Notional Cash Pooling Incorporating CPO

Overview

Notional Cash Pooling (NCP) is a strategic liquidity tool that enables multinational corporations to simplify operations and improve cash management, but more importantly, to optimize interest and funding costs across global bank accounts—without physically transferring cash. It is especially beneficial in volatile macroeconomic environments where optimizing yield and minimizing risk are paramount.

In NCP, banks notionally aggregate balances across accounts and entities, often across currencies. The bank calculates net interest as if all balances were centralized, while the actual funds remain untouched—preserving entity-level legal separation.

How Multi-Currency Notional Pooling Works (in USD)

In a multi-currency pool, balances are nominally converted to a common reference currency (typically USD) using daily market FX rates. The USD equivalents are then aggregated. If there is a shortfall, additional USD is deposited. If there is excess, USD may be withdrawn to reduce funding costs from credit facilities.

Example:

Legal Entity	**Currency**	**Balance**	**USD Equivalent (FX Rate)**
US OpCo	USD	+5,000,000	+5,000,000 (1.00)
UK OpCo	GBP	-1,500,000	-1,950,000 (1.30)
Germany OpCo	EUR	+1,000,000	+1,100,000 (1.10)
Singapore OpCo	SGD	-2,000,000	-1,480,000 (0.74)
Net USD Position			+2,670,000

Unlocking Additional Value with Currency Pool Optimizer (CPO)

While notional pooling delivers structural efficiency, Currency Pool Optimizer (CPO)—a patented AI-driven treasury overlay—goes further by actively enhancing yields. CPO applies machine learning, market scanning, and automation to monetize inefficiencies in how banks price interest, FX swaps, and funding costs.

CPO Adds Value via Four Mechanisms:

1. Interest Rate Spread Reduction
   CPO rebalances pools toward currencies with tighter interest spreads. For instance, shifting balances from GBP (30–40 bps spread) to USD (15–20 bps) cuts spread costs nearly in half—without introducing FX risk.
2. Utilizing Interest Rate Arbitrage
   CPO identifies supply/demand imbalances in FX swap markets resulting in opportunities to generate risk-free yield benefits relative to banks' set deposit/debit interest rates.
3. Timing Liquidity Squeezes
   End-of-period funding pressures often create predictable rate volatility. CPO positions pools proactively to benefit from this.
4. AI Forecasting
   Using real-time data, CPO forecasts optimal allocations across currencies and banks—detecting shifts in rates and spreads before manual processes would.

Integrated Example: NCP + CPO in Action

Returning to our earlier notional pool:

Without CPO: Net USD position is $2.67M. The group earns ~2.5% on that net balance.

With CPO:

- GBP short position is swapped into USD at favorable FX swap rates (saving 15 bps on spread).
- EUR balance is repositioned during month-end squeeze, capturing a 20 bps premium.
- AI model reallocates short SGD balance early, avoiding an increase in funding cost due to rate hike signals.

All transactions are booked at the pooled HoldCo-level accounts and do not impact entity-level balances.

Result: Net yield uplift of 45–60 bps on the same pool—without changing operational behavior.

Conclusion

Notional pooling simplifies liquidity aggregation; Currency Pool Optimizer turns it into a profit-generating engine. By intelligently reallocating balances and seizing short-term arbitrages, CPO enhances interest income while preserving the core benefits of notional pooling. For treasurers managing large, multi-currency exposures, this layered strategy is becoming essential to outperform in today's yield-conscious market.

Absolute Treasury – an automation technology company building a better treasury for treasurers

Authors: Christopher Dias and Andre Ohanissian

Contact Us at: cjdias@absolutetreasury.com or andre.ohanissian@absolutetreasury.com

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