Notional Pooling: Multi and Single-Entity Constructs

Facts, considerations and a decision framework

As outlined in Citi's Designing the Optimal Cash Pool, cash pooling structures span a continuum from physical concentration models that centralize liquidity across entities and jurisdictions to notional arrangements that optimize balances while keeping participant funds administratively separate. Multi-Entity, Multi-Currency Notional Pooling (ME-MCNP) occupies a deliberate position within this continuum and is often selected by organizations that prioritize liquidity optimization while intentionally avoiding comingling of funds across legal entities.

How Multi-entity, Multi-currency Notional Pooling works

1. Aggregates balances across multiple legal entities and currencies on a notional basis

2. Cash remains legally owned by the participating entities and each entity's original currency positions are preserved

3. Provides the ability to draw down the net pool position from a single account in a range of different currencies

4. Interest is calculated with reference to net balances, optimizing interest costs

The solution operates on a contractual framework of set off, supported by cross-indemnities or joint and several liability provisions or similar constructs as the legal basis to achieve multi-entity set off and, subsequently, the notional aggregation of balances.

Advantages

- Manage internal funding and temporarily deploy excess operational liquidity without commingling funds across legal entities
- Optimize interest while reducing daily currency conversions and short-dated FX swaps
- Potentially reduce accounting and compliance overhead compared with physical pooling structures requiring intercompany loans

Considerations

- Consider the implications of cross-indemnity and joint-and-several liability mechanisms when implementing an ME-MCNP
- Evaluate benefit allocation, transfer pricing, and determination of beneficial ownership of interest
- Conduct an assessment of the tax risks associated with adopting an ME-MCNP

Citi Observations

Enterprises with more centralized treasury models, particularly those operating an in-house bank, often gravitate toward Single-Entity Multi-Currency Notional Pooling structures. The efficiency of these solutions enables more dynamic management of currency-level liquidity imbalances and supports the effective deployment of operating cash across the organization.

In comparison, Multi-Entity MCNP may be used to enhance liquidity visibility, temporarily increase cash access, and optimize interest across cash held by multiple entities, while preserving legal ownership at the entity level. It is often implemented as part of a broader liquidity management framework, particularly in organizations with more decentralized treasury structures.

We observe the adoption of both notional pooling models across over 500 client pooling structures although the pace of single-entity structures has outpaced multi-entity structures in recent years. Citi advantages its clients by incorporating up to 25 currencies in 12 notional pooling hubs around the globe.

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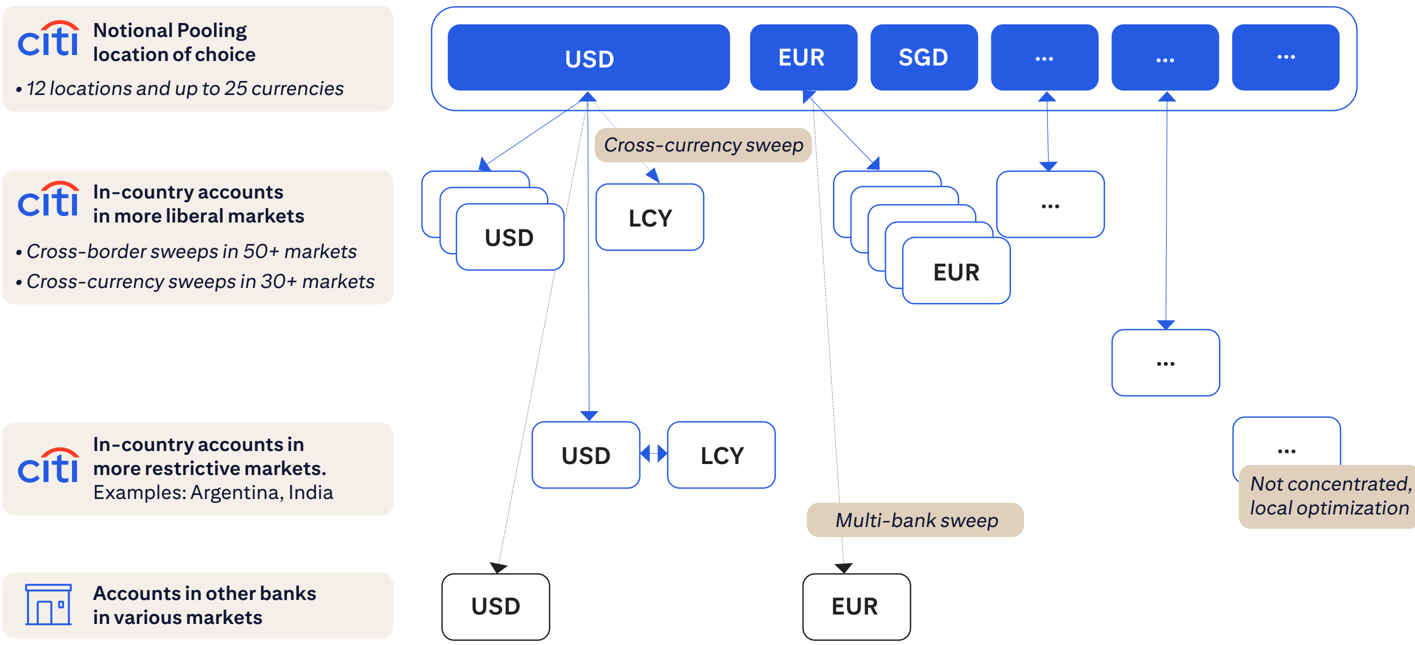
Cash Pooling Structure Comparison Matrix

Dimension	Single-entity MCNP	Multi-entity MCNP
Primary Objective	Cash Centralization	Interest optimization
Cash Ownership	Centralized with a single entity	Decentralized across several entities
Strategic Cash Redeployment	High	Limited
Tax Transparency	High	Low
Fit for Centralized Treasury Models (e.g. In House Banking)	High	Low

Citi Cash Pooling Capabilities

Notional Pooling structures are often integrated with methods to mobilize and convert cash from one location to another. The more accounts and currencies that are included in a structure, the more powerful the network effect becomes—enabling treasury to optimize a larger share of group liquidity, reduce fragmentation, and align cash more effectively toward its core objectives of visibility, efficiency, and funding optionality.



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