

The pharmaceutical treasuries as financial actors

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A distinctive feature of the Basel financial centre is the presence of the treasury departments of Roche and Novartis. These departments manage the liquidity, the foreign exchange exposures, the debt and the investments of groups with annual revenues of tens of billions of francs. They issue bonds in Swiss francs, euros, dollars and other currencies, they maintain credit lines with banks throughout the world, they manage cash pools that concentrate the liquidity of hundreds of subsidiaries and they hedge currency and interest rate risks with derivatives.¹

The bond issues of the pharmaceutical groups are among the largest corporate bond issues in Europe. Roche and Novartis have high credit ratings, which allow them to borrow at low cost and to place their bonds with insurers, pension funds and asset managers throughout the world. When they finance large acquisitions, they raise billions of dollars within days. The banks that arrange these issues, among them the international investment banks, compete for the mandates, which the treasury departments in Basel award as sophisticated counterparties.

The pharmaceutical treasuries also function as internal banks. Their cash pools allow subsidiaries with surplus liquidity to lend to subsidiaries that need funds, so that the group as a whole minimises its external borrowing and maximises the return on its cash. These internal financing arrangements raise questions of transfer pricing, since the interest rates charged between subsidiaries in different countries affect the allocation of profits and taxes. Questions of regulation arise as well, since internal banking activities can, under certain conditions, fall under the rules on banking or financial market infrastructure. Group companies that provide financing only within their group are exempt from the licensing requirement of the Banking Act, but they must structure their activities carefully to remain within the exemption.²

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The presence of these treasuries gives Basel a concentration of corporate finance expertise that is unusual for a city of its size. Treasury professionals, tax specialists, transfer pricing experts and lawyers who specialise in corporate finance work in Basel for the pharmaceutical groups and for the firms that advise them. This expertise belongs to the financial centre, even though it is located in industrial companies.

1 Notes

1. On the treasury operations of Roche and Novartis (bond issuance in several currencies, cash pooling, hedging), see the annual reports and financial statements of Roche Holding AG and Novartis AG. To be verified. ↩
2. On the exemption of intra-group financing from the banking licence requirement (Art. 5 para. 3 lit. c of the Banking Ordinance, SR 952.02) and the treatment of cash pooling, see the standard commentaries on Swiss banking law. To be verified. ↩

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