



September 2014

US regulators today finalized a rule that may affect the relationships many of you have with your banks.

Under Basel III guidelines, the US Federal Reserve and the FDIC finalized a rule called the LCR, or liquidity coverage ratio. The goal is to ensure banks have sufficient funding to withstand a crisis. Most other global money centers are doing something similar.

The LCR requires banks to segregate your demand deposits into "operational" and "non-operational" categories. Operational demand deposits are those arising from your day-to-day cash management and payments activities. Non-operational demand deposits are those in excess of your daily activities, or rate-sensitive deposits not subject to withdrawal limitations. In other words, non-operational deposits are those you can quickly move in the event of a problem at your bank.

- Under LCR, banks are free to use your **operational deposits** to make loans, leases and other general banking activities, much as they do today.
- **Non-operational deposits** can no longer be used in that manner. They must be backed only by high-quality, highly liquid assets, most likely US government securities. Thus, they are far less valuable to your banks and will be a drag on your banks' overall rates of return. Not all banks will be impacted in exactly the same way, however, so we can't develop a general rule.

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As banks look to attract operational demand deposits and discourage non-operational deposits, the economics of your banking relationship will change. We expect to see changes in bank service pricing and earnings credit rates, as well as entirely new deposit products. **Depending on your cash flow volatility, service mix and absolute deposit levels, you may eventually need to redesign your operational banking structure or reallocate your deposits.**

If you'd like to discuss how these changes may impact your treasury operation, please [contact us](#). You can also refer to our whitepaper: "[Basel III – Changing the Rules of the Game for Corporate Treasurers](#)."

We look forward to keep you apprised as these changes take place.

For more information, please visit www.TreasuryStrategies.com.