

Highly Commended Winner Best Cash Management Solution Eaton Corporation

Wayne Ren, Head of APAC Treasury and Kathy Xie, APAC Treasury Manager



Powering Business Worldwide

Eaton Corporation is a leading global technology provider in diversified power management systems. Founded in the United States with corporate headquarters in Ireland, Eaton operates across 175 countries, with 2020 sales of US\$17.86bn.

Pooling, netting, OBO and information digitisation used to integrate Asia into IHB



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The challenge

Eaton has been on a journey in pursuit of an in-house bank (IHB) model to address centralisation of flows and balances to achieve operational efficiency, improved working capital, internal control and cost savings. The company has an IHB in Ireland with an established netting centre and a multi-currency pool of 23 currencies; yet the challenges to incorporate Asia remained.

Three objectives guided the APAC team:

- Strategic integration of liquidity among Eaton's 13 Asia in-country cash pools for effective intercompany borrowing and lending with Hong Kong regional hub and global IHB.
- Restructure to incorporate Asia subsidiaries into global AP-driven netting arrangements with prioritised markets for optimal control, streamlined and cost-effective transaction processing.
- Full-scale information digitisation for cross-functional data sharing, analytics and report deliveries.

Key building blocks of the solution needed addressing, including regulation, structure, funding, processes and technology.

The solution

Eaton worked with Citi on a three-tier approach for cash pooling, with the first being local currency (LCY) and US dollar pools across 13 of its 16 markets in Asia. The company then established a regional pool hub in Hong Kong as overlay for US dollar consolidation, sweeping cross-border with China and major ASEAN markets. Fund concentration to HQ is done via five multi-currency cross-regional sweeps to Ireland implemented in New Zealand, Australia, Singapore, Hong Kong and the Philippines. Eaton opted for zero-balance (ZBA) across the region with parameters set in the bank's global concentration engine (GCE). Sweeps vary by target balance, minimum sweep values, and sweep frequency were set to overcome the barriers of interbank cut-off times while providing full interest calculations. The cross-border pool between China and Hong Kong, for example, is set with two

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intraday sweeps at 1pm and 3.30pm Beijing time zone respectively, supplemented with daylight overdraft limit to allow liquidity sharing during daytime for Eaton China's unmatched cash positions across 28 entities. With aggregated average daily sweep value of US\$18m cross-regionally, and regional daily offsets of US\$17m, Eaton obtains an estimated cost saving of US\$2m with 5% effective interest rate.

Eaton chose China to lead Asia's pilot netting/OBO, not only because it holds 60% of Asian transaction flows with key suppliers, but also because of the access to open regulation and on-the-ground support based in Shanghai. The pilot confirmed Eaton's strategy of IHB with centralised global policy-setting, regional execution, and local booking.

The solution kicked off with regulatory approval from State Administration of Foreign Exchange (SAFE) under No. 7 Policy guiding foreign currency (FCY) cross border netting and OBO structures.

To manage timely balance reporting and efficient liquidity sharing, all participating pool entities send MT940s and MT942s to the bank's GCE. To manage balances from third-party banks, Eaton implemented multi-bank sweeping to concentrate balances into the pool header.

The implementation of host-to-host enables connectivity of Eaton's centralised Domestic Fund Concentration Account (DFCA) onshore in China to its Ireland IHB and to automate FX confirmation with the bank, Eaton adopted a confirmation-matching provider.

Best practice and innovation

Eaton's APAC team generated a sophisticated degree of operational and strategic value via its initiatives of Asia integration to its global IHB, demonstrated by successful implementations of comprehensive pooling, netting, OBO and information digitisation.

Key benefits

- Increased efficiencies.
- Cost savings.
- Improved risk management.

"We have a long-term ambition to enhance global centralisation of liquidity and commercial flows. The IHB extension in Asia has been truly solid and transformational, generating significant cost savings and efficiencies," says Wayne Ren, Head of APAC Treasury.



APAC wider integration with global in-house bank is one of the core targets of Eaton, along with higher level of digitalisation and automation. The past 12 months have seen Eaton and Citi successfully connect China to global IHB's Netting and OBO structure together with flexible cross-border TBA solutions. For 13 markets of APAC, they implemented dynamic structures of liquidity centralisation to IHB via regional hub, centralised FX, digitalised docs delivery, wider application of Citi's Instant Payments, e-Tax, Citi Payment Insight, Liquidity Manager, SWIFTnet etcetera.

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