



PATRYCJA BAŃK*, AGATA SIERPIŃSKA-SAWICZ**

**THE EFFECTS OF CASH POOLING APPLICATION IN FUNDS MANAGEMENT IN A CAPITAL GROUP
IN HARD COAL MINING INDUSTRY****EFEKTY WYKORZYSTANIA CASH POOLINGU W ZARZĄDZANIU ŚRODKAMI PIENIĘŻNYMI
W GRUPIE KAPITAŁOWEJ W GÓRNICTWIE WĘGLA KAMIENNEGO**

The article presents the effects of *cash pooling* application in a capital group. Calculations made on a mining company data indicate that the group's companies achieve benefits on interests. Companies with surplus funds achieve higher interests on deposits. Companies recording cash shortages on current accounts pay lower interests on debit in the current account. *Cash pooling* provides for optimal use of the group's funds, harmonisation of procedures in the area of financial cooperation, improves the group's financial liquidity, and reduces the costs of external financing. One must not forget the effect of *cash pooling* manifested in high flexibility of financial settlements among the companies within the capital group.

Keywords: *cash pooling*, capital group, pooling, *netting*, linked accounts

W artykule zaprezentowane zostały efekty zastosowania *cash pooling* w grupie kapitałowej w branży górnictwa węgla kamiennego. W pierwszej części niniejszego opracowania przedstawiono istotę, rodzaje oraz sposoby zastosowania *cash pooling*. W drugiej części pracy autorzy podkreślają korzyści zastosowania *cash pooling* w grupie kapitałowej. Obliczenia dokonane z wykorzystaniem danych spółki węglowej wykazały, że spółki grupy osiągają korzyści odsetkowe. Spółki posiadające nadwyżki środków uzyskują wyższe odsetki z lokat. Spółki wykazujące niedobory gotówki na rachunkach bieżących płacą niższe odsetki od kredytów w rachunku bieżącym. *Cash pooling* zapewnia optymalne wykorzystanie środków finansowych grupy, ujednolicenie procedur w zakresie współdziałania finansowego, poprawia płynność finansową grupy i ogranicza koszty finansowania zewnętrznego. Nie bez znaczenia jako efekt *cash pooling* jest również wysoki stopień elastyczności dokonywania rozliczeń finansowych między spółkami grupy kapitałowej. Wdrożenie w grupie kapitałowej *cash pooling* pozwala osiągnąć wiele korzyści finansowych.

Słowa kluczowe: *cash pooling*, grupa kapitałowa, konsolidacja, *netting*, rachunki powiązane

* AGH UNIVERSITY OF SCIENCE AND TECHNOLOGY, DEPARTMENT OF ECONOMICS AND MANAGEMENT IN INDUSTRY, AL. MICKIEWICZA 30, 30-059 KRAKOW, POLAND

** POZNAŃ UNIVERSITY OF ECONOMICS, DEPARTMENT OF FINANCIAL ANALYSIS, CONTROLLING AND VALUATION, AL. NIEPODLEGŁOŚCI 10, 61-875 POZNAŃ, POLAND

1. Introduction

Each company resource should be rationally used. This particularly refers to funds in the form of cash, debt securities or other assets (Turek & Michalak, 2012). Excess of funds leads to costs of lost opportunities, while their shortage causes loss of financial liquidity. Untimely paid liabilities involve the costs of penal interests, while in the longer term may lead to company's bankruptcy (Sierpińska & Bąk, 2012). Many companies go bankrupt not because they generate losses, but because they have lost the ability to timely pay their payables. In the 1990s, in England, 85% SMEs became insolvent due to loss of financial liquidity, in France this was 60% (Sierpińska & Wędzki, 2007).

Preservation of financial liquidity is determined with the funds management method. During the last few years, such management has dramatically changed due to implementation of electronic cash flow support. Most operations are carried out by the companies together with banks that offer state-of-the-art banking products to maximise benefits from cash flow acceleration. These include *cash pooling*.

The foundation for the deliberations contained in this article is formed by the hypothesis that *cash pooling* allows for achieving a number of benefits in concern-holding structures and in multiple-branch companies.

2. The essence and types of cash pooling

Cash pooling is about concentrating funds originating from the accounts of particular entities forming part of a particular business structure on a common account, and about management of thus gathered amount while using economies of scale. Parties to the agreement undertake to concentrate their funds on a common bank account in order to flexibly offset transitional surpluses of some participants to the agreement with the shortages of the others. The possibility of pooling results from the fact that some business units experience cash surplus at the account, while other units experience shortage of short-term funds. Cash surpluses can thus be used to cover for shortages, whereas the costs of such "specific loan" are much lower than in the case of a bank loan. *Cash pooling* thus has economic sense exclusively in the situation where bank accounts of entities participating in the *cash pooling* record positive and negative balances at the same time.

The cash pooling issue is not regulated in Poland. Banking Law (Art. 93a) permits cash pooling in the virtual version, but exclusively for capital groups in the understanding of the act on corporate income tax. Literature stresses that the *cash pooling* service is reserved for companies characterised with stable financial standing and comparable turnover of units operating within a particular capital group, and simultaneous differences within balances on bank accounts (Grzywacz, 2006). In practice, however, this condition is not observed. For example, companies forming part of the Jastrzębska Spółka Węglowa Capital Group are smaller than the parent company. This was not an obstacle to implementation of the *cash pooling* system. This is because banks always tailor their products to the specificity and needs of business units.

The *cash pooling* structure is participated in by various entities, including:

- participants (companies participating in the *cash pooling*),
- bank (offering the service).

Among such entities, the *pool leader* is selected to manage the structure. This can be a specialised bank with a developed international branch network, or a specialised entity forming part of the group and acting as the *treasury center* (Polak, 2008). In practice, the function of the *pool leader* is held by one of the group members, usually by the dominating entity. It happens that the group member acts in a double role – of the *pool leader* and a regular member of the agreement. In Poland, this role is usually entrusted to a bank.

The *cash pooling* agreement among the entities assumes that the bank defined as the *pool leader* is entrusted with management of the accounts of the entire group. The leader can also be referred to as the system manager or agent. The bank opens an additional bank account to the agent, the “group’s consolidated account”. Such an account serves to support the cash pooling system. All settlements within the system thus occur between the Agent’s (*pool leader*’s) bank account and regular bank accounts of participants to the system. Cash pooling occurs by phases (Lewicka-Potocka, 2006). All operations are carried out by the bank and via its dealership – there are no direct transfers among the accounts of system participants.

The *cash pooling* agreement should define a number of conditions, including: terms for interest rate of the global balance, division of interests accrued on the balance on the collective account, investment of financial surpluses, and the method for remunerating the *pool leader*:

3. Interest rates in *cash pooling*

Interest rates on positive and negative balances are agreed by participants to the cash pooling agreement. In order to avoid the claim of transferring income before taxation, the interest rate should be at the market level. A safe formula here can also be the market price of money. The following solution can be applied:

- WIBOR – for negative balances, while WIBID – for positive balances,
- WIBOR or WIBID both for positive and negative balances.

It must also be added that the interest rate can be deprived of the margin, although in practice it happens that the interest rate among the participants is adjusted by the bank’s margin. Companies with positive balances shall receive interests not reduced by the cost of mandatory reserve and the bank’s deposit margin, while companies with negative balances shall incur lower cost, not increased by the bank’s credit margin. In the Group’s scale, however, the result is nil, as interest settlements occur among the companies in the group, not with the bank.

An additional cost to the system participants is, in turn, formed by the bank’s fee for system management. Such a fee includes (Szumielewicz, 2009):

- costs of system implementation,
- periodical costs of account handling,
- costs of reporting,
- costs of interest reallocation among companies due to inter-group loans,
- transaction costs.

The amount of fees per participants are individually negotiated by the banks with particular groups. In the group implementing the solution, there are also additional costs related to monitoring and administration of *cash pooling* processes, implementation and maintenance of tools supporting it, and the costs of legal and tax consulting. These are not, however, significant costs.

The economic sense of cash pooling goes beyond interest-related benefits due to netting of the positive and negative balances. It leads to reduction of cash maintained in the group and to limited use of credit facilities.

The notional pooling system thus allows for reducing the costs of current crediting of companies by the bank. Interest-related benefits are achieved by offsetting the positive and negative balances on the accounts of notional pooling participants and by accruing interests on the balance value after pooling. Credit facilities and debits on current accounts, as well as positive balances at the end of each day on companies' accounts bear more favourable interests than if the accounts were to be treated separately. Some banks propose analogical interest rates on balances in the interest offsetting system, but based not on 1-month WIBOR rate, but on 1 month WIBID rate (City Handlowy, 2010). The savings effect for the group is the same.

In the event where the total of debit balances on a particular business day exceeds the total of positive balances, the difference bears the interest on the terms of joint credit agreement signed by *cash pooling* members with the bank. If, however, on a particular business day, funds remain on the current accounts and are not accounted for in the interest netting system, then the funds are deposited at the separately agreed interest rate. The bank can automatically deposit such funds on *overnight* (O/N) deposits, usually at a preferential interest rate. The Group, being a major client, can and should expect a supra-standard interest rate from the bank, better one that could be obtained by each of the companies as a result of individual negotiations regarding an O/N deposit with a broker. Another solution is also possible: one person or company appointed by the group to manage the *cash pooling* shall agree the interest for O/N deposits with the bank each day. Within notional pooling, mixed solutions are also possible. For example, if there are companies among system participants which rather regularly keep balances on their accounts that much exceed the planned crediting level of other companies, then the agreement may state that such companies shall assure a certain fund level on their accounts to participate in the interest netting system, while other funds, above the "guaranteed" amount can be deposited by such companies independently, according to the interest negotiated individually.

Within the interest netting system, all its participants jointly guarantee repayment of daily debits on the current account. The banks don't usually expect additional collateral from participants to the system. The launch of the system is, however, preceded with the conclusion of joint credit agreement on debit on the current account. Repayment of such a facility is mutually secured by the companies in the form of surety or voluntary subjection to execution under art. 777 of the Civil Code. Furthermore, depending on the financial standing of the companies in the group, the bank may expect additional collateral on their assets or rights.

4. *Cash pooling* application methods

Optimisation of the use of funds available to a multi-branch company or a capital group on several accounts may occur through (Szumielewicz, 2003; Polak & Klusacek, 2010):

- real cash pooling,
- virtual cash pooling,
- mixed cash pooling.

In **real cash pooling**, there are physical transfers of funds onto the main account of the capital group. Surpluses of funds gathered at the account serve to cover for deficits on the accounts of

entities where shortages occur. Transfers at the collective account are made at the end of the business day, while return transfers take place at the beginning of the next business day. All pooling processes are automatic and are specified according to the objectives of the capital group. Interests are calculated on the balance on the main account.

Such cash pooling can have the following forms (Szumielewicz, 2009):

- *zero-balancing* as a result of transfer of funds between the consolidated account and particular accounts, via transfer of full balances from each single account onto the consolidated account. At the end of the day, there are thus zero balances on such accounts, and the amounts transferred reappear on such accounts at the beginning of the next business day;
- *target balancing*, which assumes the level of capital transfer onto particular accounts as a result of pooling transfers; the banks determine fixed balances on some accounts to be achieved as a result of funds transfers from the accounts of particular companies,
- *conditional pooling*, which defines a number of parameters, including the time and level of crediting particular accounts; the banks determine the terms on which the pooling will be carried out, which can include minimum and maximum transfer amount, as well as pooling dates.
- *Cinderella pooling*, according to which, on the next business day, reverse transfers take place, aimed at restoring previous balance amounts on particular accounts credited,
- *multi-level consolidation*, carried out in many phases, structure of which includes accounts which are at the same time consolidated and source accounts. The application of consolidation in multi-level capital groups enforces the need to perform consolidation in phases, at particular organisation levels of the group. Accounts pooled at a particular level at the same time become source accounts for the next level of consolidation.

On the basis of the above listing, a conclusion can be drawn that particular models of real cash pooling to a different extent contribute to benefits achieved by a company in the area of liquidity management in the group. From the point of view of reducing cash level and interest-related benefits, as well as opportunities of managing the joint cash item, the most effective solution is the zero-balancing and multi-level consolidation, on condition that it also assumes zero-balancing in its structure.

Virtual cash pooling involves determining just the pooled balance upon pooling, without any funds transfer onto a common account. Owing to this, however, interest-related benefits are lower than in the case of real cash pooling. At the end of day, actual balances are recorded at the accounts of particular companies, as if no pooling was done. Because the banks must keep mandatory reserves on all assets, when determining the reserve, they must also account for balances at source accounts despite the fact of their pooling. Therefore, the effects of virtual cash pooling are lower than the effects of real cash pooling by the costs of mandatory reserves. It must be, however, stated that lack of actual pooling transfer reduces their costs, as there is no need for joining, and then distributing funds owned by different companies.

Such agreement type is rarely used in practice, although by assumption it brings about a number of potential benefits, including (Burżacka, 2010):

- lack of intra-group financing (“mixing” funds of particular companies operating in different business areas),
- limited tax risk,
- reduced administration of cash pooling,

- lower cost of implementation and maintenance of cash pooling as compared to real cash pooling,
- streamlining the cooperation of the units within the group,
- improved cooperation with the bank.

In the case of **mixed cash pooling**, solutions of both real and virtual cash pooling are used. This is possible in the case of consolidation at several levels of a capital group. On some levels, actual cash transfers take place from source accounts onto the pooling account, while on others just virtual cash pooling is carried out.

Potential application of *cash pooling* in complex business organisation is very broad. It is possible to create various combinations for zero-balancing of company accounts, particularly operating on different markets, in many countries, e.g.:

- *cash pooling* on accounts in a single currency,
- zero-balancing of accounts held in various countries, in various currencies, with the application of cross rates; this is *multi-currency pooling* (Dolfe & Koritz, 1999),
- holding collective accounts for branches in particular countries,
- zero-balancing on one account of the balances of accounts in various currencies within one country (e.g. current account in PLN, auxiliary accounts for receivables on export in EUR),
- centralised zero-balancing of receipts in particular currencies at collective accounts for each of the currencies,
- application of *sub-pooling*, which involves establishment of groups of accounts for multi-level consolidation (e.g. within a country, business area, etc.).

The selection of an appropriate type of *cash pooling* is affected by many internal and external factors. The most important of them are individual factors, such as business specificity, size of units forming part of the group, complexity of the organisational structure of the implementing entity. What is also of importance are the goals and tangible effects to be achieved by the capital group or a multi-plant company as a result of the implementation.

The presented cash pooling methods have advantages, but also disadvantages to be accounted for when making the decision and choosing the form of pooling. There are cases where automatic fund transfer prevents e.g. settlement and identification of the source of revenues. There are also problems with the establishment of a safe, coherent and just system for interest settlement. Attention must also be drawn to the high tax risk related to the application of *cash pooling*. Fund transfers among the accounts of various companies within the netting procedure can be treated as a method for income transfer. There is also a risk of the Tax Office's questioning the agreed interest rate as a cost on income. If the benefits from the application of *cash pooling* cannot be questioned, it is generally known that the barrier to its development is posed by legal regulations, particularly tax regulations.

5. The effects of *cash pooling* application in a capital group in hard coal mining industry

The implementation of *cash pooling* in a capital group allows for achieving many, principally financial benefits. These will be presented on a practical example regarding the application of

the system in a coal company forming a capital group comprising a coal company including several hard coal mines and several subsidiaries. The capital group comprises six companies. Each of the companies has its bank accounts with specific balances. Positive balances meaning unused funds bears the interest rate of 3%, while debit in the current account costs the company 6% in the annual scale. The interest rate at the linked account totals 4%. We shall determine the benefits of using the *cash pooling* while using the linked accounts at company *X*. Due to data confidentiality, the data have been modified for the purposes of system presentation in this article.

Financial effects of the lack of *cash pooling* system and individual management of balances at current accounts can be determined on the basis of the formula below:

$$Ebc = \sum_{i=1}^n Ko_i \times So_i - \sum_{i=1}^n Kk_i \times Sk_i \quad (1)$$

where:

- Ebc — effects of positive and negative balances on companies' accounts without the use of *cash pooling* (kPLN),
- Ko_i — amount of positive balances (savings) of company *i* (kPLN),
- So_i — interest rate on positive balances on current accounts (%),
- Kk_i — amount of negative balances (debits on the current account) of company *i* (kPLN),
- Sk_i — interest rate of debits on the current account of company *i* (%).

Table 1 presents financial revenues and expenses due to cash surpluses and debits in the current account without the use of *cash pooling* at a specific moment.

TABLE 1

Financial revenues and expenses without the application of *cash pooling*

Companies' accounts	Positive balance kPLN	Negative balance, kPLN	Financial revenues, kPLN	Financial expenses, kPLN
			3.0%	6.0%
A	500		15	
B	600	—	18	
C		-850		-51
D	400		12	
E		-450		-27
F		-700		-42
Total	1 500	-2 000	45	-120
Balance difference		-500		-75

Source: own calculations.

Without the application of *cash pooling* on linked accounts, the companies with surplus achieved 45 kPLN interests on deposits, while companies using debits paid 120 kPLN interests. In total, they paid interests in the amount of 75 kPLN (45 kPLN÷120 kPLN).

6. The application of *cash pooling* of linked accounts

The application of *cash pooling* allows for covering debits on the accounts with the financial surpluses held. In this way, each debit is partly covered by reception of funds from accounts with surpluses, according to the share (U) of the debit balance on the account in the total value of debit value on all accounts. Below is the example of a capital group (Table 2) where three companies have debits on their accounts.

$$U_C = \frac{850}{2000} \cdot 100 = 42,5\%$$

$$U_E = \frac{450}{2000} \cdot 100 = 22,5\%$$

$$U_F = \frac{700}{2000} \cdot 100 = 35,0\%$$

Companies with debits on their accounts thus shall receive the funds totalling:

Company C shall receive:	42.5% · 1500 = 637.5 kPLN
Company E shall receive:	22.5% · 1500 = 337.5 kPLN
Company F shall receive:	35.0% · 1500 = 525.0 kPLN
Total	1500.0 kPLN

Interests calculated on main accounts after the application of *cash pooling* shall total:

-212.5 kPLN · 6% = -12.75 kPLN
-112.5 kPLN · 6% = -6.75 kPLN
-175.0 kPLN · 6% = -10.50 kPLN
-30.00 kPLN

TABLE 2

Balance on the main account of the capita group

Companies' accounts	Negative balance, kPLN	Financial expenses, kPLN
		6%
A	0	—
B	0	
C	-212.5	-12.75
D	—	
E	-112.5	-6.75
F	-175.0	-10.50
Balance difference	-500.0	-30.00

Source: own calculations.

The balance of financial revenues and expenses on linked accounts totals zero, thus total costs of *cash pooling* with linked accounts are the interests on the main account 30 kPLN and linked

accounts 60 kPLN, namely the total of 90 kPLN. Borrowing companies thus paid 30 kPLN less interests on debits, while companies with savings achieved 15 kPLN interests more than without the use of *cash pooling*. Total effects of *cash pooling* of the group thus amount to 45 kPLN.

TABLE 3

Fund level on linked accounts

Companies' accounts	Positive balance, kPLN	Negative balance, kPLN	Financial revenues, kPLN	Financial expenses, kPLN
			4%	4%
A	500		20.0	
B	600		24.0	
C		-637.5		-25.5
D	400		16.0	
E		-337.5		-13.5
F		-525.0		-21.0
Total	1 500	-1 500.0	60.0	-60.0
Balance difference		0		0

Source: own calculations.

The presented example illustrates net standing of the group in the amount of -500 kPLN, and the application of further steps to maximise revenues and minimise the costs of interests. Positive balances offset debits. On "Linked Accounts", interest rate of positive balances and debits is the same and equals the market rate (Table 3). Such accounts serve for settling the benefits achieved among members of the capital group or other participants to common settlements.

Interests on positive balances and debits are accounted for separately on the main account of the company taking part in the *cash pooling* structure. This means that each company has more favourable interest terms, both in the case of positive balances and debits.

In the presented solution, there is no money transfer among the companies, and this allows for preserving the integrity of particular accounts for tax, legal and accounting purposes.

Calculations of the result on financial operations, considering *cash pooling*, have been made using mathematical formulas:

$$Eo = \sum_{i=1}^n Ko_i \times Sp_i - \sum_{i=1}^n Ko_i \times So_i \quad (2)$$

where:

Eo — effects of joint management of positive cash balances,

Sp_i — interest rate of deposits at linked accounts.

$$Ek = \sum_{i=1}^n Kk_i \times Sk_i - \sum_{i=1}^n Ko_i \times Sp_i + \sum_{i=1}^n (Kk_i - Ko_i) \times Sk_i \quad (3)$$

where:

Ek — effects of covering debits with cash surpluses of companies having positive balances,

$Kk_i - Ko_i$ — difference between the debit amount and the amount of savings that covered the demand for debit in the current account.

In the conditions where there is a positive balance on pooled accounts, the effects of *cash pooling* can be determined according to the formula:

$$Eo = \sum_{i=1}^n Ko_i \times Sp_i - \sum_{i=1}^n (Ko_i - Kk_i) \times So_i \quad (4)$$

where: $Ko_i - Kk_i$ — difference between the positive balance and the amount of the debit need.

Savings on the application of *cash pooling* constitute the total of benefits in the form of higher interests (15 kPLN) for companies with positive cash balances, and benefits of lower interests (30 kPLN) on debits on the current account for companies with cash shortages.

Cash pooling operations take place every day, yet to limit the costs of bank transfers, total settlements are usually performed once per month. On consecutive days, companies have both positive and negative balances. The pool leader determines the interest balance at the end of the month and transfers interests onto the company's account, or charges the interests to be paid, according to the settlement balance.

Present value of *cash pooling* effects for longer periods, e.g. n years, can be determined by discounting the difference between the effects of individual cash management and the effects of *cash pooling* on linked accounts.

Estimate present value of savings in a longer term will total:

$$PVEl = \sum_{t=0}^n \frac{(Ebc - Ezc)}{(1 + r_d)^n} \quad (5)$$

where:

Ezc — savings on *cash pooling* application,

El — total savings,

$Ezc = Eo + Ek$,

$El = Ebc - Ezc$,

r_d — average rate at which cash flow discounting occurs to the length and number of analysed periods.

When making the calculation, the average rate (r_d) at which discounting occurs to the length and number of analysed periods must be appropriately adjusted and estimated.

7. Conclusion

To conclude the above considerations and calculations, it can be concluded that the implementation of *cash pooling* in a capital group allows for achieving many, principally financial benefits. Fundamental benefits include (Korner, 2002):

- interest- related benefits,
- optimal use of funds,
- streamlining and harmonisation of procedures in the area of financial cooperation,
- improvement of the group's financial liquidity,
- reduced costs of external financing,
- high flexibility of settlements.

As a result of pooling of positive and negative balances on accounts of particular participants to the group on a common account, cash shortages of some are covered with the surpluses of the others. Participants' balances thus are partly offset as a result of mutual financing, which results in the improved net result on interests as compared to the situation of individual interest settlement in transactions with the bank. Moreover, the group's companies can use the economies of scale, namely by merging debit and credit balances can negotiate a much more favourable interest rate than in a situation where the participants were to negotiate the terms with the bank individually. The *cash pooling* system allows for reducing the costs of commission, as system participants finance one another, which causes no bank commissions related to the bank's granting loans to particular participants.

Benefits related to streamlining procedures in the area of financial cooperation are generated as a result of harmonisation of procedures determining the cooperation with the bank, as well as standardisation and optimisation of the bank's fees, commissions and interest rates offered to all group members. Particularly weaker companies gain benefits, as they would obtain loans on inferior terms than while using the economies of scale. Additional effects are achieved when using e-banking.

The improvement in the group's financial liquidity occurs as a result of centralised cash management, in particular controlling the cash and debt levels on the current account of each member of the capital group, and having available funds in a manner assuring the achievement of financial synergy. Planning the cash demand at the group level allows for its acquisition at the lowest possible financial expenses.

Cash pooling not only allows for achieving an optimal result on financial operations, but also helps with finance management, reporting and planning. While using it, one can e.g. (Green, 2001):

- centrally group and plan revenues depending on location, business type, etc.
- negotiate and determine limits and crediting terms jointly for all companies (branches),
- reduce transaction costs and the costs of finance management by focusing them at one place and at one level in the organisational structure, etc.

Apart from **financial benefits**, the capital group also has benefits related to streamlining of its operation (Lewicka-Potocka, 2006):

- dominating company or another company appointed by it to be in charge of cash management in the group has continuous control over the funds of participants to the system,
- the need for preparing plans of assuring liquidity to particular companies within the group is avoided,
- there is no need for preparing legal framework to allow for indebtedness and investing funds among members of a capital group (including the need to indicate specific goal of the loan to avoid the tax on civil law activities),
- management of current liquidity of the companies may occur without the involvement of participants to *cash pooling* (all operations can be automatically carried out by the bank),
- there are no difficulties with appropriate recording of the intra-group financing transactions in the consolidated financial statements,
- Limitations regarding thin capitalisation are avoided. This would mean a situation where shareholders furnish their company with equity to the minimum extent, whereas its business is largely financed with loans. Therefore, tax regulations specify limitations as

regards treatment of interests on loans granted to companies by their shareholders as costs on income. Costs on income for them may only include interests on loans not higher than three-fold of equity.

What is also important is that all transfers within the *cash pool* are clear and transparent to all participants, as well as for external control authorities.

Not all companies in the capital group have to participate in *cash pooling*. The system may include just those where cost reduction is particularly requested, and obviously the companies that generate rather stable financial surpluses to allow for effective operation of *cash pooling* mechanisms. It is worth noticing that these do not have to be companies where the dominating company holds 100% shares. The decisive factor is that it has factual control over their business. The dominating entity also does not have to participate in the system.

Despite reducing nominal revenue on the margin, application and offering bank products structure of which is based on *cash pooling* seems to have many advantages also from the bank's point of view. Most important of them include:

1. Reduction of crediting risk (debits are covered with funds gathered on other accounts).
2. Control of a major part of turnover on the accounts of the client who, wishing to optimise the effect of pooling, concentrates core banking operations (current receivables and payables) within the system (on accounts participating in the netting or pooling).
3. Reduction of outflow of temporary surpluses of funds available to the client to other banks, as well as greater bargaining power when offering other banking services.
4. Possibility of determining financial terms of *cash pooling* which will largely cover for the loss of potential revenues on the spread between deposits and debits.
5. Improvement, through diversity and state-of-the-art nature, of the attractiveness of the holistic offer of banking services addressed to present and prospective clients.

Therefore, for the bank, the organisation of cash pooling, despite generally lower margins and commissions than in the case of classic services, may result in increased turnover, risk mitigation, and thus also increase in revenues.

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