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

July 2014

Treasury Strategies

The Power of Experience®

Summary

Thank you for joining Treasury Strategies' Quarterly Corporate Cash Briefing™. You were part of our largest summer registration to date, **over 700 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, interest rates, and investment options.

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 October 2014.**

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

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What other products will companies use in replacement of Institutional Prime Funds?

There are limited options outside of Institutional Prime Funds that offer up the same return and flexibility.

Some Treasurers may look to add more to their bank deposit accounts, but with Basel III regulations taking effect in January 2015, those deposits may be turned away.

However, we expect significant and creative product development to take place over the two year phase-in period. Treasury Strategies will be an important player in that process, so please share your ideas with us.

The key value driver for corporate treasurers of Institutional Prime Funds is daily liquidity at par with minimal risk. We are confident that the current funds will morph into a conforming instrument with the the same benefits.

Please elaborate on the view that the Fed tapering has affected the rise of reserves from $40B to $2.6T.

The quantitative easing indirectly led to the ballooning of the U.S. Federal Reserve Bank's balance sheet. Tapering reduces the rate of QE and therefore the rate of growth in the Fed's balance sheet.

In QE, the central bank purchases government and mortgage/asset-backed securities from investors and banks. Proceeds from those purchases over the past few years has ended up on the balance sheets of commercial banks.

In an historic break with its past, the Fed began paying banks interest on their reserve balances. Thus, with few external lending or investing opportunities, banks simply redeposit the QE proceeds back into the Fed.

Q&A Responses
Corporate Cash Briefing™ for 2Q 2014

Do you believe that part of the large drop quarter-over-quarter in corporate cash can be attributed to the fines now coming about from the DOJ?

No, the drop in corporate cash in the U.S. is likely driven by reinvestment in business activity as well as mergers and acquisition activity. This was the single largest dollar drop we have seen in a decade, and we will watch to see if this was just a "blip" in the radar, or a true trend at our October 2014 Corporate Cash Briefing™.

We do believe that, for better or worse, these fines will reduce economic risk-taking, especially on the part of banks and customers who rely upon banks for funding. That would likely INCREASE levels of cash that companies choose to hold.

How much would you attribute the large percentage increase in U.S. bank reserves to Basel I, II, and III ?

We do not see a direct effect from Basel III to the level of U.S. federal bank reserves.

However, there is a slight indirect effect given that the Federal Reserve is paying interest on deposits and may boost their return on equity, since financial institutions do not have a capital charge on these deposits.

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 – which includes creating a roadmap, selection, implementation and optimization. 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.

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