Treasury Strategies

The Power of Experience®

The Day After: Emerging Trends in the Post-Crisis, Re-Regulatory Environment

Ohio Bankers League

Working for Banks and Bankers

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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.

SWIFT Ready Consultancy SWIFT for corporates - 2009

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Contents

Objectives

The objectives of today's session are:

- Review of select regulatory initiatives
- Key impacts of new and potential regulations
- What next?

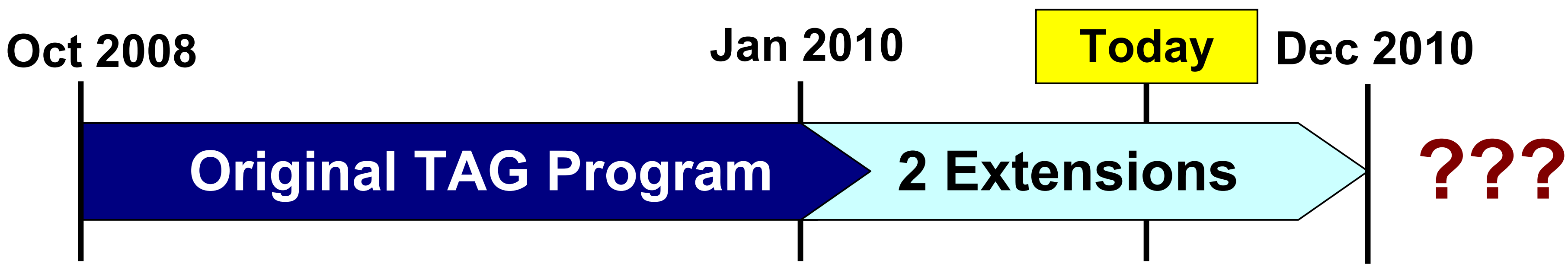
Summary of Key Regulatory Impacts

Regulatory Impact	Related Regulatory Initiatives	Big Banks	Community Banks	Non-Bank FIs
Changes in deposit flows	• Expiration of TAGP • Changes in MMF regulations • Potential Repeal of Reg Q			
Increased oversight and restriction of banks	• Creation of consumer protection agency • War on systemic risk			

Competitive Advantage	Neutral	Competitive Disadvantage

Regulatory Impact:
Changes in Deposit Flows

The Clock Has Slowed on TAG



Major Banks are Already Out of TAG

Bank	TAGP Status - Jan 2010	Total Deposits ($B)	S&P Credit Rating
JPMorgan Chase	OUT	1024	A+
Bank of America	OUT	1002	A
Wells / Wachovia	OUT	826	AA-
Citigroup	OUT	771	A
USBancorp	OUT	194	A+
PNC / National City	OUT	193	A+
SunTrust Bank	OUT	124	BBB+
BB&T	OUT	114	A
Regions Bank	IN	103	BBB
Fifth Third Bank	IN	86	BBB
RBS Citizens	IN	73	A-
Key Bank	IN	69	BBB+
Huntington Bank	IN	42	BB+
Comerica Bank	IN	38	A

$100B of total deposits is the dividing line for non-participating vs. participating banks.

Changes to MMF Regulations

Money Market Mutual Funds - OUCH !!

- Changes to Rule 2a-7
- Migration to floating NAVs

Increased Limits on MMF Investments

Changes to Rule 2a-7

Higher Credit Quality

Reduced Maturities

Liquidity Requirements

Downward Pressure on MMF Rates

Decreased MMF Market Share vs. Bank Deposits

Moving Towards a Floating NAV

Where is liquidity?

Liquidity Provider Structures - Small Business & Middle Market

	Small Business - <$10MM Annual Rev.	Middle Market - $10MM to $50MM Annual Rev
Average # of Commercial Banks	1.7	2.4
% Using Brokerage Firms	25%	38%
% Using Mutual Fund Companies	**18%**	**23%**

Source: TSI Proprietary Research

Over 3/4 of Corporate Treasurers would pull back from MMMFs if they had floating NAVs.

Will Banks Pay Interest on DDAs?

Will Regulation Q Repeal Survive the Legislative Process?

Paying interest on corporate checking would provide another shock to the liquidity markets:

- Decreased attractiveness of MMFs relative to bank deposits
- Product/pricing innovation
- Increased intra-bank competition for deposits

The Post Reg Q Marketplace

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Reduced Attractiveness of MMFs	Increased price competition for deposits	Increased scrutiny of counterparty risk

Implications

- Continued outflow from MMFs and close review of banks
- High-rate checking as an acquisition play
- Integration of deposit pricing strategy with Treasury Management pricing
- Increased development of new product/pricing

Regulatory Impact:
Increased Oversight and Restriction of Banks

The Restoring American Financial Stability Act of 2010

The Senate is now debating the Dodd Bill.

Highlights of this massive bill include:

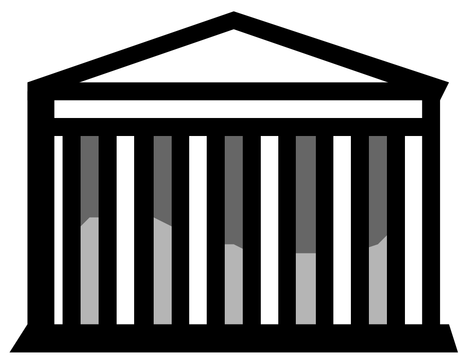
- Consumer protection agency for financial services consumers
- Controls for systemic risk
- Risk reduction in derivatives market
- Streamlining bank supervision
- Oversight for credit rating agencies
- Stronger enforcement over current regulations

Protecting Financial Services Consumers

Consumer Financial Protection Bureau (CFPB) – an agency in the Federal Reserve meant to be the watchdog over the financial services industry.

The CFBU would have **rule writing authority** over all institutions offering financial services and products to consumers, bank and non-bank alike.

FDA +



= CFPB

Consumer Protections Already Passed

Before the passage of the financial system overhaul, Congress has already passed two consumer protections with a massive scope:

- Credit Card reform
- Changes to Reg E

Source: 2007 Federal Reserve Payment Study, TSI Proprietary Data

Preventing Systemic Risk

The Dodd bill also includes several provisions focused on preventing systemic risk coming from large, complex financial institutions:

- Financial Services Oversight Committee
- The Office of Financial Research
- Living Wills
- Stricter capital and liquidity requirements
- Liquidation fund for large, interconnected financial firms
- Volcker Rule / Merkely/Levin Amendment

Killed by Amendment Last Week

+ VC / Private Equity Registration with SEC
+ Deposit Insurance Premiums - Assessed on Assets
+ Francken Amendment - Credit Rating Oversight

Uneven Impact on Banks

Increased regulatory scrutiny of Big Banks

New deposit insurance assessments based on assets

Increased capital requirements and restrictions on activities as banks grow

Consumer protection regulation regime

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Community banks will benefit from:

- Increased regulatory costs applicable only to Big Banks
- Ability to develop new products more quickly

Conclusion:
A Call to Action

Impacts of Regulatory Trends

Sector	Opportunities	Threats
Community Banks	• Gather deposits • Increase margins or decreasing pricing • Product Innovation	• Positioning of risk after expiration of TAGP • Some increase of compliance costs
Large Banks	• Gather corporate deposits from MMFs • Too big to fail	• Increased regulatory costs • Increased capital costs • New Assessments

Call to Action

Monitor	**Assess**
Advocate	**Architect**

Manage Risk

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Category	Regulation / Element	Requirement	Status	Gap Description	Evidence	Gap Severity
Compliance	OCC Bulletin 2006-39	Advise Board on adequacy of capital relative to volume of ACH activity and risk associated with originators			Board report dated 10/15/2008	**NA**
Operating Risk	Fraud conducted by external parties	Detection of change in commercial purpose of client		No automated or periodic method to detect a firm that adopts third-party sender or money service bureau activity		**MED**
Credit Risk	Quantification	Risk exposures quantified using relevant, objective standards		Risk exposures of debit transactions not quantified		**HIGH**

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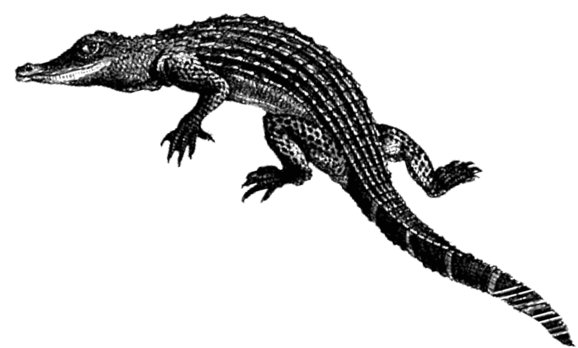

Summary

Unprecedented risk and opportunity

Difficult to capitalize

Winners will have:

- A clear market segmentation strategy
- A compelling deposit pricing strategy
- Strong financial and operating risk management
- Well-designed products that differentiate