

PayPal's seamless integration of Zettle treasury through notional pooling

The global technology and digital payments company incorporated newly acquired Zettle into a multi-entity notional pooling solution - helping to seamlessly integrate the new business and minimize disruption to day-to-day liquidity.

About

PayPal is a leading technology platform and digital payments company that enables digital and mobile payments on behalf of consumers and merchants worldwide.

In May 2018, PayPal announced that it had agreed to acquire Zettle, the leading small business commerce platform in Europe and Latin America, for \$2.2 billion USD¹.

The challenge

As PayPal's house bank, J.P. Morgan was asked to help with the integration of newly acquired company, Zettle within the wider PayPal group treasury structure. The most important objectives were to:

- Transfer control of cash balances to PayPal
- Ease any funding requirements
- Seamlessly integrate within the PayPal liquidity structure, both today and with the future Luxembourg location in mind
- Reduce dependencies Zettle had on other third parties in order to ensure the timely delivery of funds for customer payouts
- Minimize short-term disruption to underlying Zettle operations

¹Source: <https://www.businesswire.com/news/home/20180920005368/en/PayPal-Completes-Acquisition-of-iZettle>

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The solution

PayPal joined forces with J.P. Morgan to migrate the notional pooling solution, which was implemented in two phases:

In **Phase 1**, the existing header account and multi-currency notional pool for PayPal remained in London, while a new Luxembourg-based multi-entity multi-currency notional pool was established to incorporate the newly acquired Zettle entities, as well as the PayPal treasury center. This structure facilitated the centralization of funds and automated funding as required, without the need for direct intercompany lending relationships between the entities.

To minimize disruption of underlying payment activity, PayPal, Zettle and J.P. Morgan worked to put in place multibank sweeps with Zettle's existing banks. These sweeps allow the fully automated consolidation of funds and funding of operating accounts as required.

A cross-border automated "drain" sweep to extract the net balance across both London and Luxembourg pools was implemented to seamlessly concentrate cash held within the two pools across the different locations into a single bank account, giving PayPal's Treasury a single consolidated liquidity position for ease of deployment.

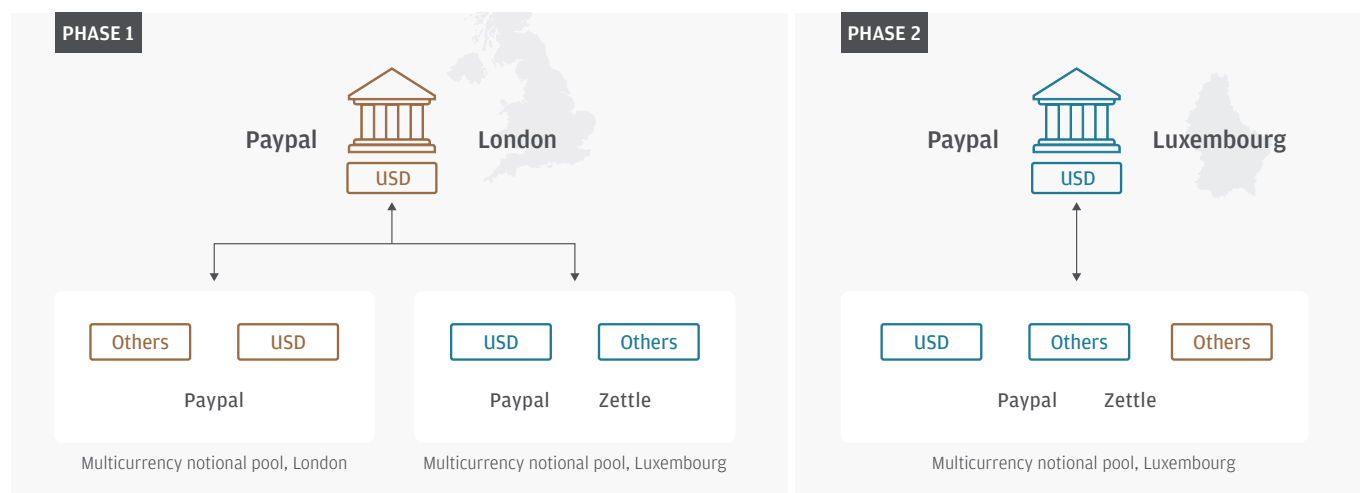


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In **Phase 2**, the two notional pooling structures were seamlessly combined as the London structure migrated to Luxembourg, integrating the existing London-based accounts into the new multi-entity notional pooling structure in Luxembourg.

The transition was simple, thanks to the pre-existing Luxembourg liquidity structure, which had been fully tested and used by a subset of entities for a number of months.

“This project was executed at speed, with strong partnership between PayPal’s Treasury team and J.P. Morgan throughout. We moved from initial scoping to notional pooling go-live in just four months, enabled by a “best in class” service from J.P. Morgan...”

- Sharyn Tan - Head of Treasury M&A, PayPal

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The results

The migration was successfully enacted, prioritizing speed and efficiency for the accounts and resulted in:

- Full concentration of liquidity across PayPal and Zettle in a single currency position for efficient onward deployment.
- Reduced idle cash/liquidity buffers on Zettle accounts, pooling 99% of all cash across participating Zettle entities.
- An efficient and fully automated funding mechanism for the newly acquired business leveraging PayPal balances as required.
- Removed operational burden:
 - Reduced risk and saved time associated with the manual activities of booking, settling, accounting and reporting of intercompany loans.
 - Eliminated the need to set up independent investment infrastructure at entity level.
 - Reduced the operational dependencies Zettle had on third parties in order to ensure the timely delivery of funds for customer payouts.
- Ready access to group liquidity, thus eliminating the need for expensive entity level overdraft facilities.
- Significant reduction in costs associated with FX trading, as the pool matches funds at entity level, removing the need for constant spot trading and creates natural off-sets at the local balance sheet level.

Most importantly, the solution met PayPal's strategic need to run an integrated treasury function across both existing and acquired businesses without any disruption to day-to-day liquidity.

“Integrating a newly acquired business into an existing Treasury structure is never easy...Nevertheless, the teams at PayPal and Zettle turned a challenging scenario into an opportunity to create an optimized liquidity framework to support their long term strategy.”

- Gaetan Okias, Executive Director, J.P. Morgan



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