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

April 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 1100 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 treasurer's 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 on Thursday 27 June 2013.**

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

By Phone: 312.443.0840

By Email: Marika_Pappas@TreasuryStrategies.com

By Mail: 309 West Washington Street, 13th Floor, Chicago, IL 60606

Q&A Responses Corporate Cash Briefing™ for 1Q 2013

At the MMX conference last month, Comm. Troy Paredes suggested that MMF reform proposals coming out of SEC later this spring may be less comprehensive than the industry feared. Is that your view -- that reform may be restricted to prime institutional funds?

Commissioner Troy Paredes mentioned several times at the MMX conference that the SEC has still not answered the question "What problem are we solving for?" and until they are able to answer that, the reform of the MMF industry will be stalled.

Although the SEC has presented several proposals, many of them fall apart after careful scrutiny – as they do not meet the Commissioner's standards. Ultimately, the MMF reform is difficult to predict given all of the proposals and moving parts. Stay tuned.

What is the impact of TAG expiration on where corporates are parking their cash?

Movement has been negligible. We haven't seen anything moving into money market funds and out of the banking system since the expiration of TAG. At the end of March 2013 bank deposits in the U.S. stood at \$9.4T – only \$100B above the December 2012 level of \$9.3T.

Is there any outlook for the impact of US FATCA on the levels of liquidity in the US and at the tax havens?

We sense that the global regulatory apparatus will continue to engage in high gear for quite some time, and tax havens/money laundering will be under the spotlight.

How is the Liquidity Capital Ratio from Basel III influencing pricing of corporate deposits in US vs. UK vs. EU?

Basel III has not been implemented, so the effects of the liquidity capital ratio have not been seen yet. In addition, the implementation continues to be pushed down the road. Please stay tuned to future TSI Corporate Cash Briefings, because this will be a key topic to watch.

For more information, please visit:

[The Low Rate Environment & Basel III]

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In hedging their FX exposures, which are the top 3 products that Treasurers use most and why do they find those products more in line with their needs?

1. Forward Contracts are the most common hedging instruments by far – they lock in the exchange rate and therefore reduce exposure risk.
2. Options are less common, but offer ability to lock in a rate and benefit if FX rates move in the company's favor.
3. Foreign Currency Loans can provide natural hedges to exposures (e.g., if a company has assets on their balance sheet denominated in foreign currency). They may take out a foreign currency loan to ensure offsetting exchange rate translation on both asset and liability accounts. These are used much less frequently than forward contracts and options.

Is there a rise in B2B lending or funding?

As a larger trend, companies are looking to diversify their sources of funding due to concern around the regulatory environment that the banks are working in, and whether they will remain a stable source of funding in the future. We are seeing a rise in supply chain financing in the market – which is in effect businesses lending to each other.

In repo transactions, how prevalent are alternate collateral types such as equity repo?

Lenders and investors are demanding higher quality collateral. However, at the same time the availability of collateral is tightening. As a result, some investors are expect accepting lower quality collateral, such as MBS or equity repo.

How much credit and/or duration risk are treasury teams willing to assume in order to enhance yield?

This depends on the treasury department and overall strategic objectives of the firm. However, we are still seeing treasury teams take on little credit/duration risk since the yield further out on the curve is negligibly higher.

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Does China have a banking assets to GDP ratio?

Treasury Strategies likes to provide the most relevant and up-to-date information in the treasury industry. However, the data available varies country by country. We have not found a reliable source for this data in China, but continue to watch for that data.

Are floating MMF NAVs gaining traction in the US?

From a regulatory perspective, the SEC is discussing floating NAV as an option. However, there is very strong pushback from investors and the MMF community. Many stakeholders cannot invest in MMFs if they were to become prevalent. It is useful to look at ultra short bond funds – which are the closest thing to a floating NAV MMF in the U.S. These have been around for the past two decades, but have gained very little traction in the market.

For more information, visit:

Treasury Strategies' Comment to FSOC

My greatest concern in managing corporate cash is credit counterparty risk. I was interested to hear that some banks are offering secured deposits. How widespread has that become?

Secured deposits are limited by the level of collateral that the bank has on its balance sheet. There is a real shortage of collateral in the market, so banks would prefer to do fully secured deposits only when absolutely necessary (e.g., for the public sector). The bank is earning close to nothing on these deposits, yet there is a cost to carry the collateral, so they are highly unfavorable in the scheme of deposits.

Are all the Cyprus effects reflected in the market?

Quite the opposite. The long term effects and consequences of Cyprus won't be known for quite some time. Stay tuned for future briefings.

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What is Treasury 3.0®?

Corporate treasury is about to become the fully integrated financial nerve center of the company. The treasury of the future will be an analytic and technology hub that provides end-to-end business intelligence to the company's Board, business units, creditors, customers, suppliers, shareholders, rating agencies and regulators. Treasury Strategies' vision is that this trend is just now emerging and will require a decade or more to fully manifest.

- **The First Generation** - Prior to 1970, companies borrowed almost exclusively from banks and kept ample compensating balances. Operating services were simple and free. Exchange rates were fixed. Liquidity was plentiful. Commercial paper was just developing. Computers were not widely used in treasury. Portable calculators had just been invented. Banking was about relationships.

- **The Second Generation** - With the collapse of the Bretton Woods agreement in 1971, everything changed for the CFO and the treasurer. Exchange rates fluctuated. Technology advanced. Liquidity dried up, along with compensating balances. Banks began charging for services. Short-term investment markets blossomed. The treasury function changed radically. "Data" became "information."

- **The Third Generation** - Ushered in by the combination of advancing technology and ERP, globalization, the financial crisis and the emergence is major risks in unexpected places, this new phase is about treasury becoming a company's financial nerve center. "Information" is no longer good enough. Now, "intelligence" is required.

Please join the Treasury Strategies Treasury 3.0 LinkedIn Group for up-to-date information:
http://www.linkedin.com/e/vgh/55629/

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.

Locations

Chicago • London • New York

Accreditations

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SWIFT for corporates - 2009

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ACT LEADING TREASURY PROFESSIONALS

Martin O'Donovan
Deputy Policy & Technical Director
+44 (0) 207 847 2577
modonovan@treasurers.org

Federated®

Deborah Cunningham
Chief Investment Officer
412.288.8481
dcunningham@federatedinv.com

PNC

Scott Horan
SVP, Treasury Management
412.768.9910
scott.horan@pnc.com