

# 2016 Liquidity Risk SURVEY RESULTS

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**Craig Jeffery**  
Founder & Managing Partner

- Consulting firm advising on treasury, financial risk and risk technology issues
- 12 years serving corporate, government, education and not-for-profit institutions



**Ben Campbell**  
CEO

- SEC-registered investment advisor specializing in institutional cash investments, risk management, and debt financing
- Over 25 years serving early- and late-stage companies, corporations, institutions of higher education, non-profits, and municipalities

# Webinar: 2016 Liquidity Risk Survey

**2016:** “Ignoring Bank Exposures”

**2015:** “Waiting & Evaluating”

**2014:** “The Delay Factor”

**2013:** “Surprising Complacency to Bank Exposures”

**2012:** “Cautious, But Ready to Act”

**2011:** “Caution & Conservatism – Retrenching”

## Survey Goal

To shed light on treasury departments’ efforts to mitigate liquidity risk in short-term cash investment, debt and forecasting practices and changes over time.

## 2011 - 2014

2014 "The Delay Factor"

2013 "Bank Exposures"

2012 "Ready for Action"

2011 "Retrenching"

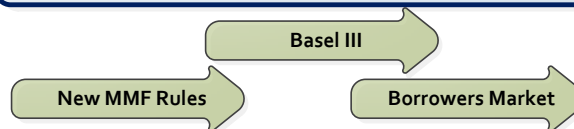
Treasurer  
Mindset

Context

Select Highlights

## 2016 Liquidity Risk Survey

2015 "Waiting & Evaluating"



"Changes on MMFs and Balances"

- Emerging reality of new MMF rules
- Debt: increased buyer favoritism 2014
- Basel III preparation and impacts

### Debt:

- Credit markets continue to favor the borrower. # of loan covenants: 21% less, 9% more
- Somewhat less intentionality on diversification of debt maturity

### Investments:

- MMF usage down, yet no clear plans by treasurers in anticipation of MMF reform
- Policy latitude continues to expand
- 58% of companies have not heard from their banks about reducing balances

### Counterparty Exposures:

- Decrease in bank deposits possibly indicating more control of bank exposures.
- Calibration of counterparty risks is still immature and improving only marginally

2016 "Ignoring Bank Exposures"



"Limited Changes Amidst Regulatory Reform"

- Expanding latitude in investment policies
- Limited changes in exposure to bank deposits
- Ongoing changes in banking regulations

### Debt:

- Continued reduction in loan covenants generally
- Ongoing increases in the use of asset backed lending requirements
- Diversified maturity dates for credit facilities

### Investment:

- Significant portion of Treasurers to leave Prime Money Funds
- But, a larger portion has no plans to deal with MMF reform
- Policy latitude continues to expand

### Counterparty Exposures:

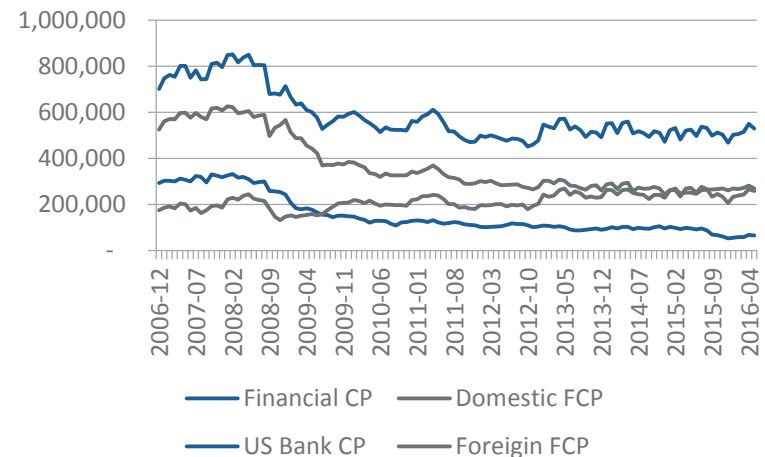
- Progress on risk frameworks and policies that govern counterparty risk exposures and investments
- More firms setting limits on uninsured bank deposits

## Global Economic Malaise

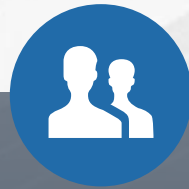
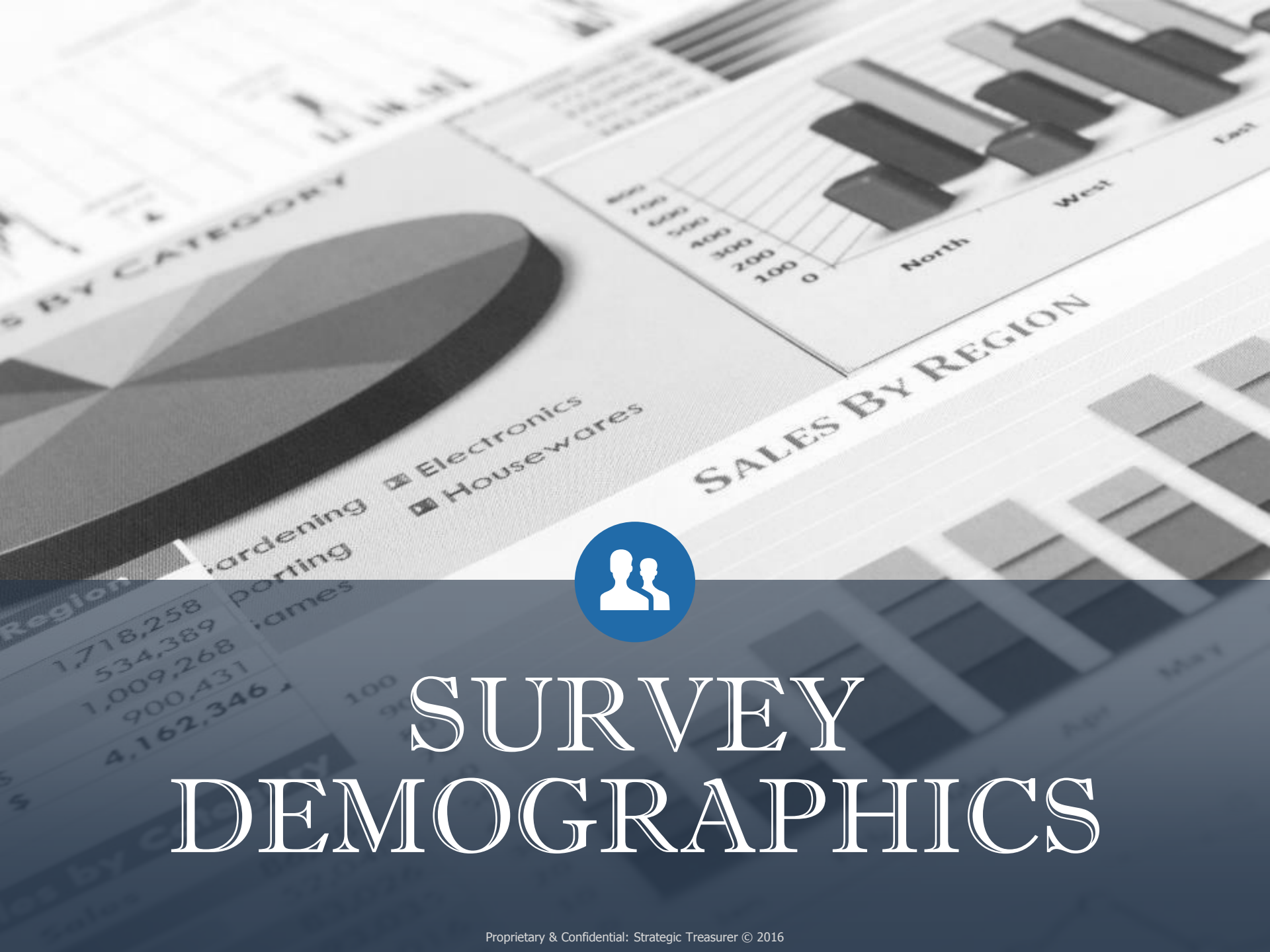
- Fed holds off on raising short term rates
- Headline CPI: World (Mar): 2.6%; Advanced Economies (Mar) 0.6%; Emerging Economies: (Feb): 6.0%
- GDP: World 2015Q4: 3.0%; Advanced Economies 2015Q4: 1.6%; Emerging Economies 2015Q4: 4.4%; US 2016Q1: 2.0%
- *Unemployment: US (Mar): 5.0%; Euro Area (Mar): 10.2; Canada (Mar) = 7.1; Japan (Mar): 3.2%; UK (Jan) = 5.0%*

1. **MMF Reform**
2. **Basel III and Dodd-Frank**
3. **Backdrop is changing dramatically and behavior may not be changing in parallel**
4. **Supply of Securities**

### Financial CP Outstanding

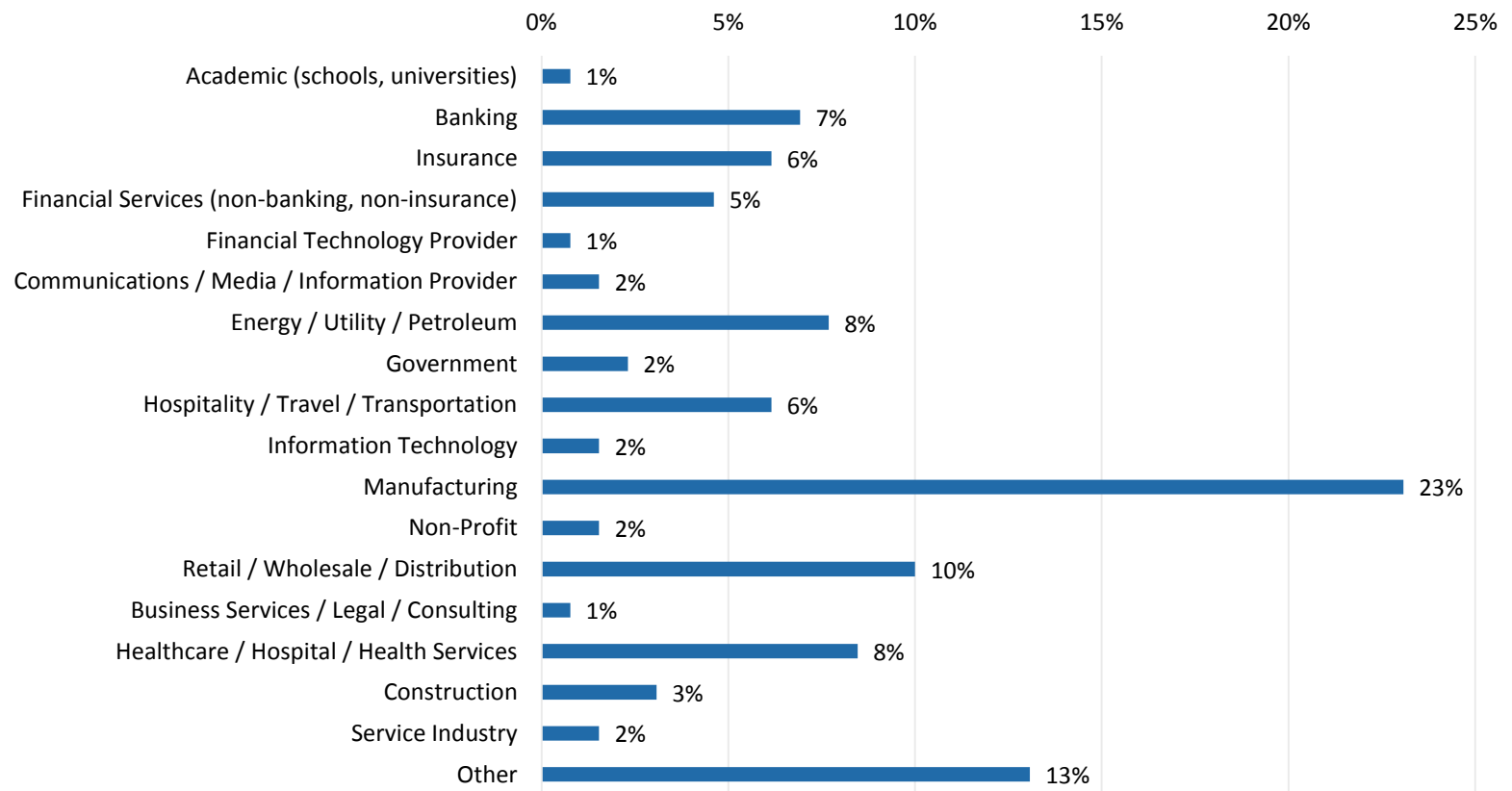




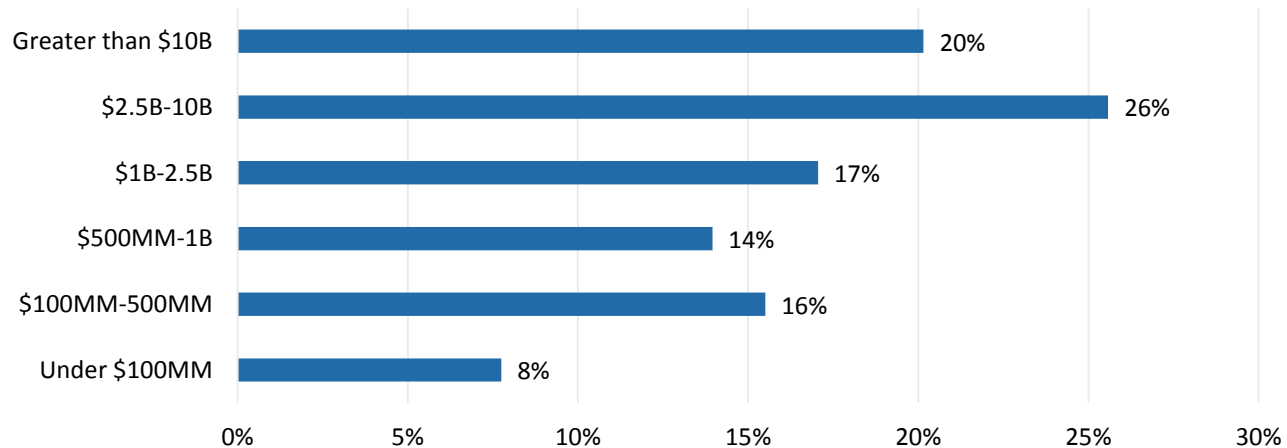


# SURVEY DEMOGRAPHICS

## What is your organization's main industry? (2016)

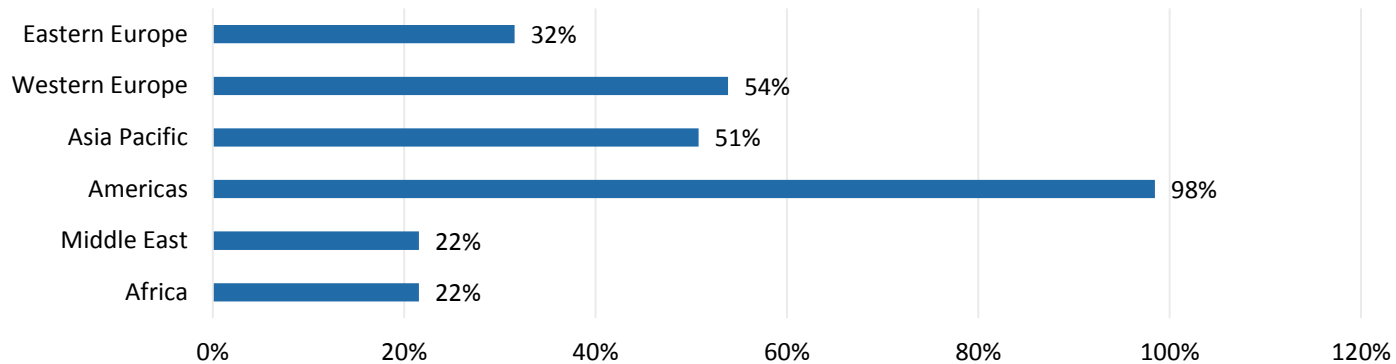


What is your company's annual revenue?  
(2016)

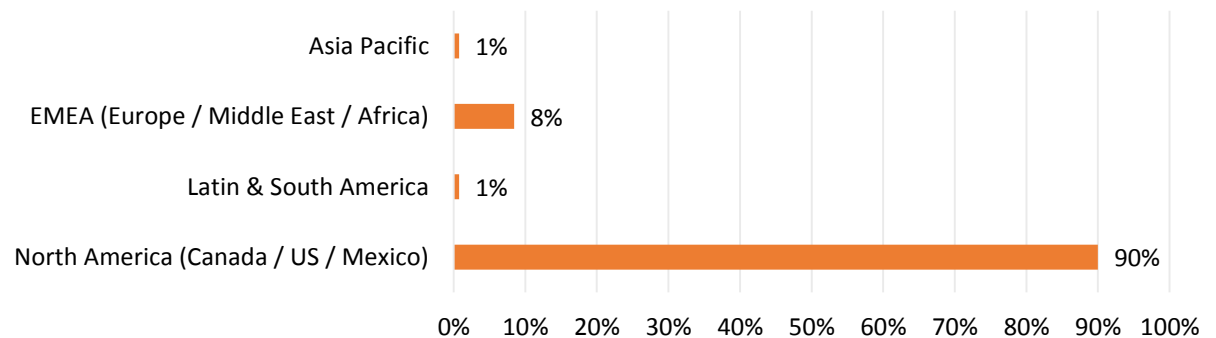




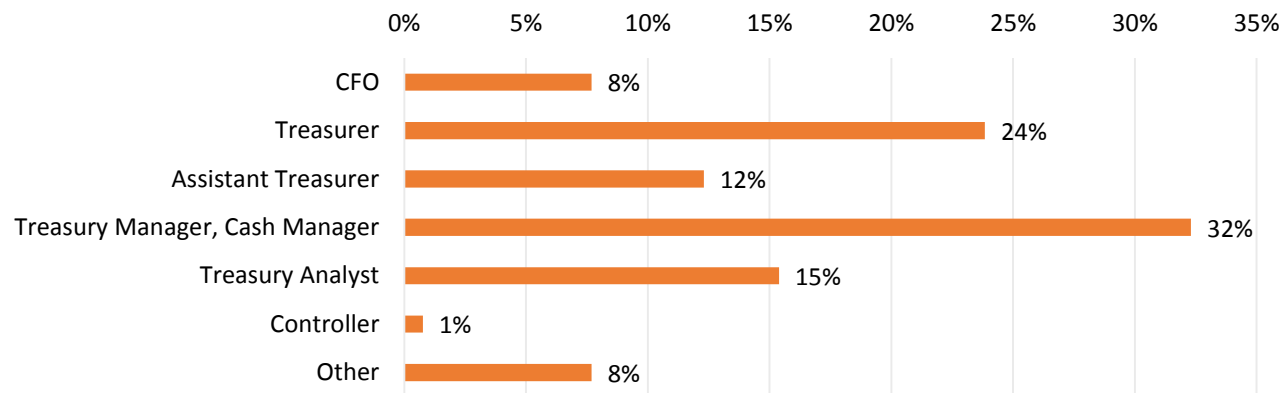
Which region(s) does your company operate in?  
(Select all that apply) (2016)



In what region is your organization headquartered?  
(2016)

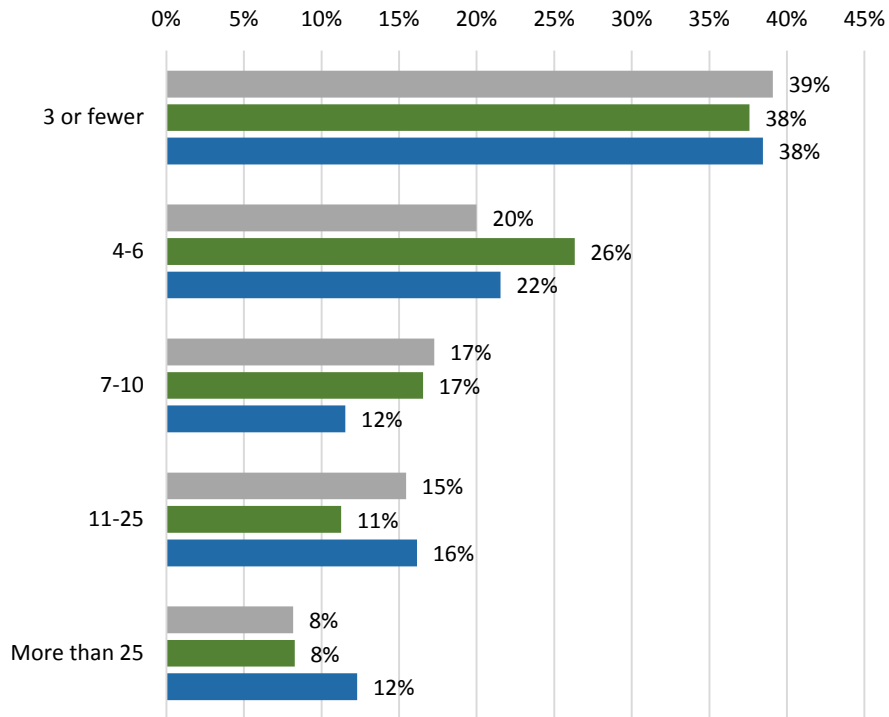


## What is your role? (2016)



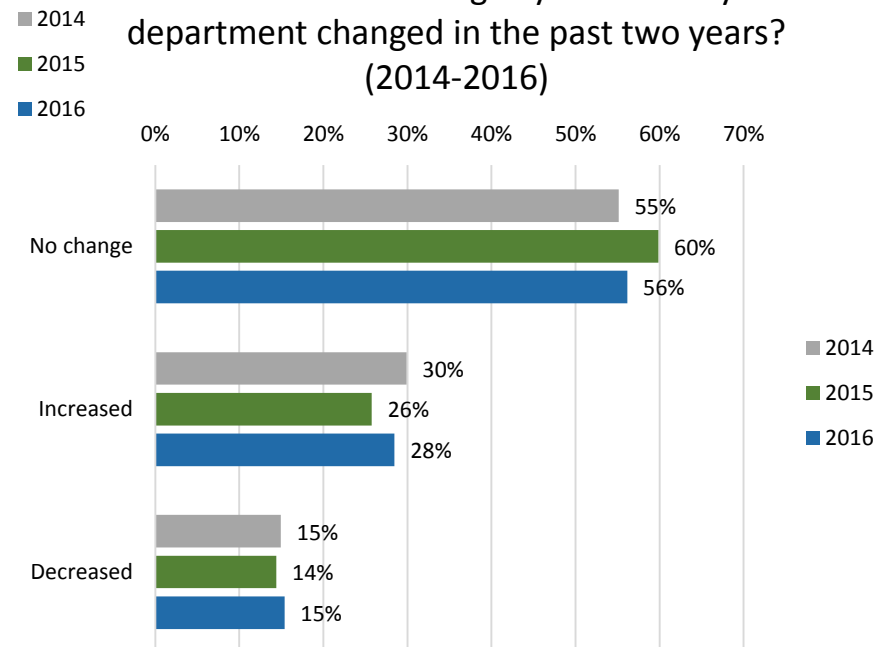
# TREASURY STAFFING SIZE

How large is your global treasury organization, including analysts? (2014-2016)



**3 year trend of larger treasury staff**  
(12%-15% have a net increase)

How has the staffing in your treasury department changed in the past two years? (2014-2016)





# SURVEY RESULTS

## **Ignoring Bank Exposures**

1. Treasury and financial professionals have not materially changed their exposure to Bank Deposits in the wake of significant ongoing changes in banking regulation
2. Survey results indicate a significant portion of Treasurers are going to leave Prime Money Funds, but an even larger portion don't yet have a plan to deal with Money Fund reform.

## **Areas of Progress and Items to Note**

3. Ongoing calibration of investment policies:
  - Fewer firms have updated their investment policy in the past 2 years
  - More firms are setting limits on uninsured bank deposits
4. Investment policy latitude continues to expand in an environment of continued supply contraction
5. Progress has been made on risk frameworks and policies governing counterparty risk exposures and investments
6. Firms have diversified their maturity dates for their credit facilities as banks reduced loan covenants and increased asset backed lending requirements
7. Notable multi-year trends. Staffing increases and fewer loan covenants

## **MMF Reform**

- Floating NAV
- Fees and Gates
- Institutional Only

## **Basel III**

- Liquidity Coverage Ratios

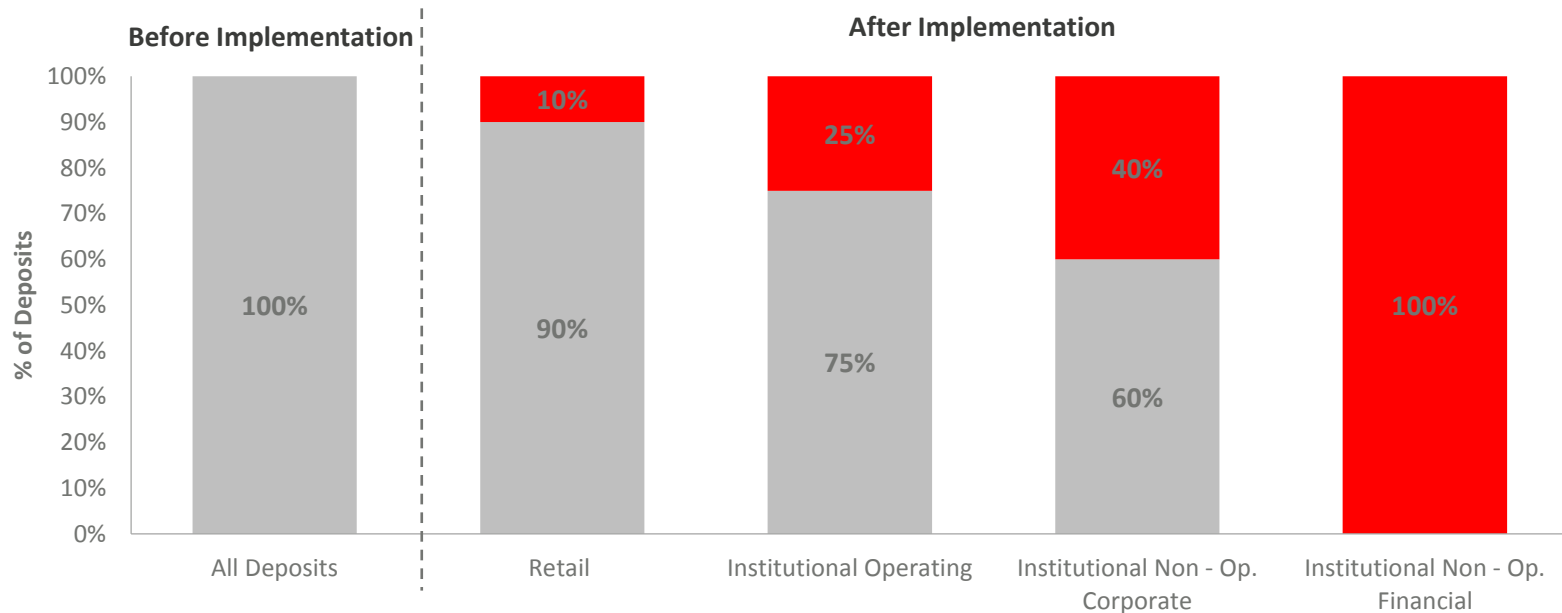
## **Impact**

- Risk reward profiles evolving
- Credit
- Returns
- Utility of money funds



# Bank Deposits – Liquidity Coverage Ratio Changes

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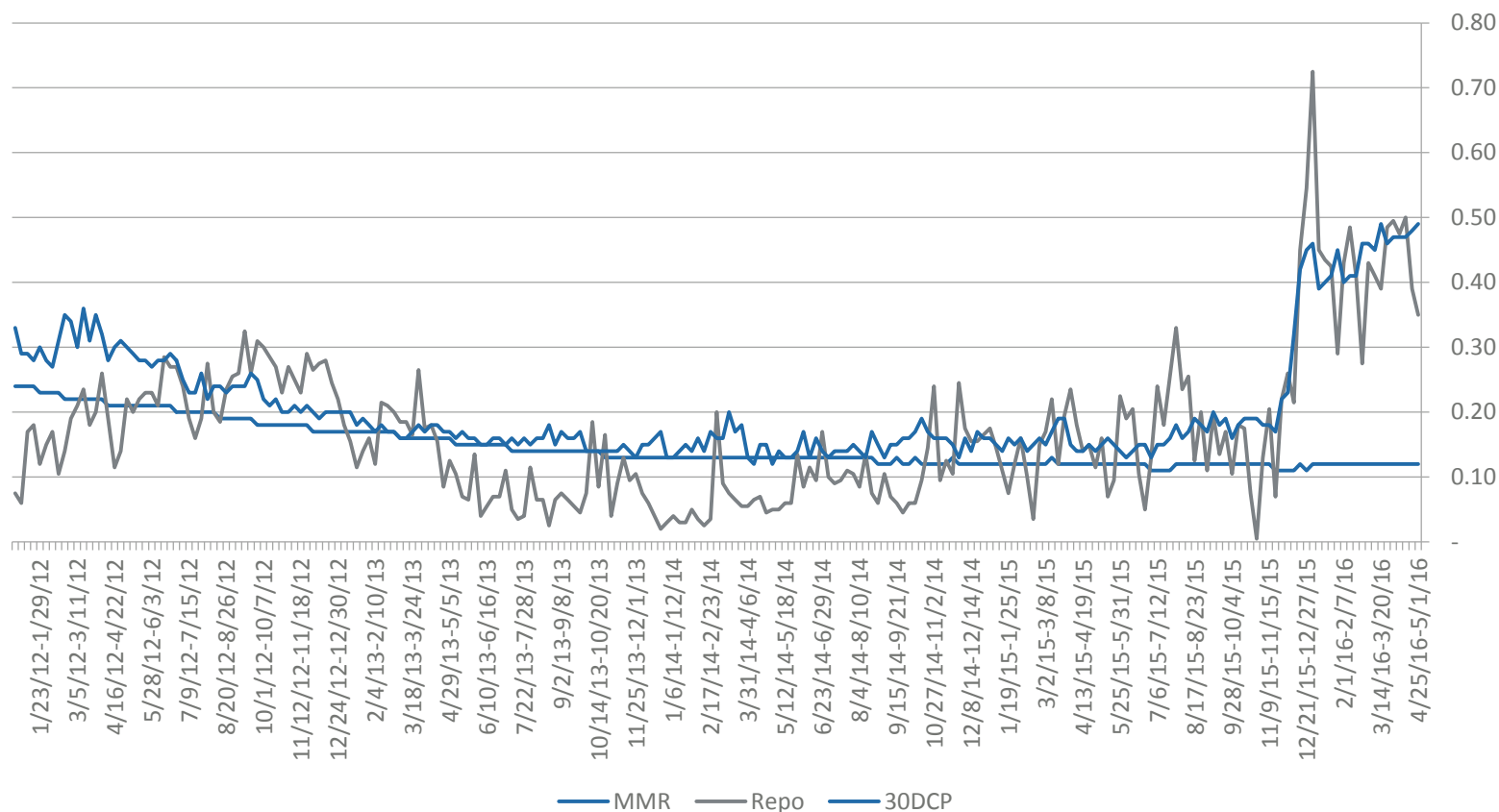
- Deposits are more expensive for banks to offer
- Relative returns are likely to decline vs. other investment channels not impacted by liquidity coverage ratios

Source: US Basel III



# MMDA Rates vs. Overnight Gov't Repo Rates & 30D A1/P1 CP

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## Sources:

MMR – FDIC weekly national money market rates for deposits greater than \$100,000. [Link](#)

Repo – Overnight General Collateral Repo rate backed by government collateral from Bloomberg (Index: USRG1T)

30-Day CP – 30-day non-financial corporate CP rates from Bloomberg (Index: DCP030D)

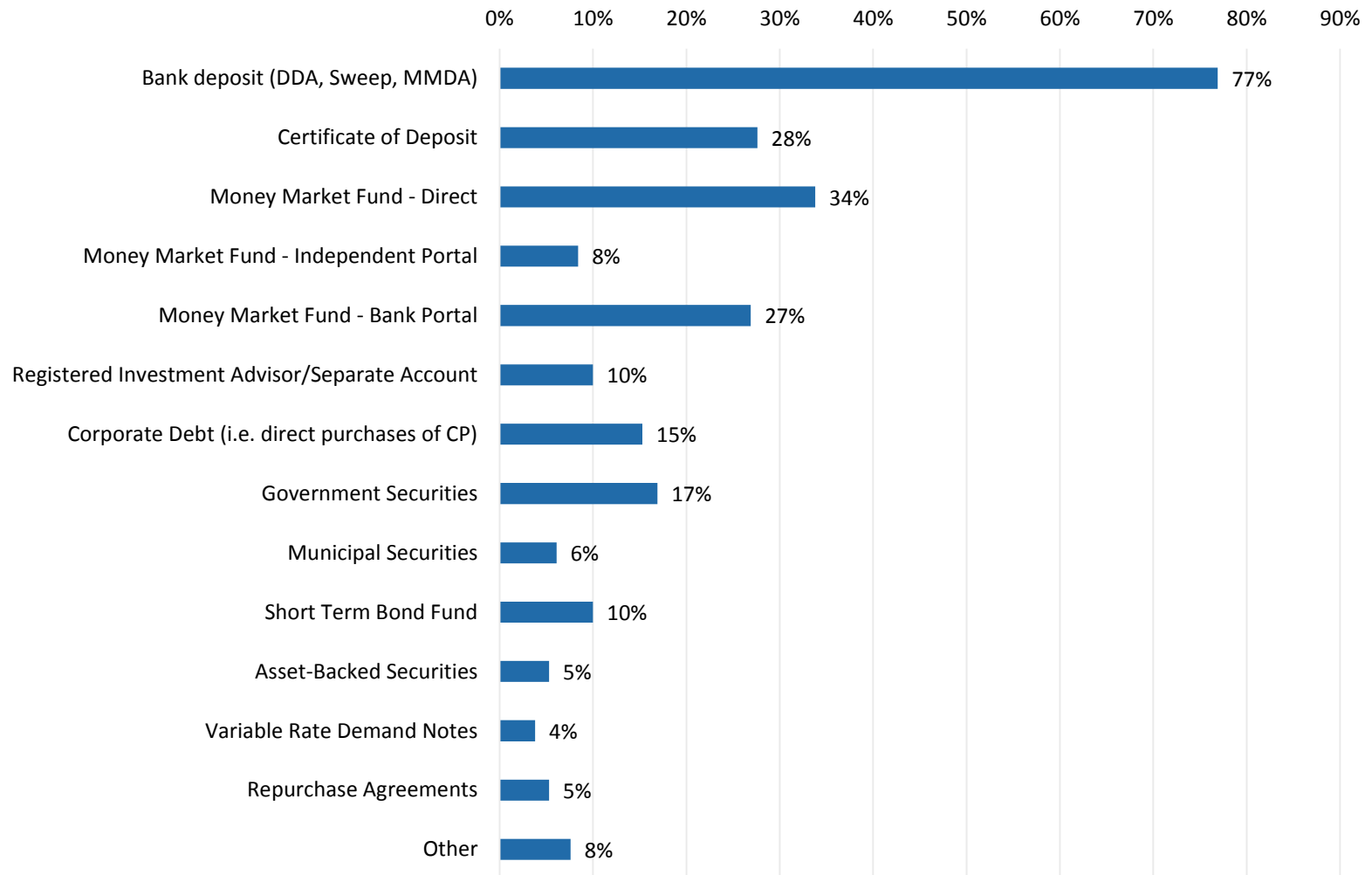
# Ignoring Bank Exposures

Treasurers have not materially changed their exposure to Bank Deposits in the wake of significant ongoing changes in banking regulations

1

17

In the past year, what U.S. (domestic) investment channels did you use for short-term funds?  
(Select all that apply) (2016)



## Ignoring Bank Exposures

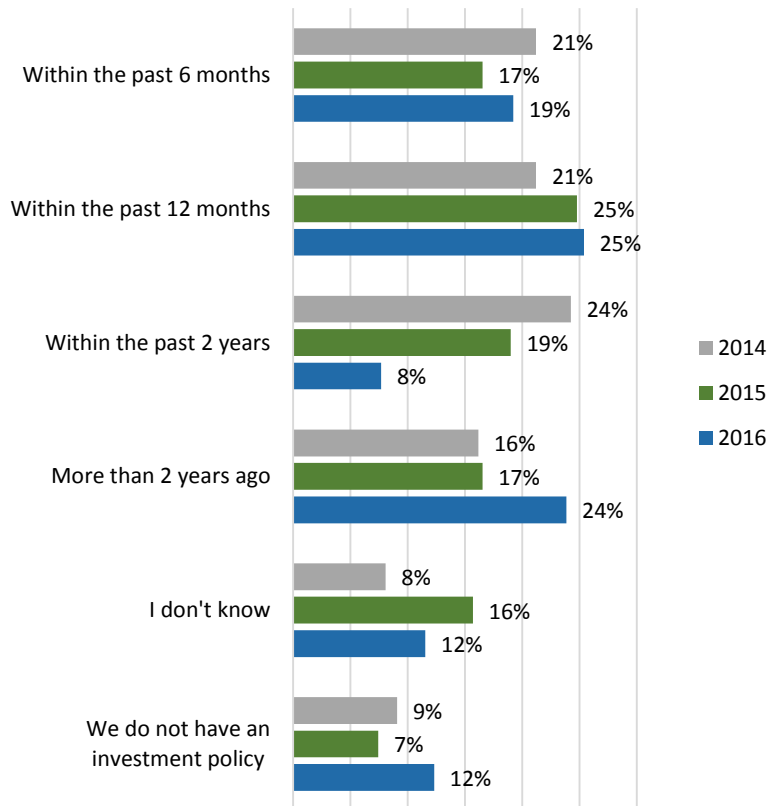
2

A significant portion of Treasurers are going to leave Prime Money Funds, but an even larger portion don't yet have a plan to deal with Money Fund reform

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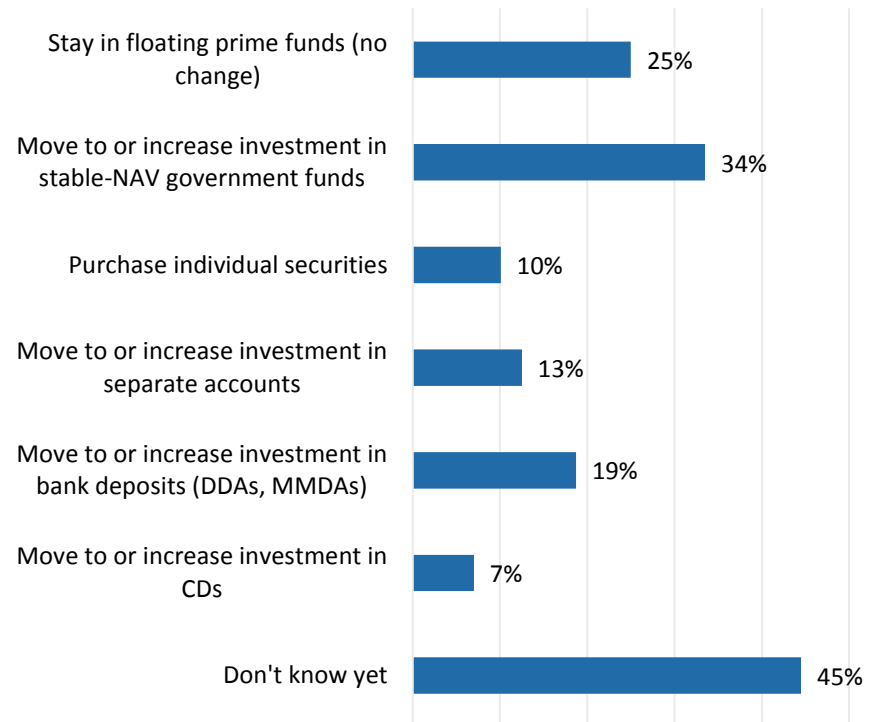
When did you last update your corporate investment policy?  
(2014-2016)

0% 5% 10% 15% 20% 25% 30%



With the pending change to institutional prime money market funds, to floating NAVs and the adoption of fees and gates on withdrawals in times of stress, how will your current investment channels change? (Select all that apply) (2016)

0% 10% 20% 30% 40% 50%



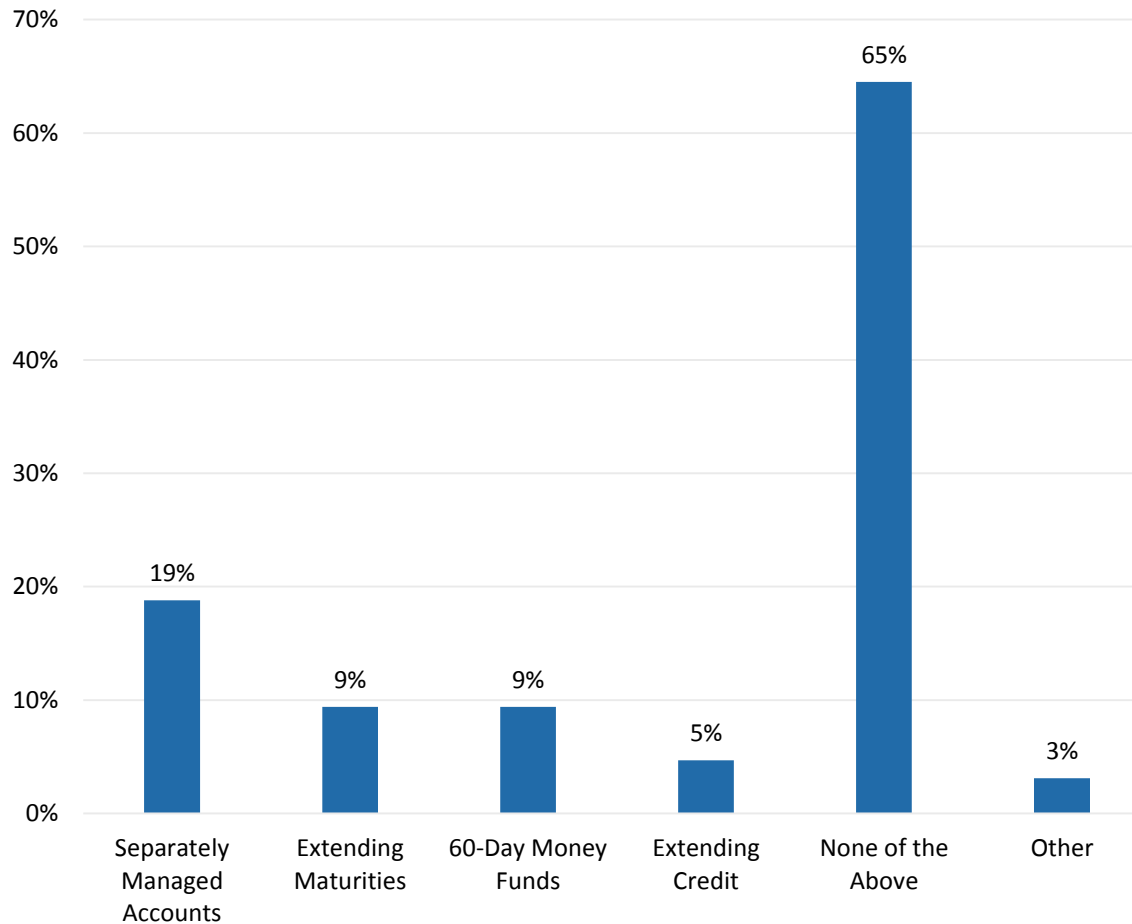
## Ignoring Bank Exposures

2

A significant portion of Treasurers are going to leave Prime Money Funds, but an even larger portion don't yet have a plan to deal with Money Fund reform

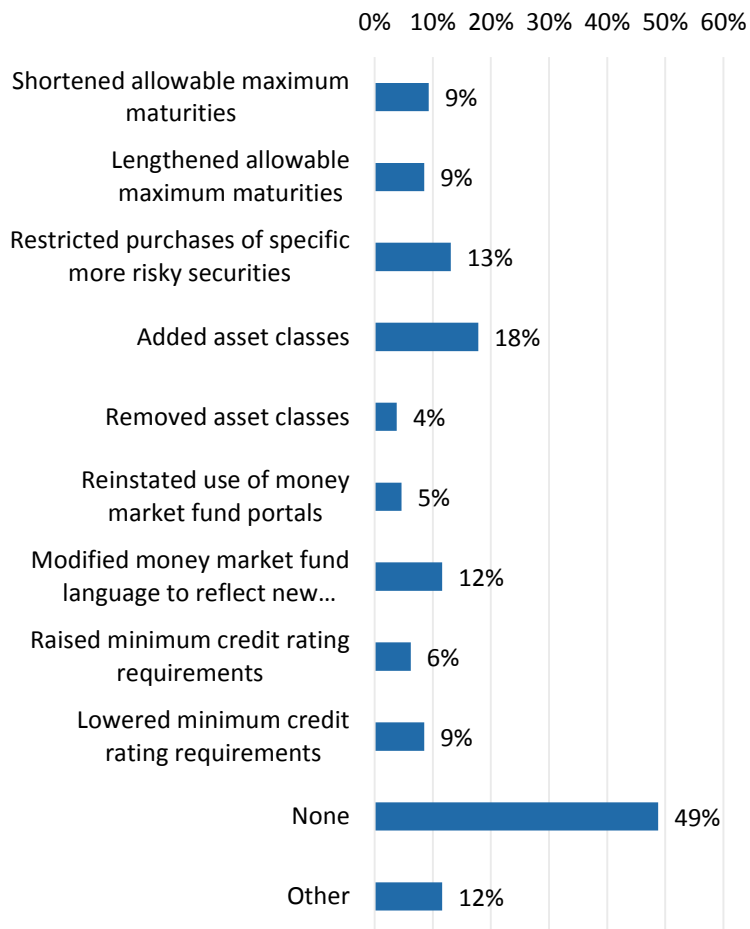
19

Which investment options are you investigating to replace prime money funds? (Select all that apply) (2016)

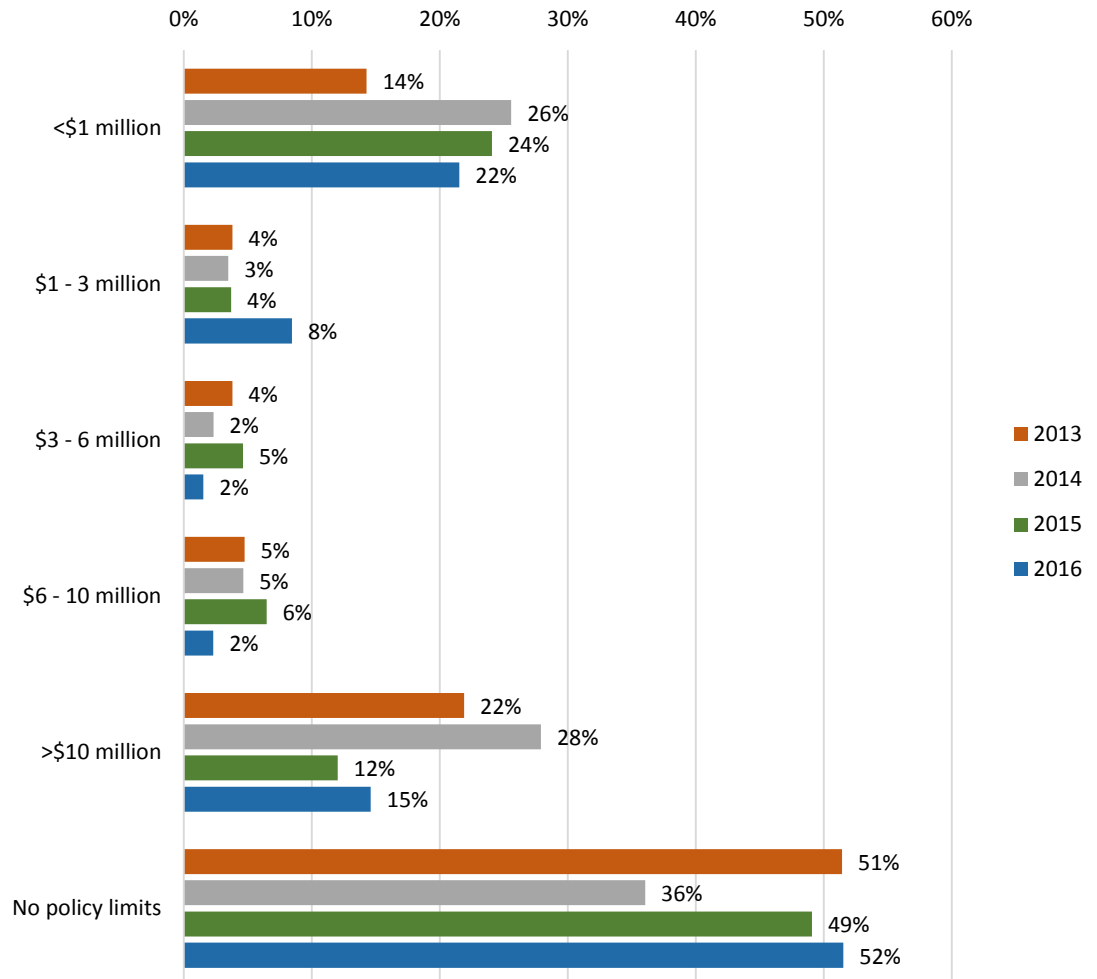


What revisions have you made to your corporate investment policy in the past 2 years?

(Select all that apply) (2016)



What is the maximum dollar value exposure to uninsured bank deposits allowed by your investment policy?  
(2013-2016)



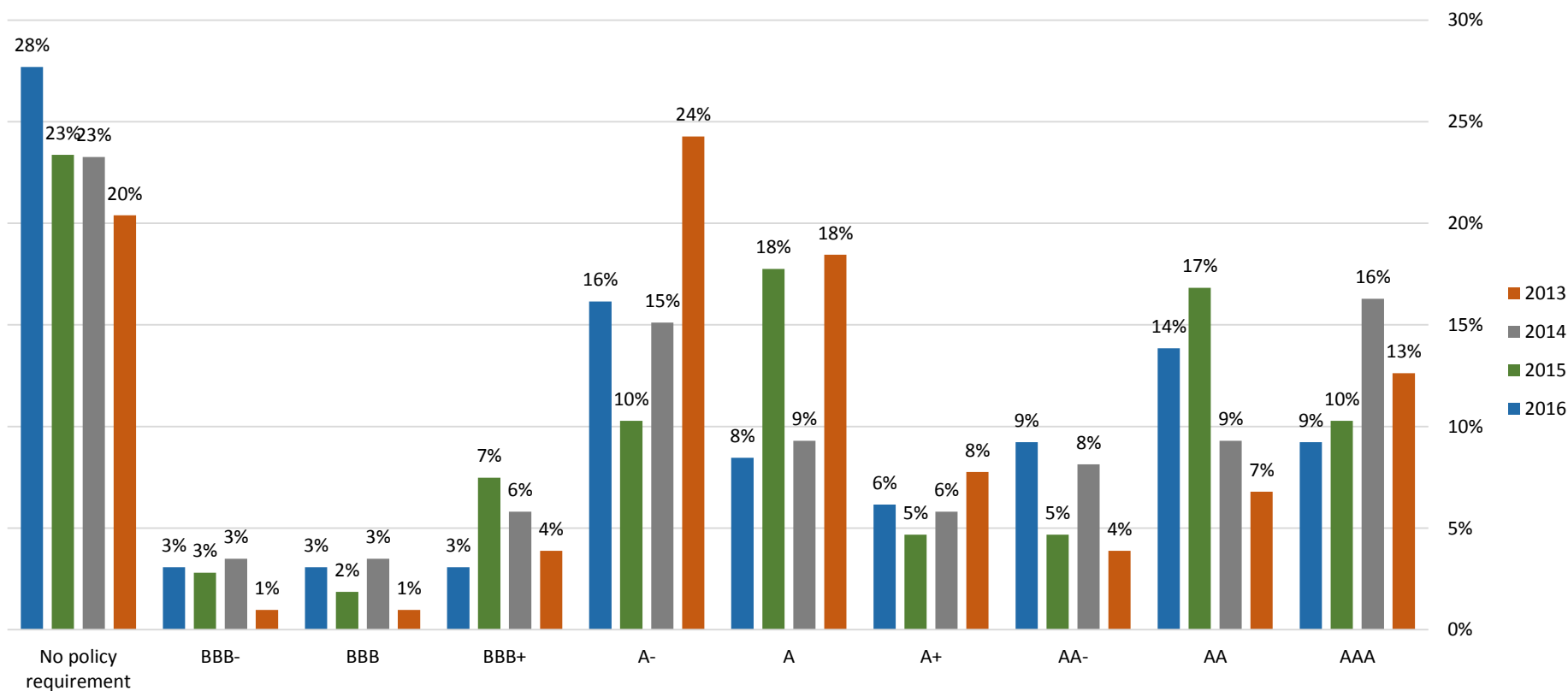
## Progress and Items to Note

4

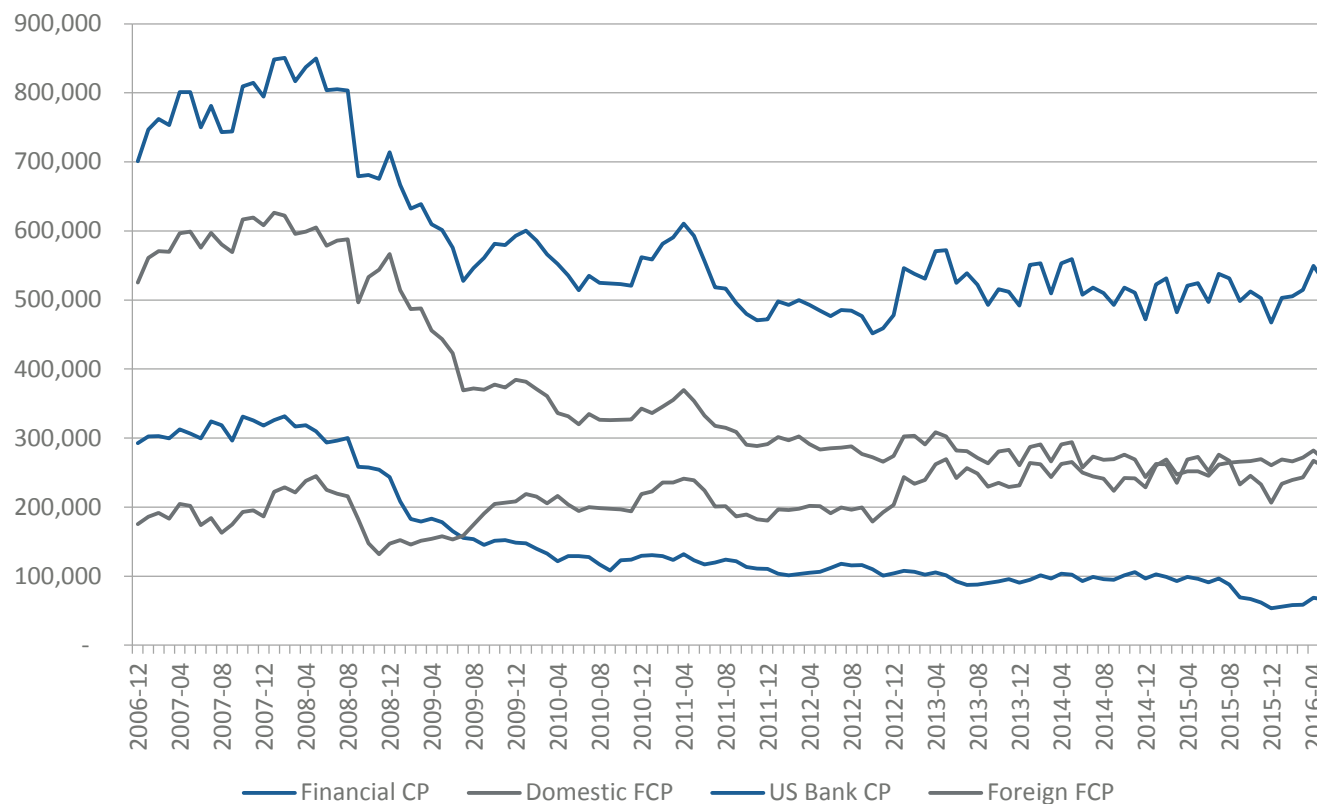
Investment Policy Latitude Expansion in an environment of continued supply contraction

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What is the minimum credit rating for uninsured bank deposits allowed by your company's investment policy? (2013-2016)



## Financial CP Outstanding

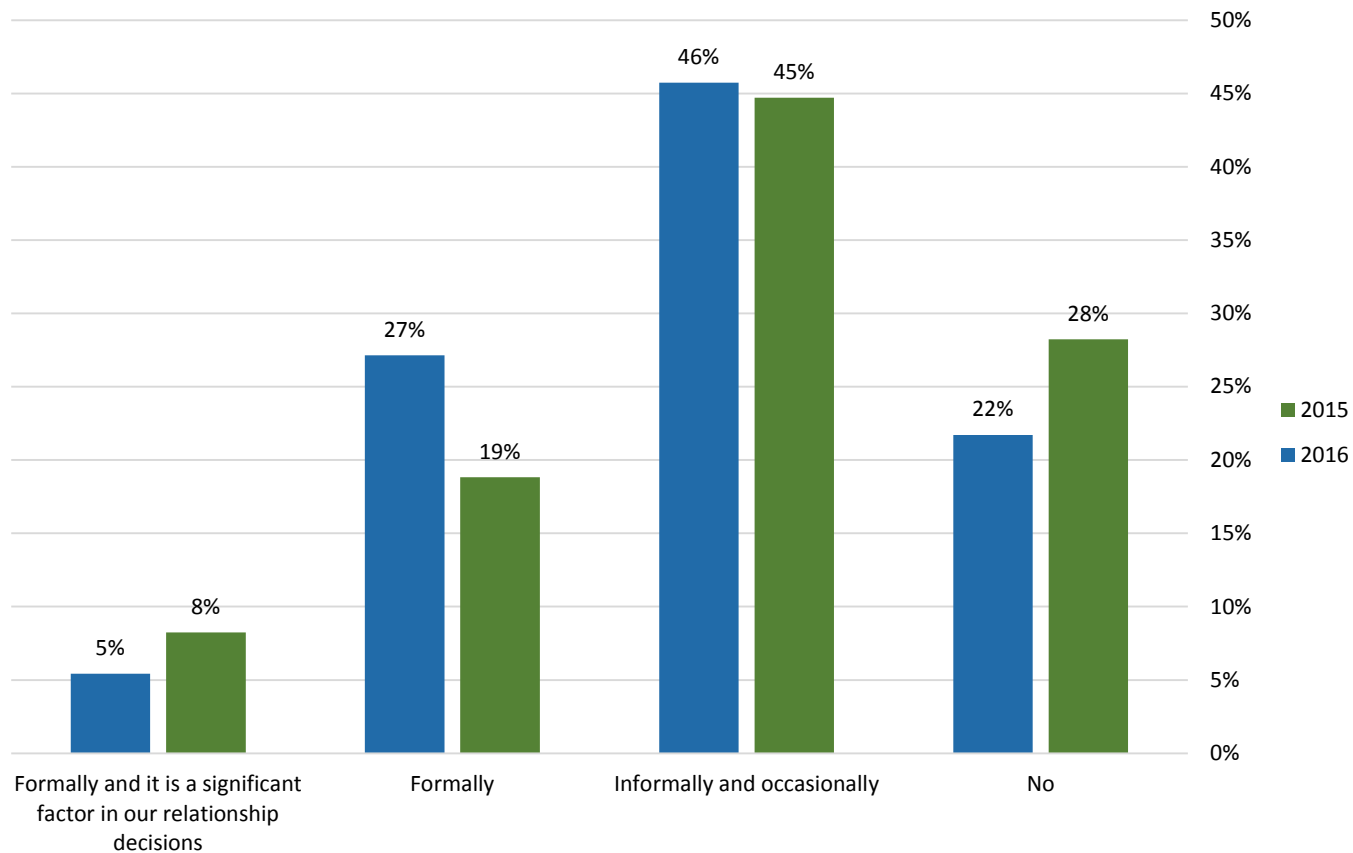


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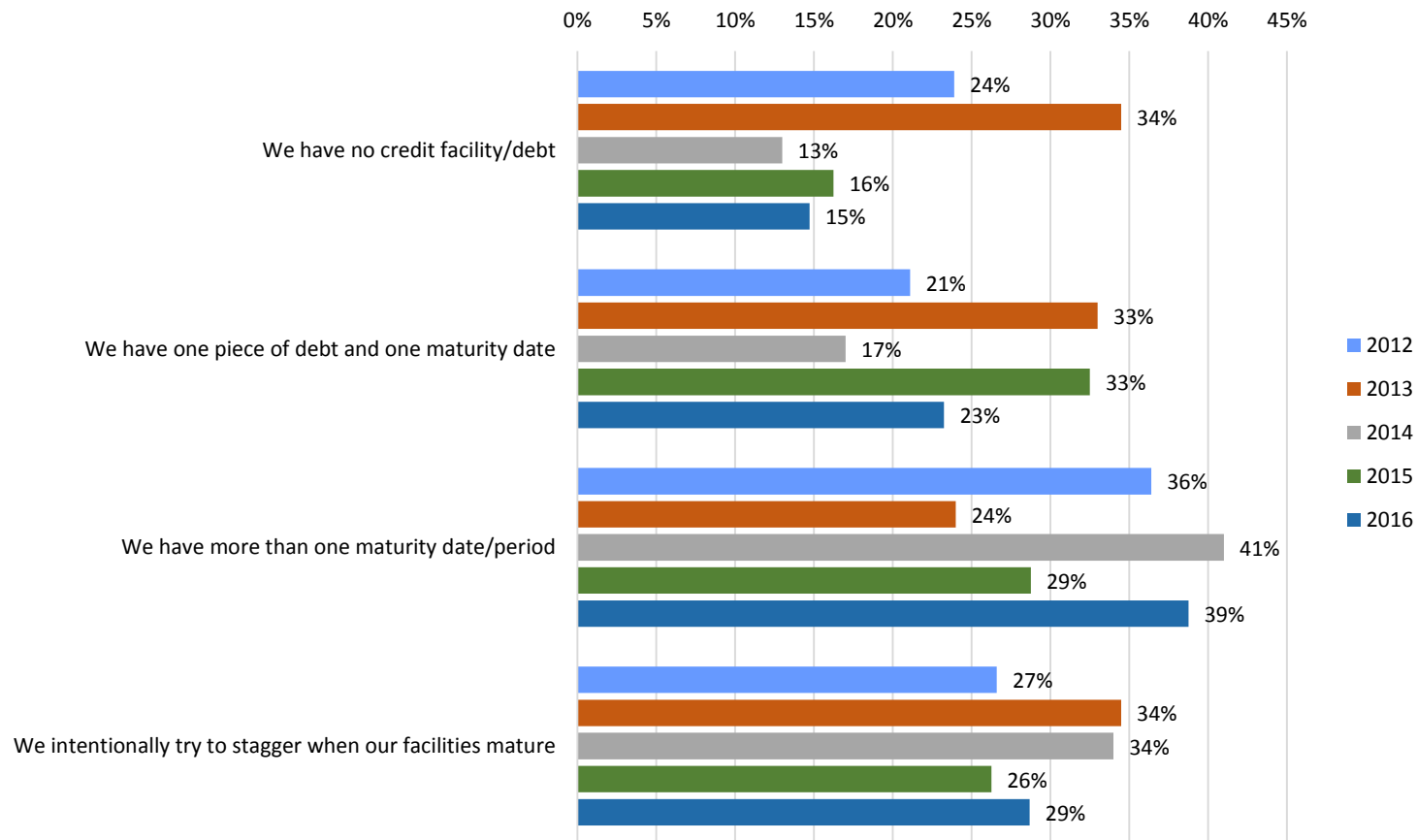
Federal Reserve Economic Research & Data



Do you actively monitor your credit counterparties (debt, consolidations)? (2015-2016)



Which answer best describes the maturity dates of your credit facilities and other types of debt? (Select all that apply)  
(2012-2016)

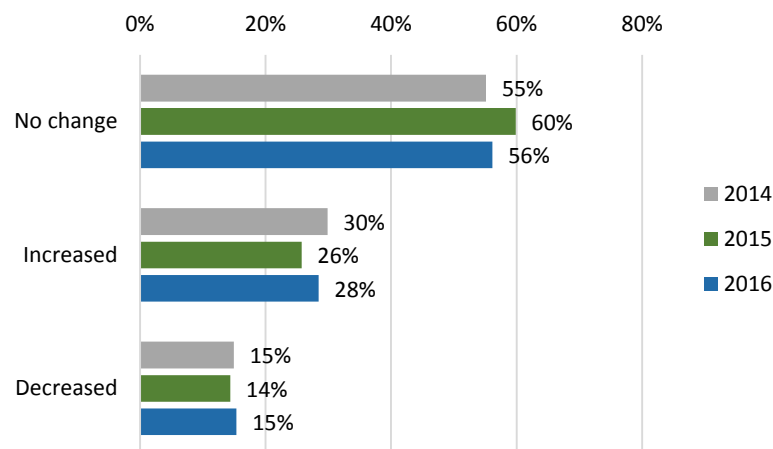


# Progress and Items to Note

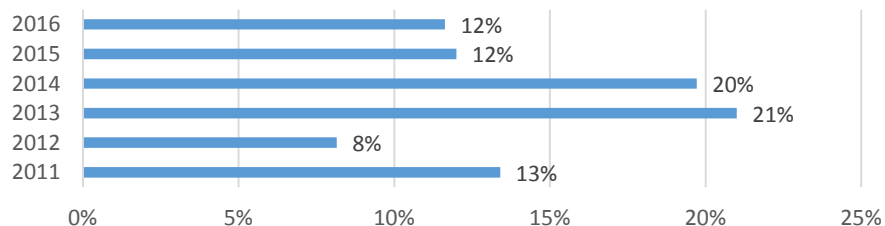
## Two Interesting Multi-Year Trends

### 3 year trend of larger treasury staff (12%-15% have a net increase)

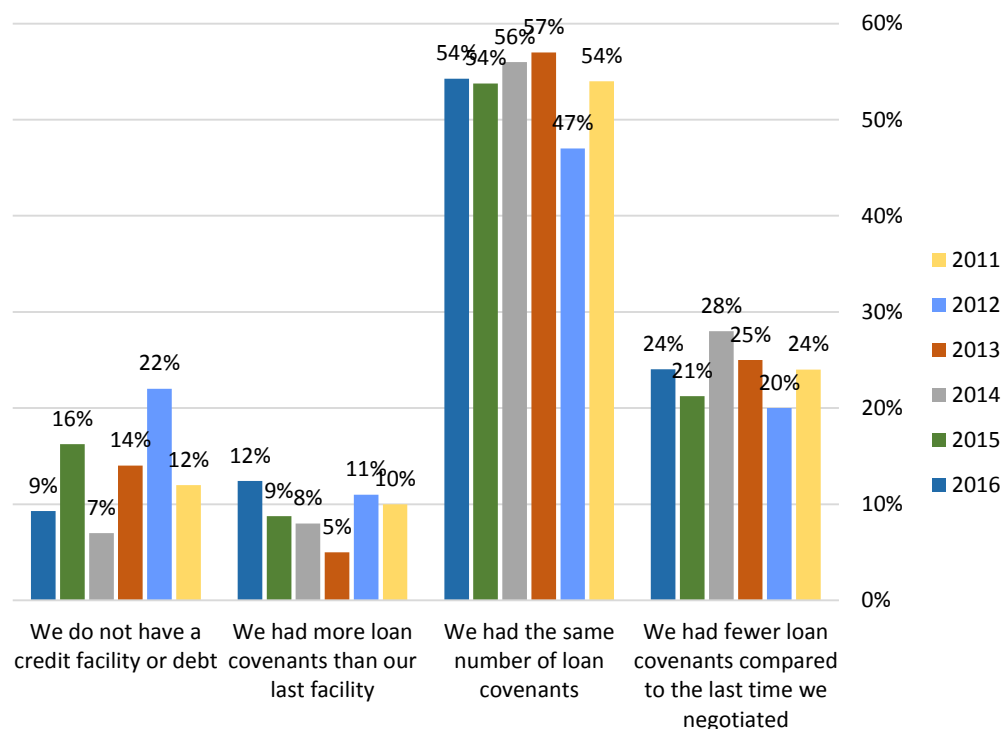
How has the staffing in your treasury department changed in the past two years?  
(2014-2016)



NET PERCENTAGE DECREASE BETWEEN FEWER LOAN  
VS MORE LOAN



With regard to recent loan covenants, would you say:  
(2011-2016)



### 6 years of fewer loan covenants (8-21% net decrease)

# Poll Question Speed Round

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1. Do you have a plan to change your investment channels?

Yes

Not yet, but we expect to within two months

Not yet, and no real plans to

2. Which investment options are you investigating to replace prime money funds? (Select all that apply)

Separately Managed Accounts

Treasury & Government Money Funds

Extending Maturities

60 –Day Money Funds

Extending Credit

None of the Above

Other

3. In the next year, do you expect there will be a movement of power from the borrower to the lender in credit relationships?

Definitely Not ( - - )

Probably Not (-)

Neutral or Unsure

Probably (+)

Definitely (++)



**Parking Liquidity.** Develop a written plan for where you will move excess funds currently parked in bank deposit accounts and money funds

- Developing opportunity costs
- Changing risk profiles



**Monitor Counterparties.** Create a clear process for managing and monitoring counterparty exposure beyond NRSRO. Monthly reporting. Alignment with Investment Policy



**Diversify Debt Intentionally.** Be deliberate with diversification of your credit maturity dates



**Targeted Benchmarking.** Benchmark treasury staffing and investment/debt practices annually. Use that to help secure better tools and the proper level of resources.

4. Were you a respondent to this survey? (2016 Liquidity Risk Survey)

Yes

No, and I feel guilty

No, and I don't feel guilty



Q & A



- Christianne Curran won an iPad Air
- Marcus Rogier won a Fitbit

Thank you for participating in our survey!!



### Office

525 Westpark Drive, Suite 130  
Peachtree City, GA 30269



### Email

[craig@strategictreasurer.com](mailto:craig@strategictreasurer.com)



### Phone

+1 (678) 466-2222



### Web

[www.strategictreasurer.com](http://www.strategictreasurer.com)



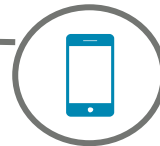
### Office

29 Crafts Street, Suite 270  
Newton, MA 02458



### Email

[bcampbell@capitaladvisors.com](mailto:bcampbell@capitaladvisors.com)



### Phone

617.630.8100



### Web

[www.capitaladvisors.com](http://www.capitaladvisors.com)

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