HIGHLY COMMENDED WINNER

Best Funding Solution

Toyota Financial Services

Torrance, California, US

Norman Brem, Senior Analyst, Funding & Liquidity

Jacqui Drew, ION and Javier Pollan, Citi collect the award on behalf of Toyota Financial Services

US commercial paper programmes realise savings of US$2.9m in basis arbitrage

Company profile

Toyota Financial Services (TFS) is the finance and insurance brand for Toyota in the US, offering retail auto financing and leasing through Toyota Motor Credit Corporation (TMCC). TFS currently employs over 3,000 associates throughout the US and has managed assets totalling nearly US$115bn.

The challenge

In April 2016, the US Treasury Department and Internal Revenue Service proposed regulations under Section 385 addressing the treatment of related party debt for US tax purposes. Notably, the proposed regulations would significantly reduce the ability of TFA and Toyota Motor Finance Netherlands (TMFNL) to fund via an intercompany lending programme from the US financing company, Toyota Motor Credit Corporation (TMCC).

The impact of these regulatory changes would increase TFA and TMFNL's reliance on European capital markets. However, increased European capital markets' volatility from Brexit and central bank normalisation caused concern that the TFA and TMFNL treasury teams would be unable to meet their funding needs.

The reduced ability to access capital through intercompany lending increased their debt refinancing risk. On 13th October 2016, TFA and TMFNL treasury teams caught a break; the final US Section 385 regulations narrowed their initial scope to exclude intercompany lending from their original proposal. This meant that TFA and TMFNL would be able to resume participation in the TMCC intercompany lending programme.

Acknowledging the risk of a limited set of funding tools, TFA and TMFNL treasury teams began to develop contingencies for future changes in regulatory environments by considering new funding programmes, procedures and technology.

The solution

TFA and TMFNL treasury departments decided to expand their funding programmes to include a US commercial paper (CP) programme. The goal would be to leverage TMCC's unique direct model to distribute debt to US institutional investors in order to fund TFA and TMFNL's growing retail auto loan and lease portfolio.

Additional challenges were created due to the need to coordinate different operating procedures, systems, compliance processes, tax regulations and legal teams. The use of treasury management technology providers such as Wallstreet Suite, an ION Treasury solution, Integrity and Bloomberg played a key role in solving these challenges. Most notably, Wallstreet Suite and Integrity were used to create fixed and floating rate instruments which automatically calculate principal and interest payments, drive operational workflow and coordinate global bank accounts.

After nearly ten months of planning, coordination and testing, TFA and TMFNL launched their respective US CP programmes in April 2017. Since April 2017, TFA has issued US$1.6bn and TMFNL has issued US$2.2bn for a combined saving of US$2.9m.

Due to the time zone differences between New York, Sydney and London, Citibank's global credit team were able to provide US$400m of intra-day credit lines to ensure the seamless movement of USD, AUD, EUR and GBP currencies.

Best practice and innovation

For both organisations, the US CP programmes enabled treasury teams to successfully navigate through volatile global capital markets, increased regulatory changes, while lowering their combined borrowing costs by almost US$3m annually.

"The year proved to be a perfect storm for TFA and TMFNL as we faced funding requirements increasing by over US$2bn each over the next four years, proposed changes in US tax code and volatile European capital markets – reducing the reliability of current sources of funding when they were needed most," explains Norman Brem, Senior Analyst, Funding & Liquidity, Toyota Financial Services. "One year later, we achieved their funding goals while reducing refinancing risk and cost of funds by accessing US capital markets."

Key benefits

- A new source of funding.
- Increased ability to access global capital while lowering borrowing costs.
- Well-positioned to meet future funding needs.
- Ability to create a 'people development' opportunity.