

# Pushing the frontier of liquidity management: Against-the-Sun Sweep

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**C**ontrol, visibility, optimisation: these are the core challenges every treasurer faces. Companies that set up global pools to support the centralisation of liquidity management face even greater obstacles in terms of timely visibility of total cash positions and the ability to balance internal surpluses to fund operating accounts on a “just-in-time” basis. However, the ultimate challenge is to fund these accounts in a timely manner when the operating accounts are based in Asia and the global treasury is in the U.S. or Europe.

In this context, treasurers are turning to liquidity management mechanisms which not only provide the ability to minimise borrowings but also simultaneously improve yield. As borrowing reduction tools, sweeping and notional pooling solutions enable companies to utilise their cash surpluses across countries and entities in order to offset their borrowing positions in others. Furthermore, new liquidity tools are constantly being introduced to meet the growing trend to centralise the management of cash on a global basis. One such innovation, Against-the-Sun sweeping, has been specifically structured to meet the global treasurer’s challenge of providing just-in-time financing of operating accounts around the world.

## **LIQUIDITY MANAGEMENT TECHNIQUES TODAY**

In the last five years, there have been few advances in liquidity management. As a result, sweeping on a domestic, regional and global basis, along with single currency domestic notional pooling solutions have become the building blocks of liquidity management.

Sweeping refers to the technique of concentrating cash balances from selected locations into a single physical position — on a domestic or cross-border basis — in an automated manner. This type of sweep is also known as zero balance accounts (ZBA) if the target balance of the source accounts is set at zero.

Notional pooling is an automated method for pooling cash

balances into a single notional position, without the physical movement of cash between the participating accounts of the pool. The net effect is to enable a company to offset the debit and credit positions of the participating accounts.

## **KEY CHALLENGES TO DATE**

Although sweeping and notional pooling have been widely adopted within the treasury management industry, at a global level the challenge is to leave an adequate buffer in Asia to fund at least several days’ working capital requirements, while concentrating surplus amounts in the global header accounts in New York or Europe. If the Asia regional treasury team or operating finance team is not accurate in forecasting cash flow, obtaining funding from a global pool based in the U.S. and Europe becomes challenging. The Asia regional treasury centers will typically fund the shortfalls with one of two sub-optimal solutions — a bank overdraft which can be costly, or with the target balance left in the regional operating account.

## **GLOBAL CASH CONCENTRATION AND FOLLOW-THE-SUN SWEEP**

Follow-the-Sun sweep is an aptly named term for moving cash balance positions within a 24-hour cycle from Asia to Europe and/or subsequently to the U.S. Employed by companies that are typically cash rich in Asia, this liquidity technique is used by companies seeking to repatriate surplus working capital back to the U.S. or Europe. Surplus funds that are swept from Asia to Europe or the U.S. at the end of the business day in Asia, as a result, are available for use by the company’s European or U.S. entities during Europe or U.S.’s business hours.

## **LEVERAGING THE DIFFERENCES BETWEEN TIME ZONES**

As the major financial centres of Europe are 6 to 8 hours behind Asia’s key financial centres for regional cash concentration (primarily Hong Kong and Singapore), Follow-the-Sun sweep enables the zero balancing of the subsidiaries’ cash from Asia to Europe at a very late cross-border sweep cut-off time.

**“Against-the Sun sweep makes your cashflow work 24 hours a day”**

**HERE COMES THE SUN...**



Follow-the-sun sweep refers to the movement of cash balances within a 24-hour cycle from Asia to Europe and/or subsequently to the U.S. Against-the-Sun sweep moves cash balances eastward — from the U.S. to Europe or Asia, or from Europe to Asia.

The cycle is completed when the regional surplus in the company’s accounts in Europe has been concentrated into a European financial hub (London, Amsterdam, Frankfurt) and then swept to New York at the end of the European business day. Before the end of New York business day, the cycle restarts with a sweep from New York to Asia.

**AGAINST-THE-SUN SWEEP**

Against-the-Sun sweep moves cash balances eastward — from the U.S. to Europe or Asia, or from Europe to Asia. In an Against-the-Sun sweep, the Asian subsidiary calls for funds from the global header account as Europe and/or the U.S. at the end of the Asia business day with funds value the same day. Against-the sun sweep provides the corporate treasurer with the ideal solution for managing its subsidiaries and Asia liquidity positions on a just-in-time basis.

For companies with global pool header accounts in New York or Europe, Against-the-Sun sweep enables them to fund their payment accounts in Europe and Asia by the end of the day in each

of time zone.

This technique enables funding in the Asia Pacific region by the global centre on a just-in-time basis, saving both time and money for the company.

**CONCLUSION**

The introduction of Against-the-Sun sweep marks an industry turning point in global liquidity solutions, by providing global treasury centres with vastly improved opportunities to manage their global liquidity positions. This leads to two major benefits: greater visibility of cash positions and increased control of liquidity management on a truly global basis.

When implemented together with Follow-the-Sun sweeping solution, the net effect is global two-way sweeping that is as efficient as a domestic sweep. In summary, Against-the-Sun sweep makes your capital work 24 hours a day, by enabling global treasurers to manage global liquidity positions and overcome the challenge of time zones and turning them into a leverageable advantage. ■