Treasury Strategies' Quarterly Corporate Cash Briefing™: Questions & Answers

June 2013

Treasury Strategies

The Power of Experience®

Summary

Thank you for joining Treasury Strategies' Quarterly Corporate Cash Briefing™. You were part of our largest registration to date, **as one of over 1,000 registrants**.

The questions we received from you and your colleagues were impressive and thoughtful, and we've provided answers on the following slides. Concern remains with corporate treasurers around pending regulatory changes, lending constraints, and managing risk.

We look forward to keeping you at the forefront of industry changes, and providing advice to you on how to manage that change.

Watch for more information to register for our **next Quarterly Corporate Cash Briefing™ taking place in September 2013.**

If you have further inquiries, or would like to learn more about Treasury Strategies, Inc., please contact us:

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Q&A Responses Corporate Cash Briefing™ for 2Q 2013

From a business architecture perspective, what are the key challenges facing corporate treasury functions over the next 2 – 3 years?

1. Optimal organizational structure and activities for Treasury given institutional drive toward centralization and shared service centers
2. Policy, procedure and enabling technology for Treasury to monitor and mitigate counterparty risk
3. Methodology and data capture for Treasury to better manage FX risk in association with business units

Weren't the ECB reserves also impacted first upward by the LTRO lending activity and subsequent repayment by some of the borrowing banks 1 year later?

Yes, the banks' repayment of the loans in conjunction with the reduced ECB deposit rates contributed to the decline in ECB reserve levels.

On 11 July 2012 the ECB reduced the rate it pays banks on their overnight deposits with it from 0.25% to 0.00%, making the commercial banks think twice before placing money with the ECB.

Banks still do prefer to earn nil on some funds because of reduced credit risk.

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Do you see the banks starting to offer notice interest-bearing deposit accounts (30 days) to reduce the bank's run-off cost (LCR under Basel III)?

Do you think corporates would be interested to put surplus deposits in notice accounts in exchange for higher return?

This is becoming a very standard post-BASEL product, because it creates a perpetual deposit. There has been some adoption in the UK, but the rate of adoption in North America is unclear.

Rising interest rates on alternate products will likely change the attractiveness of a notice account as well.

How do you see the interplay of a steepening yield curve, Basel III, and money market reform impacting the cash investment decisions of corporates? Do you expect to see a migration of corporate deposits into money funds?

Also, what stats are you tracking to spot trends?

The steepening yield curve will cause corporates to want to fund as long as possible, and invest as short as possible to set up the maximum amount of cash spread for their firm. Basel III incents banks to fund themselves outside of the money market yield curve which exacerbates an imbalance in supply and demand. Because supply will be less, corporates will likely need to avoid direct securities and invest more in funds and other pooled vehicles that have a more steady stream of supply. As for money market reform, it will continue to be a media topic, but will not impact investing characteristics until midway through 2014.

We continue to track the employment statistics, the ISM numbers, and the inflationary data as our main data points.

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Specific to Basel III proposals regarding liquidity coverage credit as well as the LCR, what do you see as proposed impacts to bank lines and commercial paper in relation to the proposed MMF regulations?

Basel III and the liquidity credit ratio will mean a more stable sourcing of on-balance sheet funding, so reliance on short-term funding on commercial paper may decrease.

In terms of bank lines of credit, Basel III will make credit more costly. As well, if MMF regulations cause assets to flow out of MMFs, and they provide more financing in the marketplace, there will be an increased demand for bank lines of credit.

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.

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

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