Why Scalable Liquidity Structures Are *Key to Going Global*

A company's liquidity management structure should be robust and scalable to meet the demands of growing businesses. Part of the success formula for digital native companies is their ability to expand quickly and gain first-mover advantage. Rapid global growth brings challenges as companies establish and manage liquidity structures. Bank account management and liquidity are the cornerstones to a company's financial ecosystem and this article explores best practices when establishing a forward-looking liquidity structure.

Liquidity management structures have emerged as a meaningful tool to provide scale, efficiency and optimization that high growth companies need today. As a result, they have important implications for treasury and financial efficiency and should be a top priority for fast-growing companies.

Getting it right from the start

"Scalability matters," says Joseph Vasen, North America Client Advisory Head at Citi. "Liquidity management structures should be designed — in collaboration with banking, legal, tax and accounting partners — with the strategic objectives of the firm in mind. It's important to get it right from the start: unravelling poorly planned liquidity structures is costly, time-consuming and could hamper efficient growth."

Effective liquidity management involves monitoring, accessing, and optimizing a company's cash and other liquid assets — within its risk appetite — to meet its financial obligations. It enables companies to have enough cash or easily convertible assets to cover short-term liabilities while also maximizing returns on excess cash.

Key considerations

When planning liquidity management structures, companies should consider:

- **Regulatory frameworks of each country targeted for growth:** Local restrictions can limit capital movements, currency exchange, and other financial transactions, and hinder the efficient movement of funds complicating liquidity management.
- **Functional currency:** As companies begin to expand and collect in local currencies beyond their home currency, a more nuanced approach to liquidity structures may be required, including cross currency structuring while adhering to additional regulatory requirements.
- **Optimal location to centralize cash:** This is not always straightforward. For instance, non-USD accounts are not permitted in the US for liquidity management purposes; companies centralizing multiple currencies often choose locations such as UK, the Netherlands and Singapore as liquidity management hubs.
- **Compatibility with internal data management systems:** Ease of integration with enterprise resource planning or treasury management systems for bank balance and transaction reporting is key for automating reconciliation.
- **Cash flow forecasting models:** Only by knowing where and when cash will be received and required can companies invest surplus cash and avoid costly overdrafts.

Key tools as business enablers

Once companies are clear about their geographical ambitions and understand their cash flow, they can design their liquidity structure in collaboration with their partners. These structures can include liquidity management tools such as:

Target Balancing

Target Balancing is a commonly used tool to maintain a specific (or “target”) level for liquidity within each participating account. Companies set these target levels in advance, and funds are physically moved from one account to another when these triggers are reached. This ensures that accounts have sufficient funds for operational needs while minimizing excess idle cash. Target balancing automates movement of funds, frees up treasury staff time for more value-added functions and eliminates manual risk. If not done properly, this could result in inefficient, excess liquidity in the system and costly administrative overheads with a larger workforce required to manage global cash.

For companies that have multiple banking providers, multi-bank target balancing will enable balances held with third-party banks to be fully integrated into a single liquidity management solution. However, single bank target balancing is recommended wherever possible, as multi-bank target balancing might require excess balances to be held in accounts to account for clearing system cut-off times and accommodate potential debits overnight.

Notional Pooling

A great complement to Target Balancing is Notional Pooling. This is typically used by companies managing a basket of currencies with some level of asymmetry in inflows and outflows across those currencies. Companies can set a Notional Pool, where (typically) one legal entity takes the responsibility of pooling other entities cash across surplus and deficit balances across various currencies to optimize overdraft and FX costs. In addition to providing liquidity centralization benefits, it serves as a cost-efficient alternative to FX swaps. Interest benefit accumulated in Notional Pools can be redistributed to the participating entities according to a company’s transfer pricing policies.

Real-Time Liquidity

Many digital native firms are competing for the same pool of gig economy workers, and payment speed can prove a differentiator for companies looking to attract top talent. But real-time, anytime payments require considerations on real-time, 24x7 liquidity management.

Real-time sweeps will monitor account balances on a 24x7 basis and pull funds to the account as soon as it drops below a target balance level. This protects companies processing real-time payments from holding substantial buffer in their payouts account, or going into overdraft if an unexpected payment burst happens outside of regular business hours. Equally importantly, it prevents Treasury teams from working outside normal business hours to support 24x7 payment flows by leveraging controlled, rule-based smart automation.

Why the right partner matters

Cash is king for fast-growing digital native companies, especially as interest rates have risen. Choosing the right partner is paramount to reducing long-term burdens on the treasury team, optimizing costs, and facilitating scalable operational growth. Citi has decades of experience of working with the world’s leading companies to deliver tailor-made liquidity management structures designed to accommodate their ambitions. Citi’s client advisory team, comprised of former corporate practitioners with practical experience of establishing liquidity structures, can serve as an extension of corporate treasury teams as they plan their ideal structures.

There is no one-size-fits-all approach for liquidity management. Each company should consider their operations, business model and day-to-day needs to set up the right liquidity structure from day one.

This article is the last in a series looking at the challenges and opportunities facing businesses going global. Check out our first two articles for more details!

[Going Global: Striking the Balance Between Digital and Local (citigroup.com)]

[Why Payments Are Critical to Companies Going Global (citigroup.com)]

Candace Wenzel
Director, E-Commerce Global Solution Sales
Citi Treasury and Trade Solutions
candace.k.wenzel@citi.com

Meaghan Mcnally
Vice President, E-Commerce Business Development Sales
Citi Treasury and Trade Solutions
meaghan.mcnally@citi.com

2287520 06/24