

Preparing Your Treasury for Basel III Liquidity Rules

October 22, 2014

Presented To



Presented By

Cathy Gregg, Partner

Tony Carfang, Partner



To ensure that banks around the world have sufficient capital and stable funding to withstand a crisis, Basel III requires banks meet a number of new requirements on both the asset and liability sides of their balance sheets.

These requirements will **redefine** the economics and dynamics of corporate banking relationships:

- Capital requirements
- Leverage caps
- Liquidity requirements
- Stable funding requirements

This could be the most impactful, post-crisis regulation for corporate treasurers.

It requires banks to classify corporate deposits into two categories; restricts how each can be used.

OPERATIONAL DEPOSITS

- Used in your company's daily cash management and payments operations
- Banks are free to use these for loans, leases, and general banking

NON-OPERATIONAL DEPOSITS

- In excess of your daily needs, OR interest-sensitive deposits not subject to 30 day withdrawal limits
- Banks can no longer use these in general banking
- Must be invested in high quality liquidity assets (HQLA)
- Since return on HQLA is low, these deposits will have little value to a bank

Not all banks and not all bank customers will be impacted the same way.

It significantly alters bank relationship economics for you AND your banks.

- Most banks will want to attract operational deposits:
 - Will encourage you to concentrate more operating services with them
 - May alter deposit products so they can be defined as operational
 - May encourage you to move excess cash to 30+ days time deposits
- Most banks will discourage non-operational deposits:
 - Unattractive (or negative) ECRs for non-operating deposits
 - May otherwise encourage you to take them out of the bank
- Expect changes in service pricing, new deposit products, new rate and ECR structures

Your deposit attractiveness will depend on:

- **Volatility** of your cash flow
- Your ability to **accurately forecast** cash flow
- **Mix and volume** of banking services
- **Nature of the business** underlying your transactions (e.g., commercial vs. financial transactions)
- **Legal arrangements** for your accounts

At some point, you may need to redesign your operating bank structure.

At some point, you may need to relocate your balances.

Some basic TM activities will have more utility; focus on them now:

- Think about operating vs. reserve cash levels
- Improve cash forecasting
- Improve visibility of all cash balances
- Monitor bank prices and rates
- Be alert for new deposit products
- Consider consolidating vs. fragmenting bank services
- Talk with your banks about their Basel impacts/plans

Contact Us



Cathy Gregg

Partner

+1 312.628.6925

Cathy_Gregg@TreasuryStrategies.com



Tony Carfang

Partner

+1 312.628.6921

Tony_Carfang@TreasuryStrategies.com



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



Connect with Us



[www.TreasuryStrategies.com/
content/networking-communities](http://www.TreasuryStrategies.com/content/networking-communities)



@TreasuryStrat