# Implementing a netting solution

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Multinational corporations are familiar with some of the obstacles involved with intercompany commerce. Foreign exchange risk, transaction quantities, and stagnant payment approvals can be expensive. In the realm of treasury management systems, a netting system can be the perfect solution. The following 2-part series will cover the basics of a netting solution, the requirements to implement, and the structure of the system itself.

## Netting fundamentals

Netting is the process of reconciling and netting intercompany invoices between two parties, resulting in a netted cashflow and final payment. Regarding treasury, the intent is essentially to minimize transactions through the reconciliation process.

Netting is especially productive for companies that have extended entities in multiple countries and currencies and routinely perform transactions among them. A netting center acts as a central intermediary between subsidiaries. Users upload invoices and the netting center will reconcile them based on pre-defined parameters, resulting in efficiently-netted cashflows.

There are countries that do not allow netting which can present hurdles. Luckily though, BELLIN's tm5 netting module introduces a virtual netting solution that can bypass this. Virtual netting ensures that invoices and receipts are reconciled wherever a subsidiary is based. You can learn more about the tm5 intercompany netting module by visiting BELLIN's website here (https://www.bellin.com/products/intercompany-reconciliation-netting/#icbalances).

## A netting workflow

The typical workflow of a netting center involves an input of data from each entity, an automated or centralized reconciliation process, and an output to each subsidiary after all invoices are processed and cashflows are netted. Where netting is allowed, each subsidiary receives one netted cashflow that must be paid to or by the netting center. In addition to greatly reducing the number of transactions, this segmentation centralizes foreign exchange and cash risk to the netting center.

Netting cycles can be defined by each company and can be either ongoing or on specific dates upon completion of invoice submittal.

## Participants

From planning to execution and optimization, typical stakeholders will include coordination between IT, accounting, treasury and human resources. The planning and forecasting will be a task for the accounting and treasury department to determine approval processes, invoice procedures, and execute ongoing functions. The technical implementation is handled by the IT department. Finally, the dispute management element of the system is determined by the human resources department, who establishes protocol for disputes or penalties.

## Implementation steps

What this requires - from an implementation point of view – is organization within accounting and treasury. A reliable process for payables submittal is paramount for the netting system to effectively reconcile and output cashflows. Companies experience stagnation and liquidity risk when invoices and payments are not reported which leads to ongoing delays in payments. Consequently, the first step to smoothly implement a netting system is to get accounting in order by establishing protocol for submittal.

The second phase of implementation involves determining who the participants will be, and their role in the cycle. As mentioned previously, a good start is with treasury, accounting, and human resources to establish the overarching structure to succeed. After establishing the participants, each entity will integrate within the netting system. BELLIN's tm5 netting module (https://www.bellin.com/solutions/treasury-management-system/intercompany-netting/) provides an intuitive dashboard that is available to all stakeholders.

The third phase is establishing the reconciliation and dispute process. BELLIN's tm5 boasts a netting module (https://www.bellin.com/solutions/treasury-management-system/intercompany-netting/) that reconciles payables and manages disputes with an 'agreement-driven approach'.

The 'agreement-driven approach' is essentially a self-clearing methodology to settling intercompany trade. The TMS provides an automated invoice matching process with a unique dispute workflow for intercompany disagreements. Disputes between subsidiaries are reviewed by the netting center and abides by the agreed-upon rules. With this approach, all entities are involved in the netting process, disputes are minimized, and transparency is elevated.

Stay tuned for the next part in our netting series which will shed more light on our agreement-driven netting solution and the various benefits involved.

## About BELLIN

BELLIN is the global leader in technology for corporate banking and treasury. We provide solutions for the financial sector, catering to a range of clients from large multinationals to SMEs and banks. Founded by a treasurer, BELLIN has been championing innovation and out-of-the-box thinking since 1998. With the treasury software tm5 as the centerpiece, BELLIN makes a fundamental difference by offering