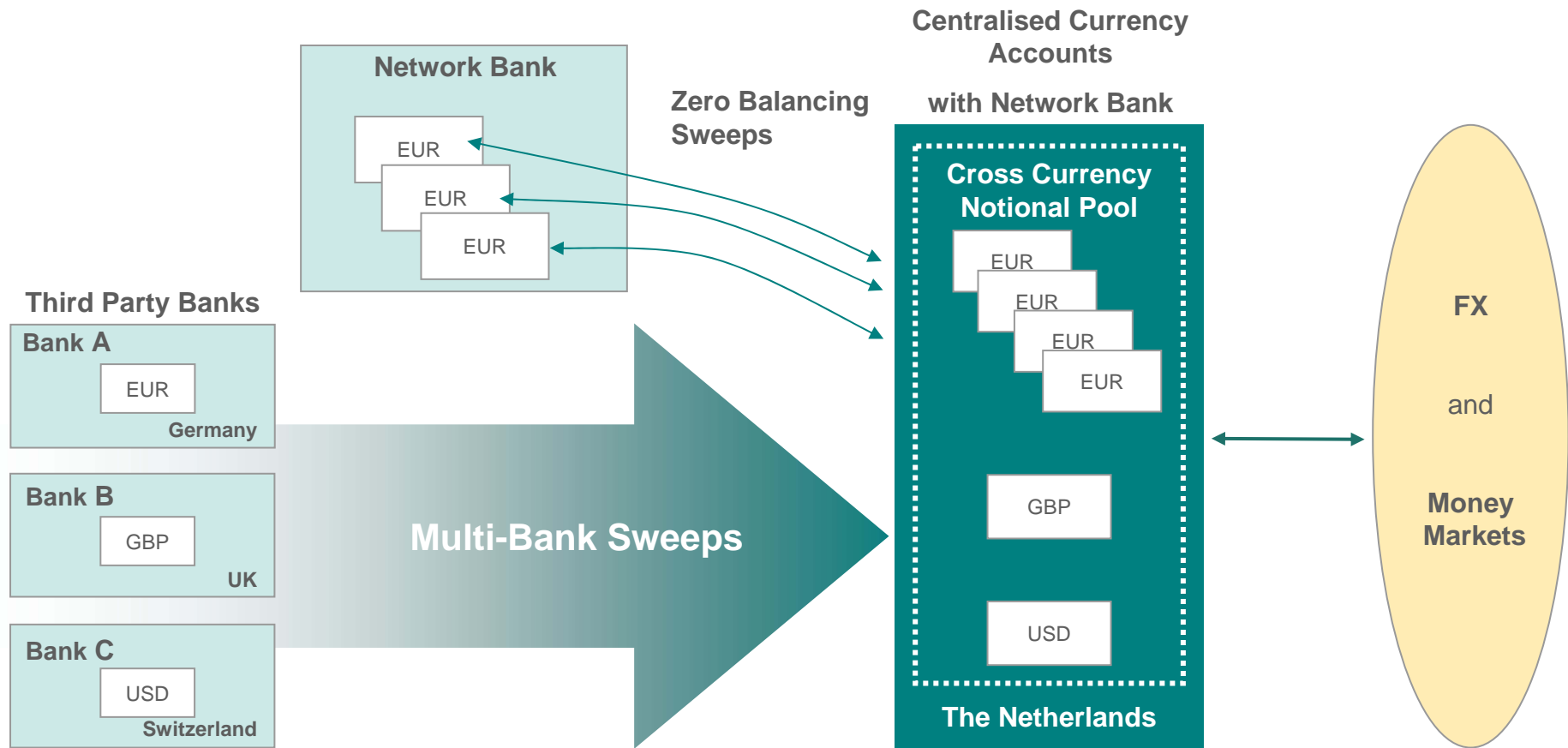
- Include Euro-accounts in CEE in European pools
- Automate concentration of cash from 3<sup>rd</sup> party banks
- Concentrate other currencies & apply set-off
- Sweep and convert non-core currency balances

# Example 1: Linking 3<sup>rd</sup> Party Banks to Centralised Cash Pool



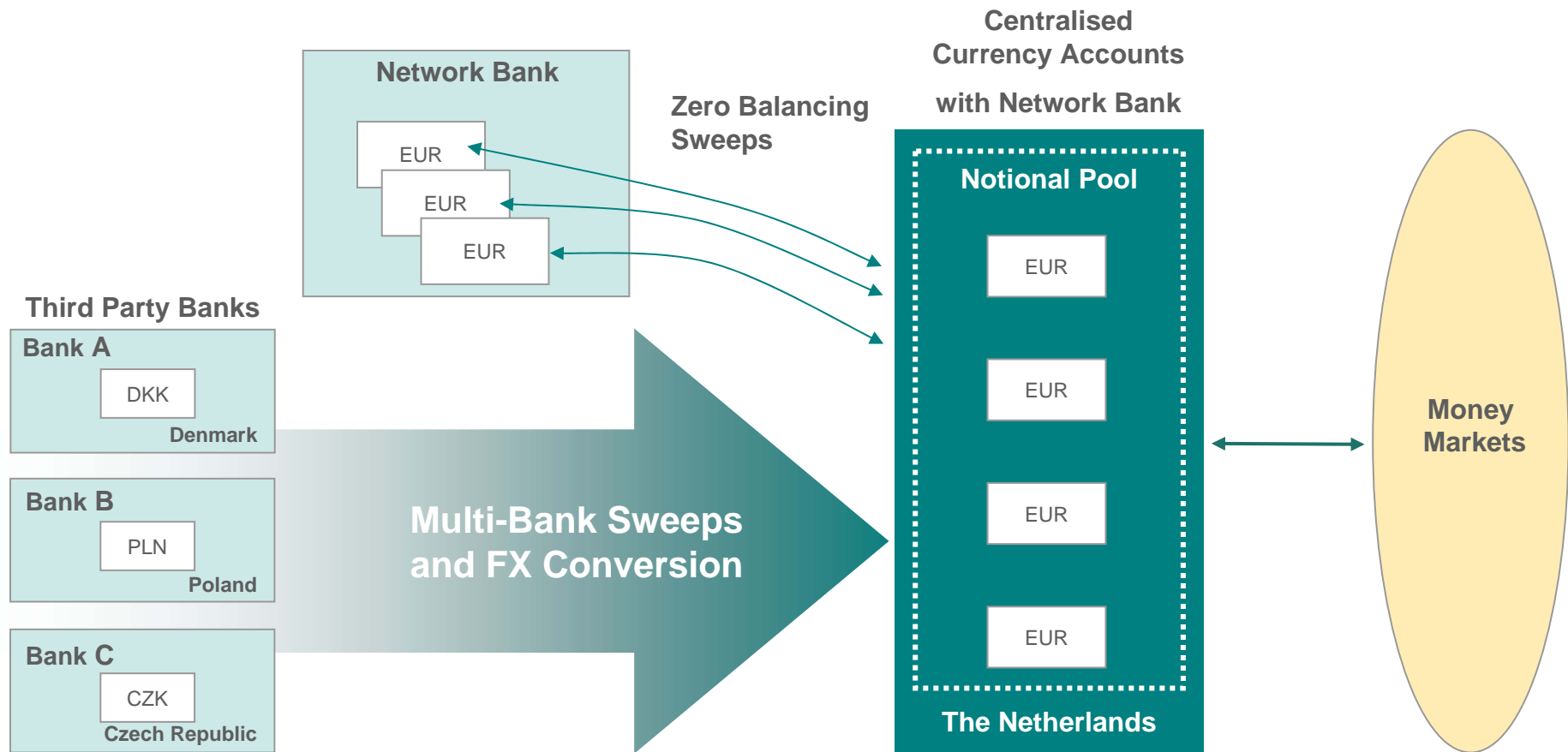
Automated checking of balances with 3<sup>rd</sup> party banks and generating transfers into cash concentration bank, providing greater control and eliminating manual work.

## Example 2: Core-Currencies in Centralised Notional Pool



*Notional conversion of positions into base currency and offsetting of debit and credit balances for interest calculation, eliminating FX-Swaps and intercompany loans*

# Example 3: Sweep and convert Non-Core Currencies



*Non-core currency balances automatically converted into functional currency.  
Managing one position in one currency.*

# Conclusions

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**Next major phase of regional consolidation in liquidity management is now underway**

- Leverages centralized treasury infrastructures established by companies in past 5 years
- Addresses key issues of liquidity control, forecasting, funding/investment efficiency and yield enhancement
- Helps companies achieve substantial benefits without impact on current treasury structure

**Provides platform for evolution of global solutions**