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A Rapid Recovery of The US Economy: *What Should Your Treasury Do To Prepare?*

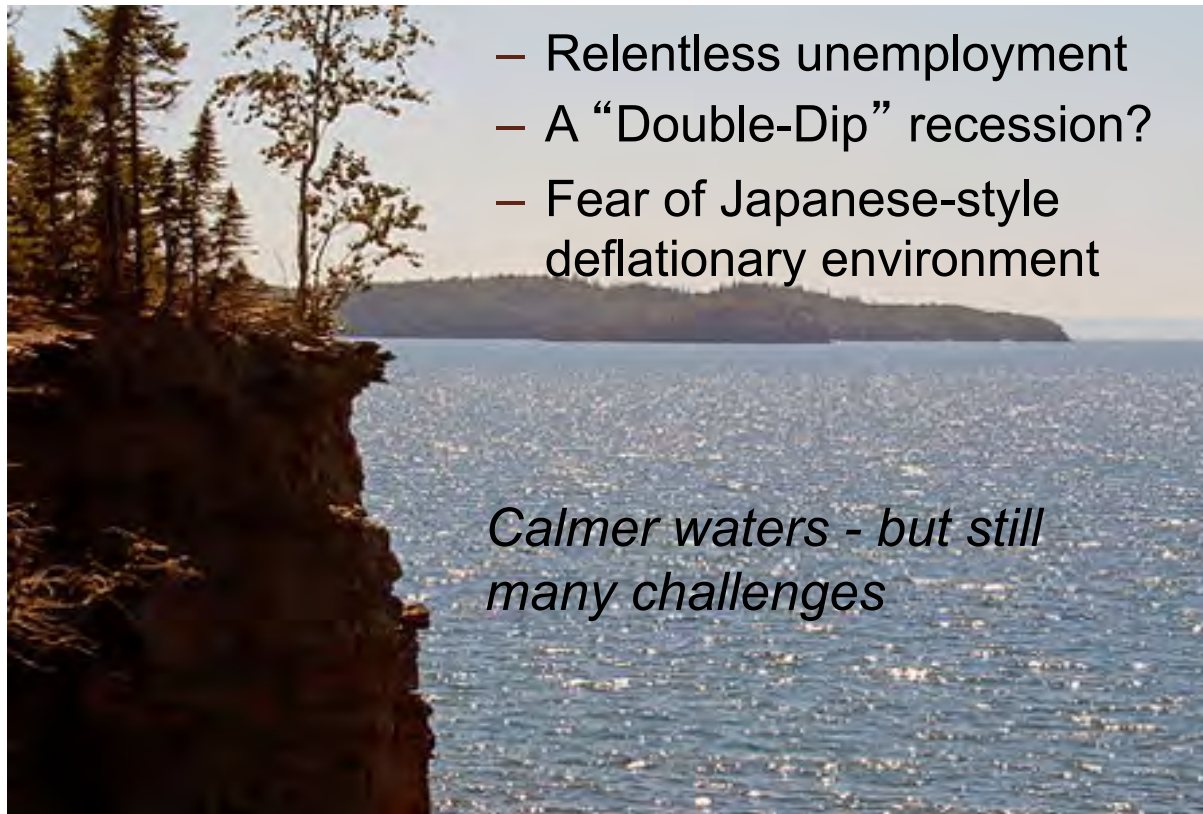
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The Business Landscape in 2009



The Business Landscape in 2010



- Relentless unemployment
- A “Double-Dip” recession?
- Fear of Japanese-style deflationary environment

Calmer waters - but still many challenges

A Recovery in 2011?



If this is so, what impact will a recovery have on the typical treasury function?

What can you do to prepare?

Recovery Economy: Challenges

The economic recovery doesn't come without its **challenges**. There are 4 key areas treasury must monitor and be prepared to act upon as conditions change:



Rising Interest Rates

- Rates are now at or near zero
- A steepening yield curve



FX Volatility

- The Euro & the debt situation of PIIGS
- China's restrictions on bank lending



Additional Regulation

- Dodd-Frank Wall Street Reform and Consumer Protection Act (2010)



Corporate Expansion

- An increase in M&A activity
- New products
- Geographic expansion

Taking Proactive Control

Internal

- Cash flow
- Working capital
- Counterparty risk
- Investment
- Debt
- Fraud

External

- Regulation
- Economy
- Federal action
- Banking turmoil
- Political risk

Taking Proactive Control

You can control these

Internal

- Cash flow
- Working capital
- Counterparty risk
- Investment
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You can assess the impact of these

External

- Regulation
- Economy
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- Political risk

Recovery: Key Areas of Focus



Navigating the current interest rate environment



Building staff capacity



Optimizing business processes

Using the latest treasury technology



The Current Interest Rate Environment



- The U.S. is experiencing the lowest interest rate environment in decades.
- The Fed funds rate was lowered to 25 basis points in December 2008 and has remained at this level.
- The average Fed funds rate over the last two decades was 3.30%; therefore the current level of this important metric is 300 basis points below the average!

Recovery and Short-term Investments



- **Revisit your investment policy** - Does it reflect the current situation?
- **Review your bank account structure** - Are you capturing and investing all your excess cash?
- **Reassess your counterparties** - Do you know your total exposures?
 - Credit lines
 - Derivatives
 - Currency exposure
 - Cash balances
 - Approved counterparties

Tactical Considerations: Investments

Manage Fees



- Negotiate ECR
- Reg Q implications
- Initiate RFP's
- Vigorously track fees for discrepancies

Reduce Costs



- Eliminate unnecessary or duplicate banking services
- Streamline cash movement within your system
- Migrate from paper to electronic processing

Manage Risk



- Define allowable asset classes and concentration limits
- Review counterparties and determine proper limits

Investment Tenets

Safety



With many banks under rating reviews and investments exceeding FDIC limits, Treasurers desire to avoid systemic risk through diversification among banks and investments.

Investment Tenets

Liquidity



Through diversification, you can still maintain reasonable daily liquidity for operations, as well as take manageable risk with a small portion of the overnight portfolio by going out on the yield curve.

Investment Tenets

Yield



In this low interest rate environment, it is important to look for higher yields without sacrificing safety.

Cash is King?

Corporations are accumulating large amounts of cash.

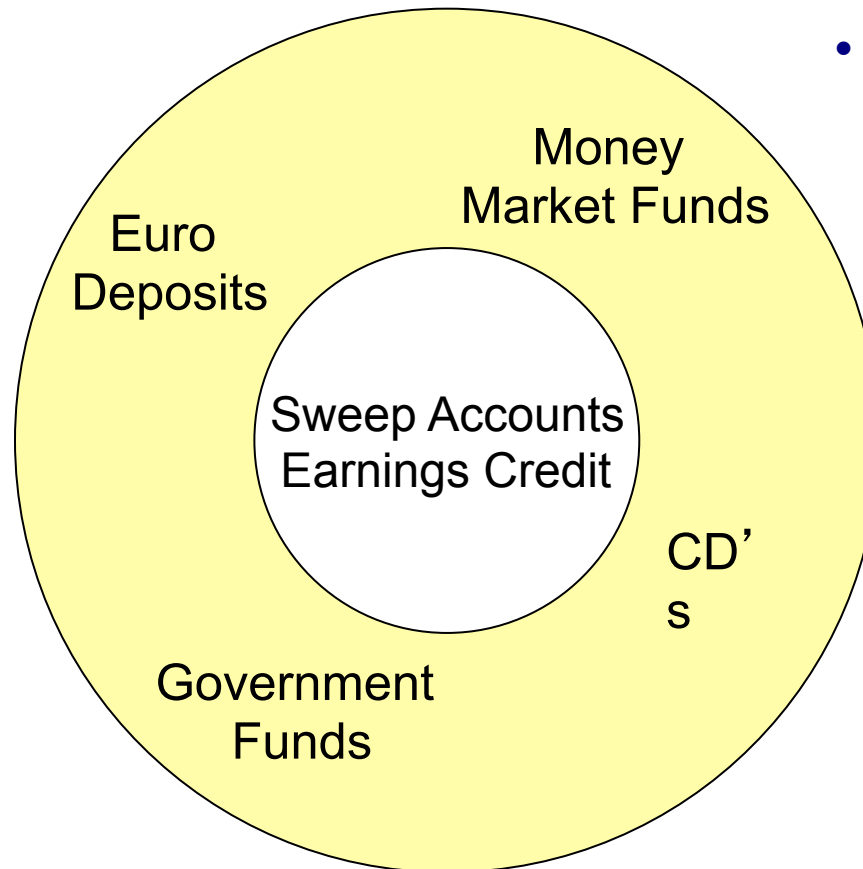
- What short-term strategies and options are out there to invest these funds?



Short-term Investment Strategy

- Look beyond typical bank vehicles

- Determine the optimal blend of products that achieves the greatest return



- Forecast cash to go further out on the yield curve with confidence

- Review changing insurance limits on investment vehicles

Investment Portals: Tracking your Options

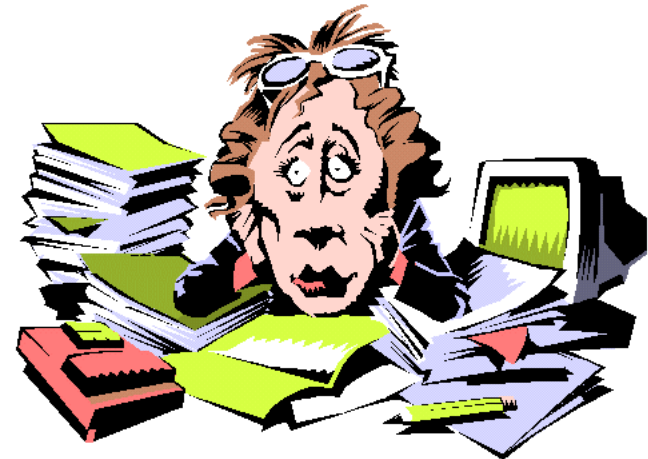
- Money Fund Portals offer a number of different money fund offerings in one convenient location.
- Portals are a cash management tool allowing organizations to streamline their short-term investment decisions and processes all on one secured website.

Benefits of Investment Portals	
Time	One stop shopping One transaction
Savings	One wire Better returns with the ability to make choices among fund yields
Convenience	Consolidated reporting
Transparency	Direct access to fund information
Controls	Clean paper trail Helps with SOX Compliance (section 404)

Staffing: The Last Few Years

Economic conditions have strained treasury resources since the start of the recession:

- Crisis management and survival were almost the sole focus.
- Many companies also stopped hiring, reduced staff training and cut conference attendance.



Staffing for a Rebounding Economy

In an emerging economic recovery the right staffing mix is crucial to survival:

- The right number of staff must be focused in the right areas.
- Staff must have the right skills and tools to do the job.



Staffing Strategy: 4 Key Components

Roles & Responsibilities

- Define Roles
- Set Expectations

Recruiting

- Identify skills and experience needed
- Develop appropriate channels for sourcing staff

Staffing Levels

- Consider both short-term and long-term requirements
- Supplement current staff skills set with temporary or outside resources

Training

- Establish guidelines and requirements for staff training
- Encourage continuing education and conference attendance

Business Processes

An economic recovery will test current business processes used by treasury:

- Bank account administration
- Investments
- FX
- Debt management

Clear, effective policies and flexible processes are critical to support long-term growth.



Focusing on processes means **standardizing**, **centralizing**, and **automating** as much as possible while also ensuring flexibility in order to respond as challenges arise.

Recovery Strategy: Business Processes

An effective process framework will provide:

-  1. Access to liquidity

-  2. Effective risk management

-  3. Timely and accurate reporting

The Business Landscape in 2010

Steps to achieving best practices in business processes:

1. Review and document
2. Identify opportunities
3. Perform gap analysis against best practices
4. Select improvements
5. Devise roadmap



Effective Technology

As businesses rebound from the slump, an effective technology infrastructure is essential to continue to support treasury's needs and added demands.

Key treasury needs supported by technology include:

- Real-time cash visibility
- Risk management
- Reporting

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An investment in treasury technology is easily justified because it:

- Enables optimal liquidity management
- Enables centralized decision making and risk mitigation
- Facilitates effective and timely management reporting, dashboards and metrics



The Systems Landscape

Many companies have older treasury workstation systems (TWS).

Some face a decision on license expiration or environment migration.

Others rely on combination of bank online systems and spreadsheets, even with a TWS.

All have an opportunity to re-think and improve their technology infrastructure with new solutions and deployment options.



Technology & Best Practices Framework

Technology is the catalyst for many Treasury best practices

Straight Through Processing (STP)

Reduction of data re-entry

Processing automation

Reduction of spreadsheet dependency

Streamlined and improved reporting

Process control mechanisms

Recovery Strategy: Treasury Technology

Components of an Effective Technology Architecture:

1. Centralized database for all treasury functions
2. Automated information gathering
3. Standardized bank connectivity
4. Automated trading and confirmation
5. Workflow management
6. Forecasting and reporting



Summary

Economic recovery is on the horizon

- Now is the time to prepare by assessing your organization's **capacity**, **processes**, and **technology**.



Remember to keep an eye on some **tricky issues**:

- **Short-term interest rates** and the shape of the yield curve already present challenges.
- **Economic and political forces** are impacting the currency markets.
- **Financial regulatory changes** are real and must be considered.
- Treasury cannot afford to misfire on what corporate growth requires due to **limited capacity**.



Questions



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