

Treasury in Basel: cash pooling and in-house banking

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Behind the large transactions stands a permanent organisation in Basel that manages the daily finances of the groups. Both Roche and Novartis operate central treasury functions at their headquarters, which manage liquidity, funding, currency and interest rate risks, relations with banks and the investment of surplus cash. These functions employ specialists in capital markets, risk management, cash management and accounting. Their work combines the techniques of a bank's treasury with the needs of an industrial company whose primary business lies elsewhere.¹

A central tool is cash pooling, in which the bank balances of subsidiaries in many countries are concentrated in accounts held by a group finance company. In physical cash pooling, the balances are actually transferred to the central account at the end of each day, while notional pooling offsets balances for interest calculation without transferring funds. Cash pooling allows the group to use the surplus liquidity of some subsidiaries to fund the needs of others, thus reducing external borrowing and bank charges. It also gives the central treasury a daily overview of the group's liquidity, which is essential for a company with operations in more than a hundred countries.²

Large groups also operate in-house banks, which act as the counterparty for all financial transactions of subsidiaries. A subsidiary that needs foreign currency or a loan deals with the in-house bank, which nets internal positions and goes to the external market only for the remaining exposure. Payments between subsidiaries are settled through internal accounts, which reduces the number of external transactions. The in-house bank often operates a payment factory that processes payments to suppliers on behalf of subsidiaries. Such structures raise questions of Swiss banking law, since a group finance company that accepts deposits from many entities

might appear to be engaged in banking business, although intra-group activities are exempted under the Banking Ordinance.³

Cash pooling has a corporate law dimension that has been discussed in Swiss legal literature. A Swiss subsidiary that transfers its liquidity to a group company abroad grants a loan that must be justified at arm's length and may be treated as a hidden distribution of profit if the borrower's creditworthiness is doubtful. The Swiss Federal Supreme Court and the literature on cash pooling after the Swissair insolvency have emphasised the duties of the boards of participating subsidiaries. Treasury organisations therefore document the terms of cash pooling arrangements carefully, guided in part by the safe-harbour interest rates that the tax authorities publish for intra-group loans every year.⁴

1 Notes

1. On the central treasury functions of Roche and Novartis in Basel and their responsibilities, see the financial risk management sections in the notes to the consolidated financial statements of both groups. To be verified. ↩
2. On physical and notional cash pooling in multinational groups, see the literature on corporate treasury management and the financial risk management sections in the annual reports of Roche and Novartis. To be verified. ↩
3. On in-house banks and payment factories in multinational groups and the exemption of intra-group financing from the licensing requirement under the Swiss Banking Ordinance (Article 5 para. 3 lit. c BankV), see the Banking Ordinance and the circulars of FINMA. To be verified. ↩
4. On the corporate law aspects of cash pooling in Switzerland, including the discussion after the Swissair insolvency, the restrictions on the return of capital (Article 680 para. 2 OR) and the annual circulars of the Federal Tax Administration on safe-harbour interest rates for intra-group loans, see the decisions of the Federal Supreme Court and the literature on Konzernfinanzierung. To be verified. ↩

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