

Treasury Strategies' Quarterly Corporate Cash Briefing™ for 3Q 2014

Presented by:

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9 October 2014



Treasury
Strategies.

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Agenda



Corporate Cash Levels

Basel III's Liquidity Coverage Ratio

Central Bank Reserves: The Untold Story

Money Fund Regulations and Your Investment Policy

Roundtable:

- Federated Investors
- Fitch Ratings



Corporate Cash Levels



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Corporate Cash Levels

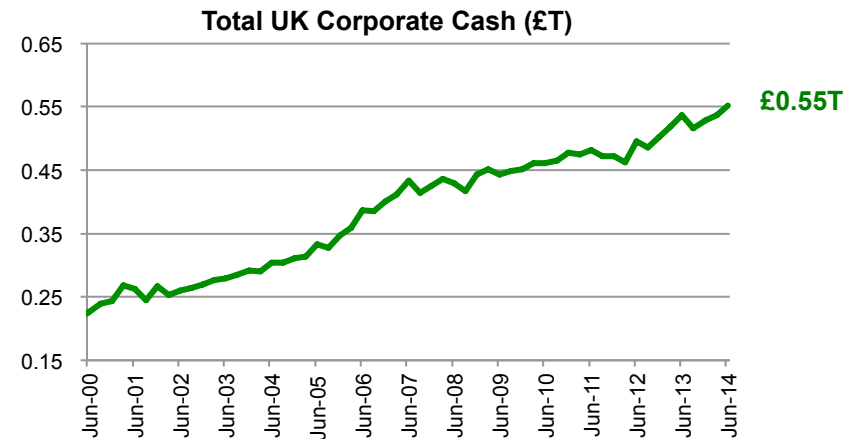


US corporate cash as of June 30, 2014



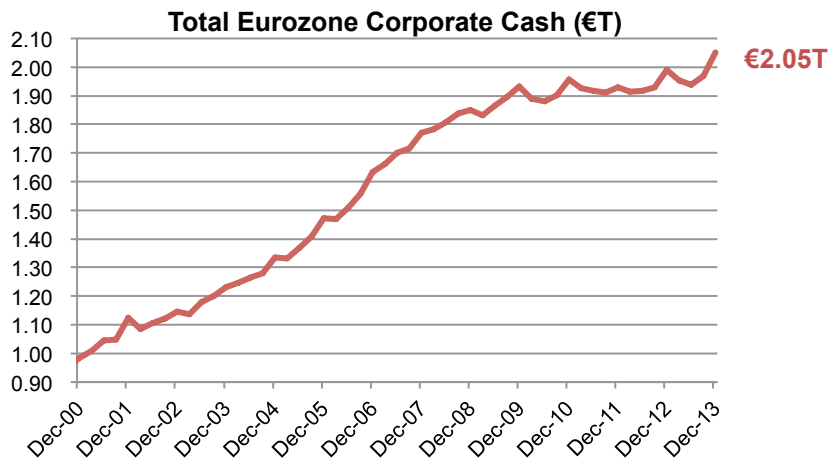
Source: Federal Reserve, Treasury Strategies

UK corporate cash as of June 30, 2014



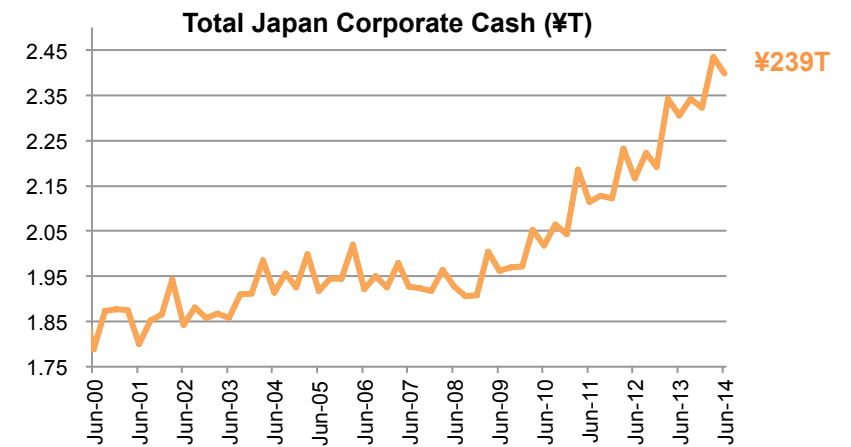
Source: Office of National Statistics, Treasury Strategies

Eurozone corporate cash as of Dec 31, 2013



Source: European Central Bank, Treasury Strategies

Japanese corporate cash as of June 30, 2014



Source: Bank of Japan, Treasury Strategies



Corporate Cash as % GDP by Region



Country/Region	June 2000	June 2014
United States	9%	11%
Eurozone	14%	21%
United Kingdom	25%	34%
Japan	36%	49%

Source: Treasury Strategies' estimate

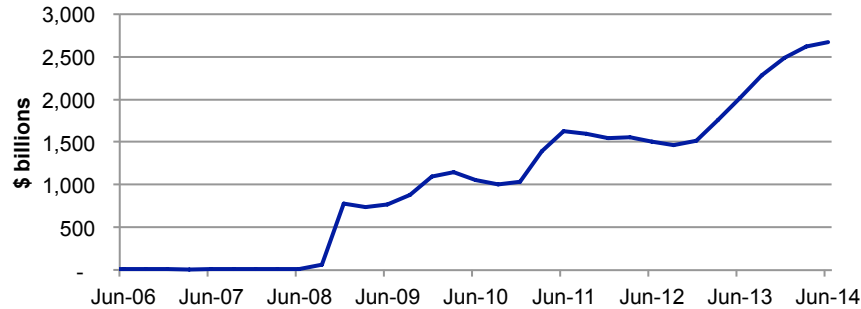




Reserve Balances

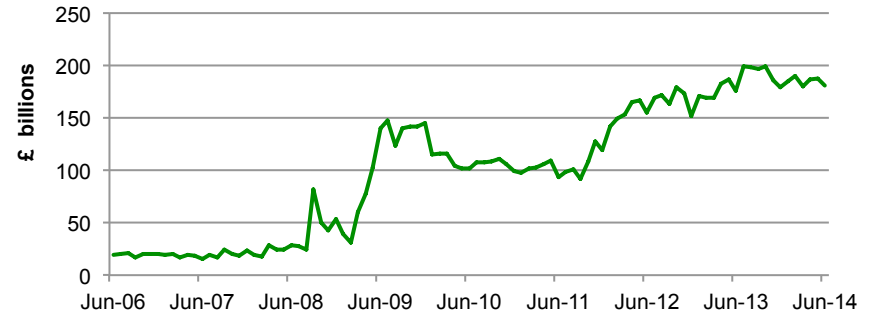


Bank Reserve Balances at the US Federal Reserve June 2006 - June 2014



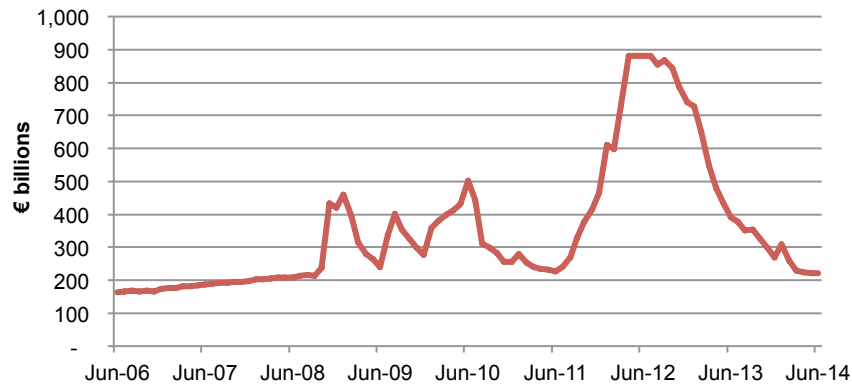
Source: Federal Reserve H3 Report, Treasury Strategies

Bank Reserve Balances at the BOE June 2006 - June 2014



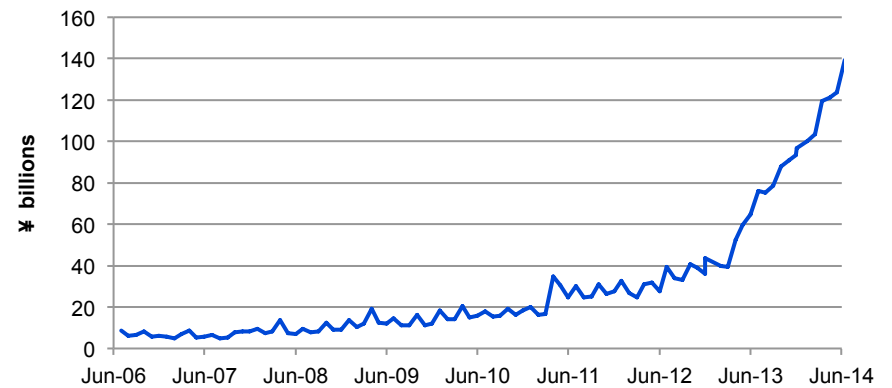
Source: Bank of England, Treasury Strategies

Bank Reserve Balances at the ECB June 2006 - June 2014



Source: European Central Bank, Treasury Strategies

Bank Reserve Balances at the BOJ June 2006 - June 2014



Source: Bank of Japan, Treasury Strategies



LCR Plank of Basel III



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Basel III's Liquidity Coverage Ratio



This could be the single most impactful regulation for corporate treasurers in the post-crisis era.

To ensure that banks around the world have sufficient funding to withstand a crisis, Basel III requires banks to reclassify corporate deposits into two categories and restrict how each type can be used.

OPERATIONAL DEPOSITS

- Are used in your company's daily cash management and payments operations.
- Banks are free to use your operational deposits to make loans, leases, and conduct other general banking activities.

NON-OPERATIONAL DEPOSITS

- Are in excess of your daily needs OR interest-sensitive deposits not subject to 30-day withdrawal limitations.
- Banks can no longer use these deposits in their general banking operations.
- Banks must invest these deposits only in high-quality liquidity assets (HQLA).
- Since the return on HQLA assets is low, these deposits will have little value to a bank.

Not all banks and not all bank customers will be impacted in the same way.





Basel III's Liquidity Coverage Ratio



LCR significantly alters the economics of a banking relationship, both from your perspective and your bank's perspective.

- Most banks will look to attract operational deposits and discourage non-operational deposits.
 - Banks will encourage you to move your excess cash into 30-day or longer time deposits or else take them out of the bank.
 - Banks will encourage you to concentrate more of your operating services with them.
- We expect to see changes in service pricing as well as new service products and rate structures.

The attractiveness of your deposits will depend on:

- The volatility of your cash flow
- Your ability to accurately forecast your cash flow
- The mix and amount of services you buy from your bank
- The nature of the business activity which underpins your transactions (e.g., commercial transactions vs. financial transactions)
- Legal arrangements surrounding your accounts

It is likely that at some point, you will need to redesign your operational banking structure or reallocate your deposits.



Central Bank Reserves: The Untold Story



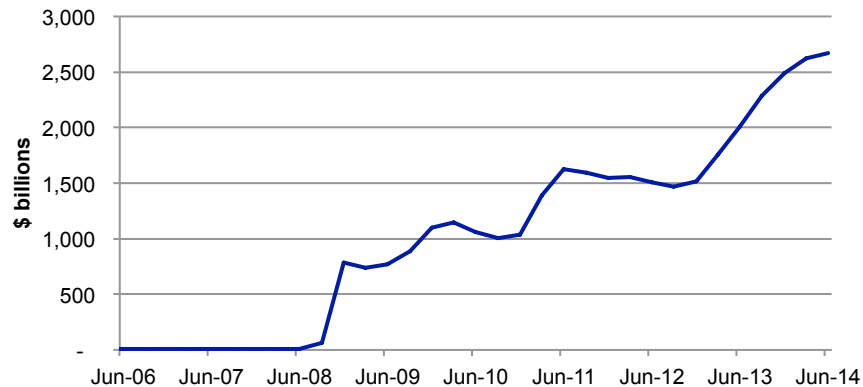
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Is it a \$1 Trillion transatlantic arbitrage or coincidence?

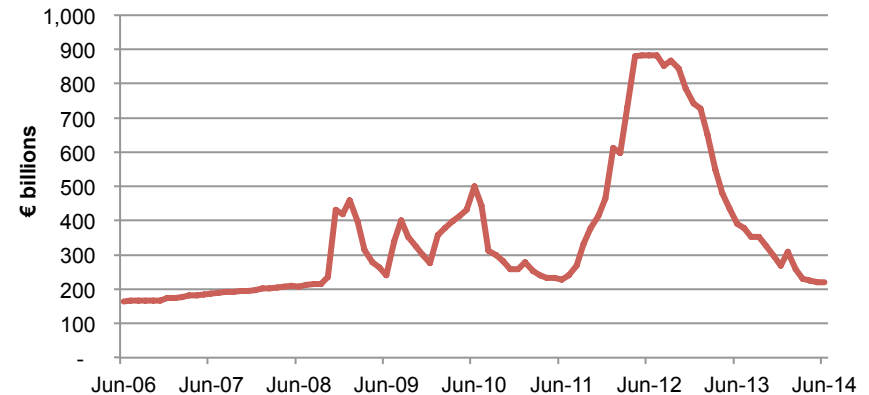
Either way, there could be implications for corporate treasurers as this unwinds.

**Bank Reserve Balances at the US Federal Reserve
June 2006 - June 2014**



Source: Federal Reserve H3 Report, Treasury Strategies

**Bank Reserve Balances at the ECB
June 2006 - June 2014**



Source: European Central Bank, Treasury Strategies

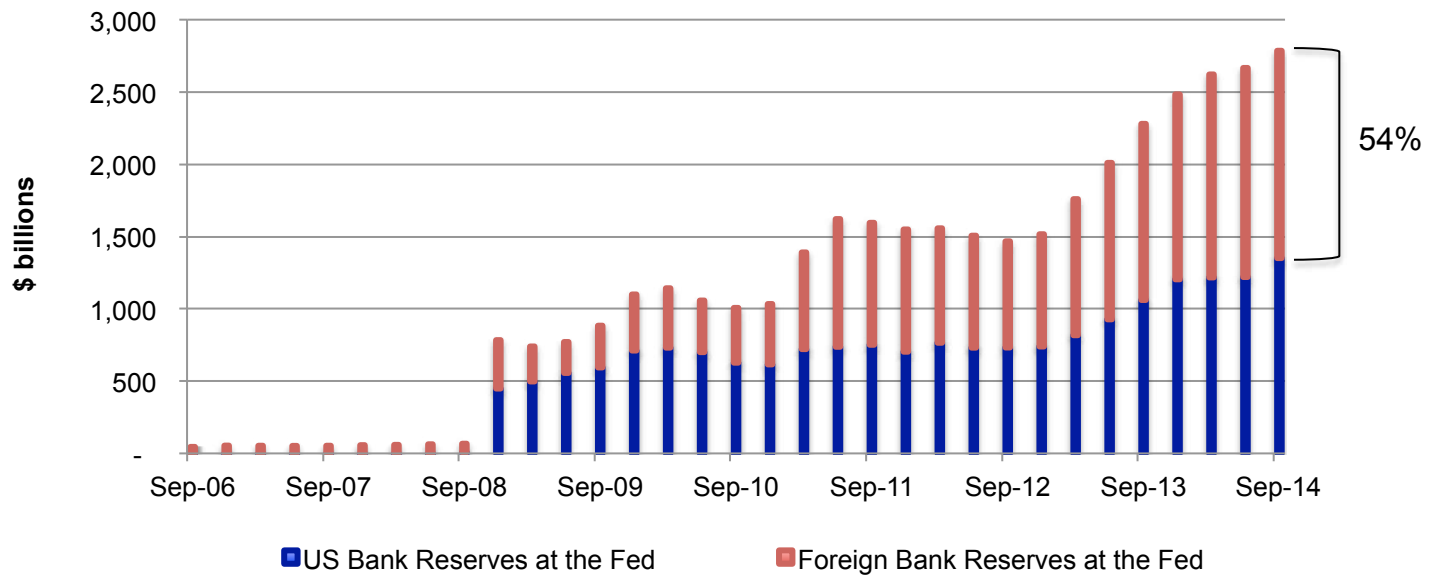




Central Bank Reserves: The Untold Story



Growth and Source of Bank Reserves at the US Fed Sept 2006 - Sept 2014



Source: Federal Reserve H3 Report, Treasury Strategies

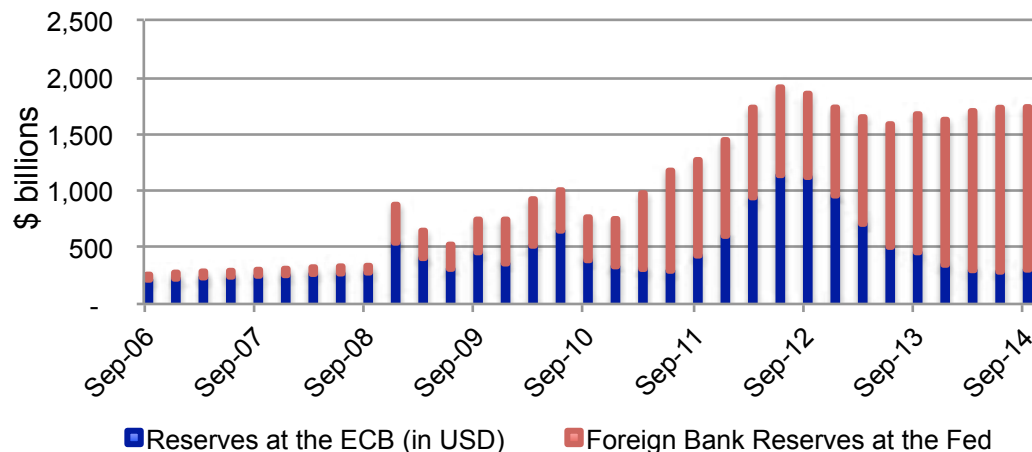




Central Bank Reserves: The Untold Story



**The Tradeoff
Sept 2006 - Sept 2014**



Source: Federal Reserve H3 Report, European Central Bank, Treasury Strategies

Assets and Liabilities of Foreign-Related Institutions in the U.S.

	Reserves at the Fed*	Net due to related foreign offices
December 2009	\$387	-\$352
August 2014	\$1,435	\$596
Net Change	\$1,047	\$948

USD Billions

Source: Federal Reserve H8 Report, Treasury Strategies

**As a proxy for reserves, we use a Fed statistic which includes vault cash, items in the process of collection and balances due from other depository institutions, as well as reserves at the Fed since these other categories are likely to be relatively small.*



Money Fund Regulations and Your Investment Policy



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Do new US Money Fund regulations require changes to corporate investment policies?



Money Fund regulations have been produced to enhance the safety and liquidity of MMFs, protect investors and reduce systemic risks in the overall financial markets.

Overview of the Regulations:

- Fluctuating NAV
- Possibility of Liquidity Fees or Exit Gates
- Enhanced Disclosure and Stronger Portfolio Management Requirements
- Institutional Prime and Institutional Municipal Funds

Final regulations address many of the concerns raised by Treasury Strategies and others.

- Significant recordkeeping relief under new US Treasury/IRS guidance
- Relief from the “wash sale” rule
- Preservation of amortized cost accounting for securities maturing in 60 days or less
- Enhanced tools for fund boards to act in the best interests of fund shareholders

These four items go a long way toward preserving the investor utility provided by MMFs.





Do new US Money Fund regulations require changes to corporate investment policies?



This requires careful evaluation of the language in the current investment policy.

- A stated objective of “preservation of principal” does not necessarily rule out VNAV funds.
 - Even commercial paper and government securities fluctuate in value daily.
 - Unless held to maturity, all money market instruments fluctuate.
- A stated objective of “daily liquidity” does not necessarily rule out funds subject to fees or gates.
 - Fees and gates are board *options*, not requirements. The “requirement” in the regulation is that the board act in the best interests of the fund shareholders.
 - The fee is analogous to an early withdrawal penalty in a bank time deposit. Each can be avoided by continuing to hold the instrument.
 - Gates are analogous to “bank holidays” and withdrawal suspensions – extremely rare, but authorized under various statutes.
 - Even an FDIC-insured deposit at a failed bank can be “gated.” Regulations stipulate only that the FDIC must begin the process of resolving a bank failure within forty eight hours.
- More restrictive language such as “a constant net asset value” requirement would necessitate a policy change to permit continued investment.

It’s not clear to Treasury Strategies how many policies will need to be altered.

However, we strongly recommend that you initiate a dialogue with your superiors.



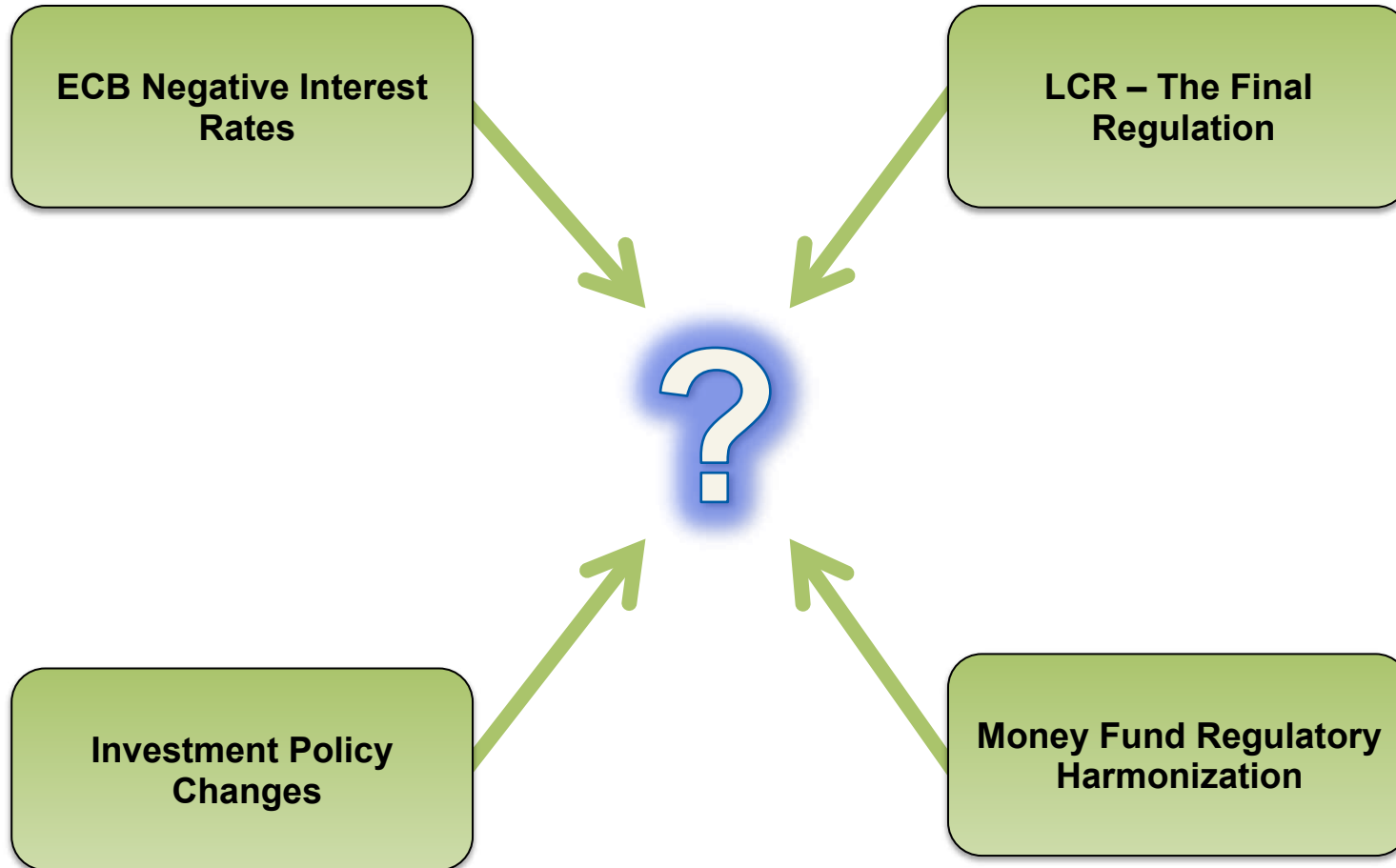
Game Changers



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Potential Game Changers





Speakers

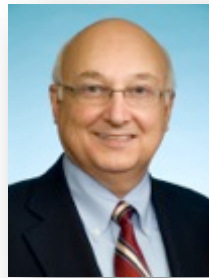


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Please feel free to join our Treasury Management Group on LinkedIn <http://www.linkedin.com/e/vgh/50323>

Please feel free to join our Financial Services Regulation Group on LinkedIn <http://www.linkedin.com/e/vgh/1799642>





About Treasury Strategies, Inc.



Who We Are

Treasury Strategies, Inc. is the leading treasury consulting firm working with corporations and financial services providers. Our experience and thought leadership in treasury management, working capital management, liquidity and payments, combined with our comprehensive view of the market, rewards you with a unique perspective, unparalleled insights and actionable solutions.

What We Do

Corporations

We help you maximize worldwide treasury performance and navigate regulatory and payment system changes through a focus on best practices, technology, liquidity and controls.

Treasury Technology

We provide guidance through every step of the technology process. Our expert approach will uncover opportunities to optimize the value of your treasury through fully integrated technology solutions.

Financial Services

Our experience, analytic approach and benchmarks provide unique consulting solutions to help you strengthen and grow your business.

Locations

Chicago • London • New York

Accreditations



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About Federated Investors, Inc.



FIRM PROFILE

History of Quality and Innovation

- Founded and headquartered in Pittsburgh, PA, 1955
- Offices in New York, Rochester, Boston, Dublin, Frankfurt, London and Melbourne
- 1,400+ employees worldwide, including 223 investment professionals and 84 Chartered Financial Analysts
- Pioneer of money market and fixed income funds

Publicly Traded

- NYSE listed: FII
- Employees share in approximately 20% of firm's ownership

Investment Management Singular Focus

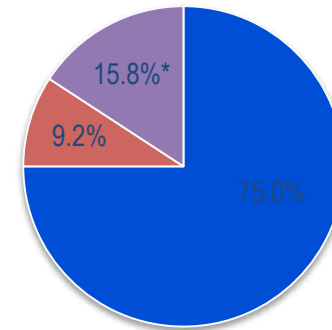
- Committed to delivering long-term outperformance
- Strategies utilize risk management process and maintain style consistency

Well-Resourced Investment Teams

- Experienced specialized teams committed to delivering long-term outperformance
- Deep historical commitment to proprietary research
- Majority of investment professionals' compensation directly tied to performance

\$379.8 BILLION IN AUM

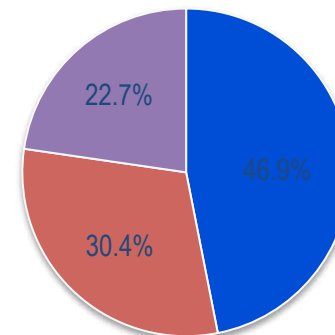
Firm-Wide



■ Liquidity Management ■ Equity ■ Fixed Income

**Liquidation portfolios comprise of 12.2% of firm-wide fixed income total.*

4Q Revenue by Source



■ Liquidity Management ■ Equity ■ Fixed Income

Asset breakdown as of 12/31/12





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FitchRatings

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