IMF Committee on Balance of Payments Statistics

*BPM6* Update
Direct Investment Task Team (DITT)

FOR PUBLIC CONSULTATION

# D.18 Cash Pooling in Direct Investment

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*This Guidance Note (GN) discusses the increasing relevance of the cash pooling arrangements provided by banks in the current context where multinational enterprises prefer to externalize the intra-group cash management, and thus, manage their global liquidity more effectively and with lower costs.*
*The methodological framework in the sixth edition of the* Balance of Payments and International Investment Position Manual (BPM6) *remains broadly relevant, but the topic could be specifically covered in the updated BPM and its compilation guide. The GN emphasizes the relevance of the actual application of the creditor/debtor principle and recommends to include a detailed description of the main types of cash pooling arrangements and ways to identify and classify associated debt instruments as either direct investment (DI) or other investment in the updated manual. Detailed guidance on the identification of different cash pooling types will assist compilers to better track cross-border intra-group transactions and positions and the counterpart economies involved, avoiding misreporting.*

## SECTION I: THE ISSUE

### BACKGROUND

1. **Cash pooling arrangements provided by banks allow corporations to externalize the intra-group cash management, and thus, manage their global liquidity more effectively and with lower costs.**[2] In other words, cash pooling by company groups represents an opportunity to ensure that the use of internal funds is maximized, and the cost of capital is minimized. Financial innovation has responded to the needs of company groups to manage funds in a centralized way by creating different cash pooling arrangements. These are agreements between a bank and the entities of a group, which can be located in the same or in different economies, allowing for pooling of cash in real time.

2. **Cash pooling appears to have become more popular after the onset of the financial crisis.** In an environment characterized by limited access to capital markets, reduced bank lending, low returns and higher risks on banks' deposits, corporate groups started to maximize their use of internal sources of financing. In particular, cash pooling is currently very relevant in certain European countries, and is mainly offered in the United Kingdom, France, and the Netherlands. At the moment, in the euro area Balance Sheet Items (BSI) statistics, only the Netherlands is reporting (notional) cash pooling activities.

3. **In 2019, the ECB found that the existence of banks offering cash pooling arrangements was generalized in the European Union.** Cash pooling vis-à-vis intra euro area counterparts was particularly relevant for insurance corporations and pension funds as well as for nonfinancial corporations. In addition, the offer of cash pooling arrangements by banks was concentrated in three main types: (i) single legal account, (ii) physical cash pool, and (iii) notional cash pool. While these types have a

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[2] In July 2016, the statistical recording of cash pooling activities was reviewed in the Statistics Paper Series of the ECB. The paper describes different cash pooling agreements with a focus on the aspects that are relevant from a statistical viewpoint. It addresses their statistical recording in compliance with *European System of National and Regional Accounts (ESA 2010)* and, specifically, focused on the methodological framework of BSI statistics only mentioning tangentially balance of payments and international investment position (IIP) statistics.

similar economical and financial interpretation, considering the debtor/creditor principle, the statistical treatment differs and has an impact in the functional category classification as well as in the geographical and sector identification of the counterpart (see Annex I for detailed examples).

4. **The main types of cash pooling arrangements are as follows**:

*i. Single legal account*

- It consists of (a) a set of virtual transactions/operational sub-accounts, which are used directly by the individual companies (part of a group), as well as the parent company, for their day-to-day operations; and (b) a top/master group account (held usually by the parent company),[3] which constitutes an obligation of the pooling bank vis-à-vis the beneficiary, and concentrates the funds of the group. The virtual sub-accounts only track the intra group positions, but do not provide for a direct relationship with the bank. The information on virtual transactions usually is part of the service provided by the pooling bank to the client but not necessary for the bank's accounting system, therefore it should be in separated system. From the point of view of the bank, only changes in the top/master account should be reported as this will reflect changes in its claims vis-à-vis the parent company, the only direct client in this cash pool type.

*ii. Physical cash pool*

- Each company that participates in the cash pooling arrangement holds an account with the pooling bank. In addition, there is a master account that usually is held by the parent company. The balances of the surplus accounts are transferred to the master account on a regular basis (e.g., on a daily basis at close of business). Conversely, the parent company transfers liquidity from the master account to the accounts in deficit at the end of the period (day). In that sense, they are all counterparties of the bank, and the deficit balances from pooling participants appear only temporally as assets on the bank's balance sheet.
- There are two types of physical cash pools. In a zero-balancing cash pool, the full balance of the surplus accounts is transferred to the master account on a regular basis. The target-based cash pooling specifies a (positive) threshold whereby when the balances of individual accounts exceed the threshold, liquidity is transferred to the master account from the individual accounts and conversely, liquidity is transferred from the master account to individual accounts when their balances are below the said threshold.

*iii. Notional cash pool*

- As in the physical cash pool, all the bank accounts represent a legal relationship between the pooling bank and the participating entities, which are thus direct counterparties of the bank. The pooling is performed by the bank by creating a notional top/master account that virtually consolidates the positions of the pooling participants but does not represent a resource or an obligation of the bank. As a result, no liquidity transfers resulting in inter-company loans take place. The funds will remain in the assets of the bank as a loan to a particular participating

[3] A special purpose entity could also be set up to hold the top/master account. To simplify the discussion in the GN, it is assumed that the parent company holds the top/master account.

entity, however, following the structure of the cash pooling, the loan is guaranteed by the cash pooling members, subject to lower charges, restrictions and implicit interest, and typically can only be drawn upon to the extent that the overall pool has a positive net balance.

5. **The cash pooling is not per se a financial instrument, it is a bank arrangement that involved deposits and loans between the participants.** To properly classify it, it is important to identify the cash pooling arrangement type that would help to identify the actual debtor and creditor. The potential impact of misreporting cash pooling activities at the level of the national and regional aggregates depends on the size and occurrence of cash pooling activities. In principle, bank reporting should not be a problem as they will be able to identify real from virtual transactions. The key question is, therefore, whether the entities that participate in these cash pooling arrangements are identifying these operations as cross-border transactions and whether they have enough information to classify them as loans under other investment or intercompany lending under direct investment (DI) depending on the scheme.

## ISSUES FOR DISCUSSION

6. **The *BPM6* does not specifically mention cash pooling arrangements.** In principle, the treatment and description proposed in this GN follows the general debtor/creditor principle applied to financial transactions, positions, and related income. Therefore, it does not propose any change to the current standards. However, due to the increasing relevance of the cash pooling arrangements and the different statistical treatment of each type and, therefore, the importance of its identification, the GN proposes to include a detailed description of the types of cash pooling arrangements and their different statistical treatments in the updated BPM and its compilation guide.

7. **From the point of view of the banking sector, banks should be able to report cross-border transactions and positions when they have legal claim/obligations vis-à-vis nonresident parties participating in cash pooling arrangements.** Internal bookkeeping entries in the virtual accounts should not be seen as bank transactions/positions.

8. **The parent company and its subsidiaries should be able to report the internal booking entries as intercompany lending (assets and liabilities) depending on the direction of the funds, that is, if they become creditors or debtors.** The presence of cash pooling arrangements needs to be identified via DI surveys when they take the form of single legal account or physical cash pool. If an overdraft or loan is received by a pooling participating subsidiary and covered by a single legal account or a physical cash pool, the creditor is the parent company (the holder of the top/master account) and the recording is done as inter-company loans in DI (except for the debt between affiliated financial intermediaries, specified in the *BPM6* paragraph 6.28). However, if the overdraft or loan is based on a notional cash pool, the creditor is the pooling bank and, thus, the debt should be recorded in other investment (unless there is a DI relationship between the bank and the debtor that is not subject to the recommended classification provided in the *BPM6* paragraph 6.28). Table 1 summarizes the proposed statistical treatment for the different types of cash pooling arrangements from the perspective of the compiling economy of the participant subsidiaries.

**Table 1. Summary of the Treatment of the Participation of a Subsidiary in a Cash Pooling Arrangement**

| Type of cash pooling | | Instrument/ Functional category: asset | Instrument/ Functional category: liability | Counterpart |
|---|---|---|---|---|
| **I. Single legal account (SLA)** | | Debt instruments/Direct Investment[1] | Debt instruments/Direct Investment[1] | Owner SLA |
| **II. Physical cash pool** – with a master account (MA) | **Zero-balancing** | Debt instruments/Direct Investment[1] | Debt instruments/Direct Investment[1] | Owner MA |
| | **Target-based** | Deposits (up to the target) - Debt instruments/Direct Investment[1] | Debt instruments/Direct Investment[1] | Bank - owner MA |
| **III. Notional cash pooling** | | Deposits/Other investment | Loan/Other investment | Bank |

[1] *Except for the debt between affiliated financial intermediaries that should be included under other investment as specified in the* BPM6 *paragraph 6.28. Debt instruments refer only to deposits and loans following the convention that if a bank is the debtor, the instrument takes the form of deposits, otherwise the instrument is a loan.*

9. **Overall, the recording of cash pooling arrangements in the balance of payments is complex and depends on the identification of the actual debtor and creditor instead of the payment service provider:** misrecording may lead to net errors and omissions, geographical asymmetries and a decrease in the quality of the functional category split in the financial account.

## SECTION II: OUTCOMES

10. **The drafting teams' recommendation and discussions during the DITT review confirmed the need to include a description of the types of cash pooling arrangements and their different statistical treatments under Appendix 6a: Topical Summary—Direct Investment** and to include some examples in the updated compilation guide. Although the statistical treatment of cash pooling arrangements proposed complies with the current standards, the descriptions and examples will help reporters and analysts to understand the relevance of a proper adherence to the debtor/creditor principle in the reporting.

11. **In general, DITT members do not see any problem of identification from the bank reporting of the debtor/creditor counterpart involved in the cash pooling arrangements although they are not separately reported in most of the cases.** It was also agreed that information from virtual bookings is not reported by banks therefore cannot generate any double counting.

12. **The DITT discussion on the potential problems in the reporting of cash pooling by the DI companies was more heterogeneous.** Most of the countries do not identify separately this type of arrangements in the DI surveys. This is not considered so relevant if the reporters are able to identify who are the actual debtors and creditors and they are not mistaken with the payment service provider. However, a few members mentioned that they received occasionally questions from respondents, therefore the clarifications and descriptions in the update of the manual will be very helpful.

***Questions for Discussion:***

1. *Do you consider it relevant to include a description of the main types of cash pooling arrangements and their different statistical treatments in the updated BPM? Would it also be relevant to include some examples in its updated compilation guide?*
2. *Do you see any potential problem in how companies are reporting cash pooling—that is, in the identification of the debtor/creditor counterpart depending on the type of cash pooling arrangements?*

## Annex I. Recording Cash Pooling Structures in the Balance of Payments and International Investment Position Statistics

### *Single Legal Account*

This type of cash pooling consists of:

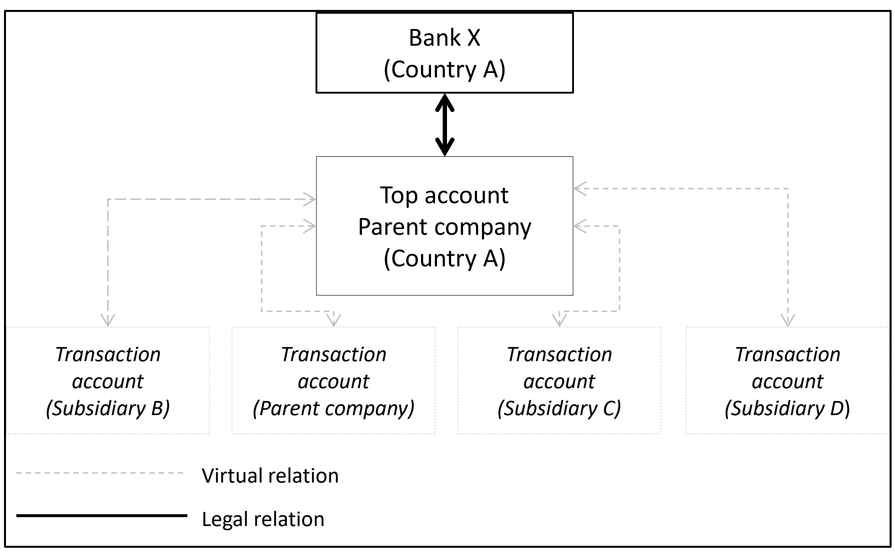
(a) a set of virtual transaction/operational sub-accounts, which are used directly by the individual entities (part of the group), as well as the parent company, for their day to day operations; and,

(b) a top/master group account (held usually by the parent company), which constitutes an obligation of the bank vis-à-vis the beneficiary and concentrates the funds of the group.

The virtual transaction sub-accounts only track the intra group positions but do not provide for a direct relationship with the bank. The bank's accounting system may not even have detailed information of the individual entities as they are not direct counterparties/clients. The cash pool may include more than one transaction sub-account per entity or may be built separately for different currencies. These accounts are only constituted to support the organizational arrangements within the group structure.

From the point of view of the bank, only changes in the top account are relevant as this will reflect changes in its claims vis-à-vis the parent company. The virtual transaction sub-accounts keep track of the intragroup transactions and positions. When a transaction is sent (received) by a member of the pool from a non-group entity, from the bank's point of view it is the top account that is debited (credited).

**Figure 1. The Structure of a Single Legal Account Cash Pool**




For better understanding of the recording in the balance of payments assume the following example following Figure 1:

*Scenario 1.1: A Parent Company A, resident in Country A has 3 subsidiaries B, C, D resident in countries B, C, and D, respectively. The group decides to enter in a cash pool agreement by using a single legal cash account structure. The top account is held by Company A with Bank X, also resident in Country A. The cash pool consists of 100 EUR (40 from the parent, and 20 from each of companies B, C, D).*

The example considers the recording of the cash pool from the point of view of country A. Country A has 2 reporters: Bank X (S12T) and Parent Company A (assume part of sector S1P).

The parent and companies B, C, and D transfer the respective amounts from their domestic banks to the top account. The transactions from B, C, and D are recorded in balance of payments and IIP statistics due to the cross-border dimension while the deposit placed by the Parent Company A is not included as it is a domestic transaction. This results in an increase of assets of the banking sector[4] of Country A vis-à-vis countries B, C, and D (assuming that Bank X has some accounts in other banks resident abroad).

**Table 1.1. Recording of a Single Legal Account Cash Pooling Scheme**

| **Country A** | | | | | | |
|---|---|---|---|---|---|---|
| | **Opening position** | | **Transactions** | | **Closing position** | |
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| Financial account | 1000 | 0 | 60 | 60 | 1060 | 60 |
| Portfolio investment | | | | | | |
| Direct investment | | | | | | |
| *Intercompany loans* | | *0* | | *60* | | *60* |
| Other investment | | | | | | |
| *Curr. & Dep./loans(S12T)* | *1000* | *0* | *60* | | *1060* | *0* |
| Net i.i.p. / net errors and omissions | 1000 | | 0 | | 1000 | |
| The closing balance sheet of bank X records an overnight deposit of 100 EUR as a liability with the parent company. | | | | | | |

The balance of payments of Country A records 3 inter-company loans vis-à-vis countries B, C, D of 20 each, amounting to a total position of 60 for the other sectors (S1P). This arises from the fact that the parent is the single "legal owner" of the account, but part of the funds were provided by the subsidiaries.

*Scenario 1.2: Assume that in the month after setting up the cash pool, Company B decides to purchase a debt security, worth 30 EUR, issued in Country Z.*

Company B will make use of the cash pooling arrangement and the payment will go through the top account (the top account will be debited 30 EUR)[5] and will be paid to Country Z or another country depending on the payment instructions and also the seller of the security. This will result in the elimination of the inter-company loan of B to A and the creation of a loan of A to B worth 10 EUR. Since the payments go through the bank, the other investment of Country B is not impacted.

[4] By assumption for the purpose of this note that all the counterpart legs of the transactions between banks will be recorded through changes in the foreign assets of the resident bank.

[5] The amount will be paid to the seller or issuer (primary market) of the security that could be in Country Z or another country.

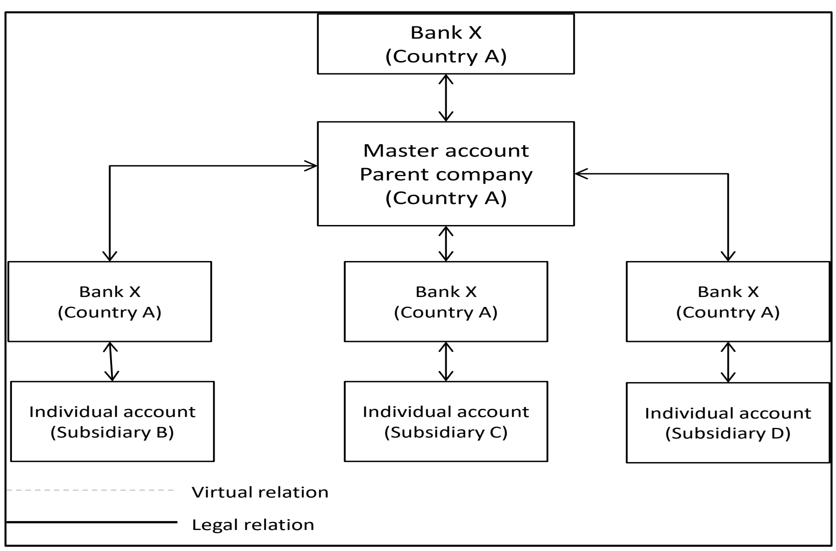
**Table 1.2. Recording of a Transaction Involving a Single Legal Account Cash Pooling Scheme**

| | Country A | | | | | | Country B | |
|---|---|---|---|---|---|---|---|---|
| | Opening position | | Transactions | | Closing position | | Transactions | |
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| **Financial account** | 1060 | 60 | -20 | -20 | 1040 | 40 | 10 | 10 |
| Portfolio investment | | | | | 0 | 0 | 30 | |
| Direct investment | | | | | | | | |
| *Intercompany loans* | | *60* | *10* | *-20* | *10* | *40* | *-20* | *10* |
| Other investment | | | | | | | | |
| *Curr. & Dep./loans (S12T)* | *1060* | *0* | *-30* | | *1030* | *0* | | |
| Net IIP net errors and omissions | 1000 | | 0 | | 1000 | | 0 | |
| The closing balance sheet of Bank X records an overnight deposit of 70 EUR as a liability with the parent company. | | | | | | | | |

### *Physical Cash Pool*

In physical cash pooling all accounts that are part of the pool represent either a resource or an obligation of the bank vis-à-vis the entities that participate in the pool. In that sense they are all counterparties of the bank and the deficit balances from pooling participants appear temporally as assets on the bank's balance sheet.

**Figure 2. The Structure of a Physical Cash Pool**




There are two types of physical cash pools**. In a zero-balancing cash pool,** the balances of the surplus accounts are transferred to the master account on a regular basis (e.g., on a daily basis at close of business). Conversely, the parent company transfers liquidity to the accounts in deficit at the end of the period/day.

**The target-based cash pooling** specifies a (positive) threshold whereby when the balances of individual accounts exceed the threshold, liquidity is transferred to the master account from the individual accounts and conversely, liquidity is transferred from the master account to individual account when their balances are below the said threshold.

For better understanding of the recording in the balance of payments assume the below example following Figure 2:

*Scenario 2.1: A parent company, resident in Country A has 3 subsidiaries B, C, D resident in countries B, C, and D, respectively. The group decides to enter in a cash pool agreement by using a physical cash pool structure. The master account is held by the parent company with Bank X, also resident in Country A. Companies B, C, and D all have accounts at the same Bank X (20 EUR in each account). Assume the account is target-based, with a threshold of 10 EUR.*

Since at the end of the first day only 10 EUR will be left in the accounts of B, C, and D, this will give rise to intragroup loans in the balance of payments as companies B, C, and D are not resident in Country A. The loans to the parent amount to 10 EUR for each company.

On the other hand, Bank X will record a decrease in liabilities—currency and deposits of 30 EUR—vis-à-vis the companies in countries B, C, and D, as in the balance sheet of Bank X these 30 EUR are now a domestic obligation to the parent company.

**Table 2.1. Recording of a Physical Cash Pooling Scheme**

| Country A | | | | | | |
|---|---|---|---|---|---|---|
| | Opening position | | Transactions | | Closing position | |
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| Financial account | 1060 | 60 | 0 | 0 | 1060 | 60 |
| Portfolio investment | | | | | | |
| Direct investment | | | | | | |
| *Intercompany loans* | | *0* | | *30* | | *30* |
| Other investment | | | | | | |
| *Curr. & dep./loans (S12T)* | *1060* | *60* | | *-30* | *1060* | *30* |
| Net IIP / net errors and omissions | 1000 | | 0 | | 1000 | |
| The closing balance sheet of bank X records 4 overnight deposits (liabilities) vis-à-vis A (70), 10 (B), 10 (C) and (10) D. | | | | | | |

*Scenario 2.1: Assume that in the following month Company B purchases a debt security issued in Country Z from a resident outside Country A, worth 30 EUR.*

Company B will instruct Bank X for the payment due to the security's purchase, however as Company B only has at its disposal 10 EUR it will make use of the cash pooling arrangement resulting in a (temporary) overdraft of 20 EUR that will be shown in the balance of Bank X (the payment is carried out via the individual account of B). At the end of the day the parent company will transfer 30 EUR from the master account to cover the overdraft and to achieve the target of 10 EUR for the account of Company B. In total, this reduces their loan assets vis-à-vis the parent company (value of 10 EUR) and gives rise from the point of view of the parent company (Country A) to an intra company loan asset of 20 EUR vis-à-vis Company/Country B. The bank will make the payment to the security seller and assuming that it will use their assets abroad this will be marked as a reduction in assets (currency & deposits) for Other MFIs.

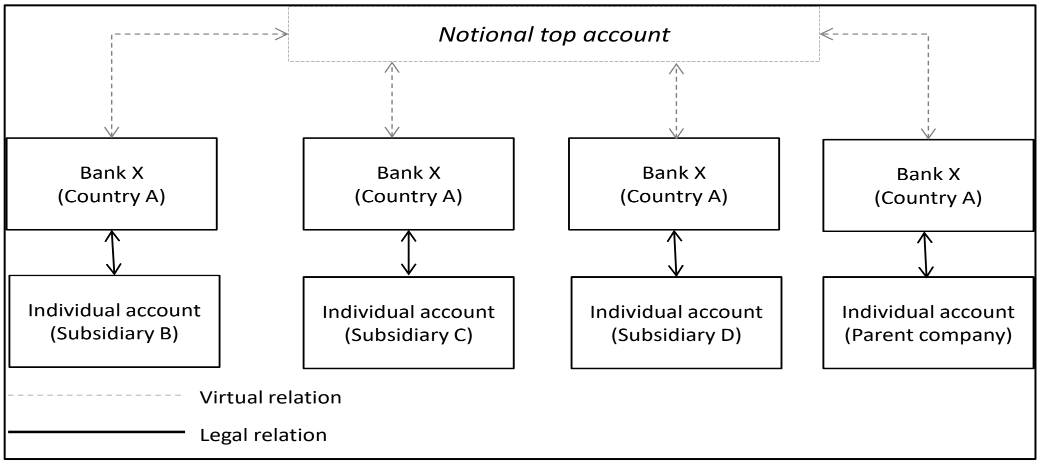
**Table 2.2. Recording of a Transaction Involving a Physical Cash Pooling Scheme**

| | Country A | | | | | | Country B | |
|---|---|---|---|---|---|---|---|---|
| | Opening position | | Transactions | | Closing position | | Transactions | |
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| Financial account | 1060 | 60 | -10 | -10 | 1050 | 50 | 20 | 20 |
| Portfolio investment | | | | | | | 30 | |
| Direct investment | | | | | | | | |
| *Intercompany loans* | | *30* | *20* | *-10* | *20* | *20* | -10 | 20 |
| Other investment | | | | | | | | |
| *Curr &, dep./loans (S12T)* | *1060* | *30* | *-30* | | *1030* | *30* | | |
| Net IIP/ net errors and omissions | 1000 | | 0 | | 1000 | | 0 | |
| The closing balance sheet of bank X records on the liability side, overnight deposits of EUR 40 (A), 10 (B), 10 (C), and 10 (D). | | | | | | | | |

***Notional Cash Pooling***

In the case of notional cash pooling, the accounts represent a legal relationship between the bank and the participating entities, which are thus direct counterparties of the bank. The pooling is performed by the bank by creating a notional top account that virtually consolidates the positions of the pool participants but does not represent a resource or an obligation of the bank. As a result, no liquidity transfers resulting in inter-company loans take place.

**Figure 3. The Structure of a Notional Cash Pooling**




*Scenario 3.1: A parent company, resident in Country A has 3 subsidiaries B, C, D resident in countries B, C and D, respectively. The group decides to enter in a cash pool agreement by using a notional cash pool structure. The individual account of the parent company records a deposit of 40 EUR, whereas the individual accounts of the subsidiaries record deposits of 20 EUR each.*

In this case, after the cash pool agreement Bank X keeps the liabilities vis-à-vis the same counterparts and there is no need to record intra group loans. Only the cross-border positions between companies B, C, D and the Bank X resident in Country A give rise to an aggregate liability position of 60 EUR.

**Table 3.1. Recording of a Notional Cash Pooling Scheme**

| Country A | | | | | | |
|---|---|---|---|---|---|---|
| | Opening position | | Transactions | | Closing position | |
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| Financial account | 1060 | 60 | 0 | 0 | 1060 | 60 |
| Portfolio investment | | | | | | |
| Direct investment | | | | | | |
| *Intercompany loans* | | *0* | | | | *0* |
| Other investment | | | | | | |
| *Curr. & dep./loans (S12T)* | *1060* | *60* | | | *1060* | *60* |
| Net IIP/ net errors and omissions | 1000 | | 0 | | 1000 | |
| The closing balance sheet of bank X records 4 overnight deposits (liabilities) vis-à-vis A (40), 20 (B), 20 (C) and (20) D | | | | | | |

*Scenario 3.2: Assume Company B buys a debt security issued in Country Z from a nonresident valued at 30 EUR.*

In this case, the payment goes through the individual account of B, but as B does not have sufficient funds, this will result in an overdraft of 20 EUR in its individual account that will be shown in the balance of Bank X. In contrast to the physical cash pool arrangement, no liquidity flows take place at the end of the business day. In other words, the existence of the cash pool is in this case purely technical, as in terms of balance sheets nothing is different from the case where the company carries out operations via individual accounts. Those funds will remain in the assets of the bank as a loan to the Company B, however, following the structure of the cash pooling, the loan is guaranteed by the cash pooling members, subject to lower charges, restrictions and implicit interest, and typically can only be drawn upon to the extent that the overall pool has a positive net balance. Likewise, the transaction results in a reduction of 20 EUR in the liabilities of Bank X vis-à-vis Country B since this deposit no longer exists as an asset of B and a new asset of Bank X vis-à-vis Country B arises due to the overdraft (10 EUR).

**Table 3.2. Recording of a Transaction Involving a Notional Cash Pooling Scheme**

| | Country A | | | | | | Country B | |
|---|---|---|---|---|---|---|---|---|
| | Opening position | | Transactions | | Closing position | | Transactions | |
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| Financial account | 1060 | 60 | -20 | -20 | 1040 | 40 | 10 | 10 |
| Portfolio investment | | | | | | | 30 | |
| Direct investment | | | | | | | | |
| *Intercompany loans* | | *0* | | | | *0* | | |
| Other investment | | | | | | | | |
| *Curr. & dep./loans (S12T)* | *1060* | *60* | *+10*<br>*-30* | *-20* | *1040* | *40* | | |
| *Curr. & dep./loans (S1P)* | | | | | | | *-20* | *10* |
| Net IIP/ net errors and omissions | 1000 | | 0 | | 1000 | | 0 | |
| The closing balance sheet of Bank X records on the asset side a loan of 10 (B) and 3 overnight deposits (liabilities) vis-à-vis A (40), 20 (C) and (20) D. | | | | | | | | |