

Treasury Strategies' Quarterly Corporate Cash Briefing™ for 3Q 2016

Treasury Strategies' Speakers & Panel Moderators

- Tony Carfang
- Kevin Ruiz

Panel Participants & Institutional Partners

- Steve Baseby, Association of Corporate Treasurers
- Deborah Cunningham, Federated Investors
- Roger Merritt, Fitch Ratings
- Brett Friedman, Novantas

July 14, 2016

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Agenda



Corporate Cash Levels

Proposed IRS 385 Reform

Disruptors - Panelist Discussion

- Money Market Fund Reform
- Beyond Brexit
- Longer-Term Country/Political Risk

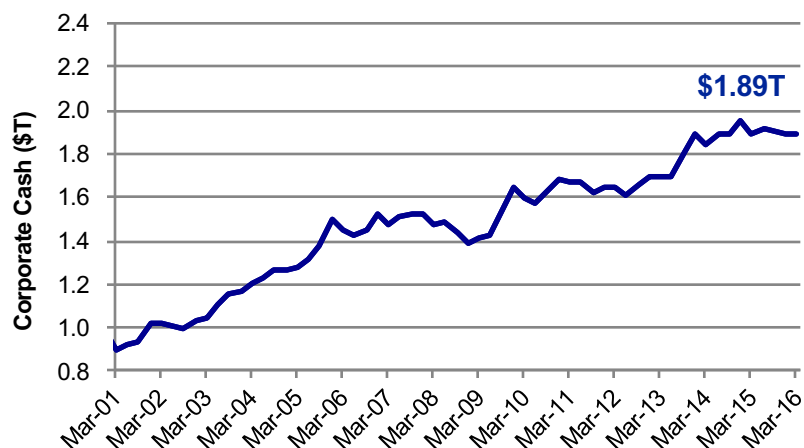
Corporate Cash Levels



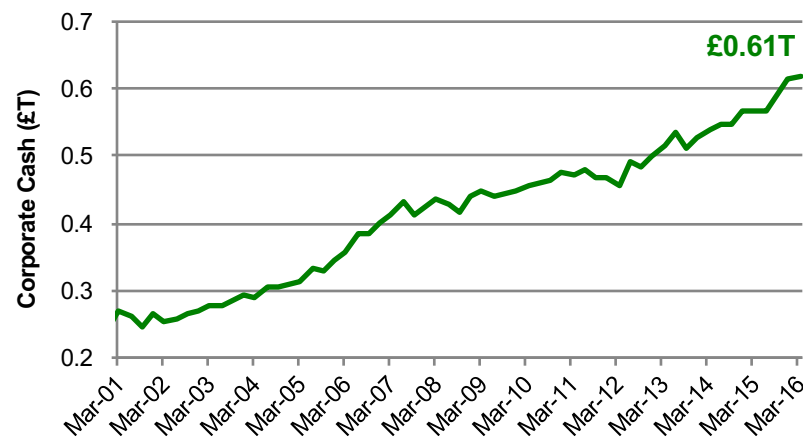
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Corporate Cash Levels

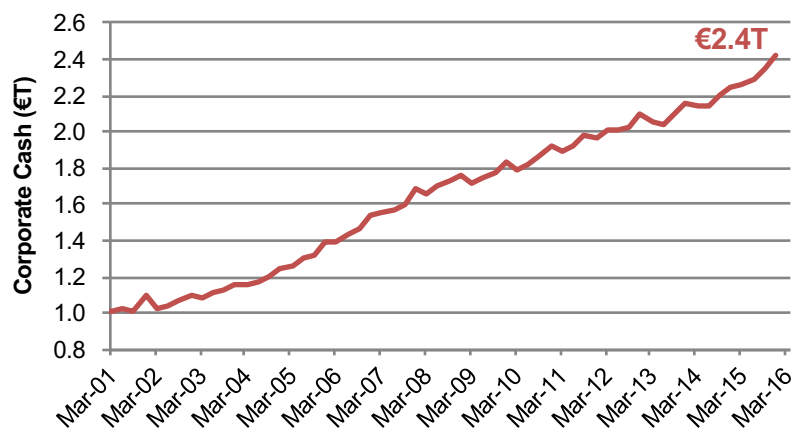
US Corporate Cash



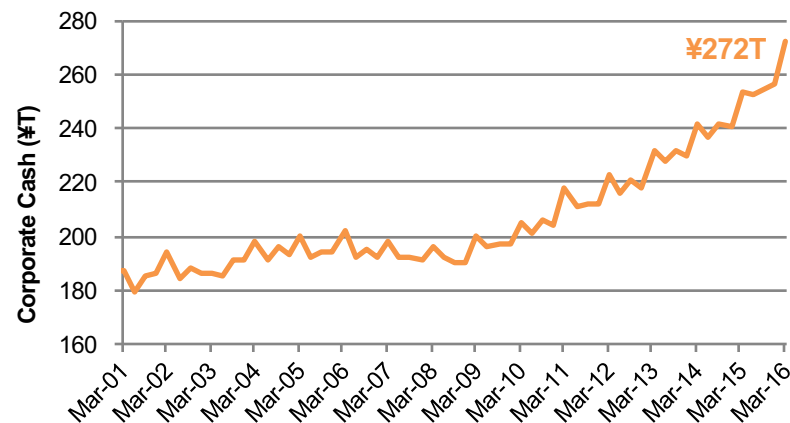
UK Corporate Cash



Eurozone Corporate Cash

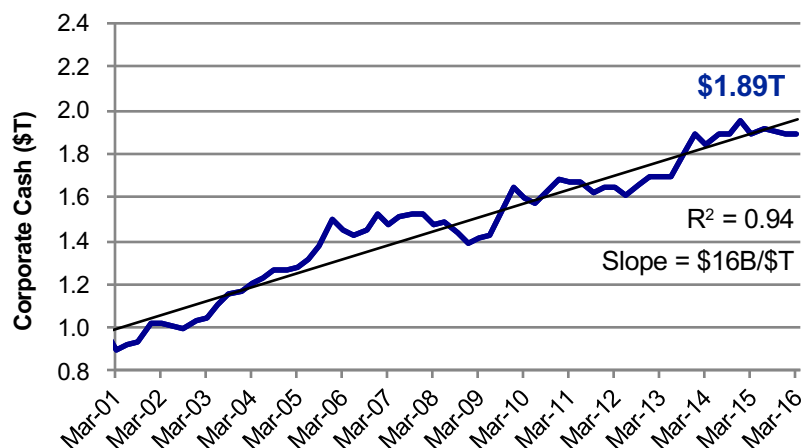


Japanese Corporate Cash



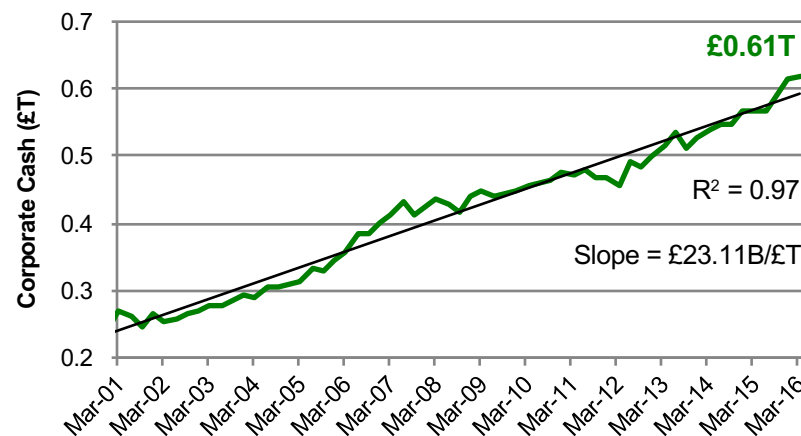
Corporate Cash Levels

US Corporate Cash



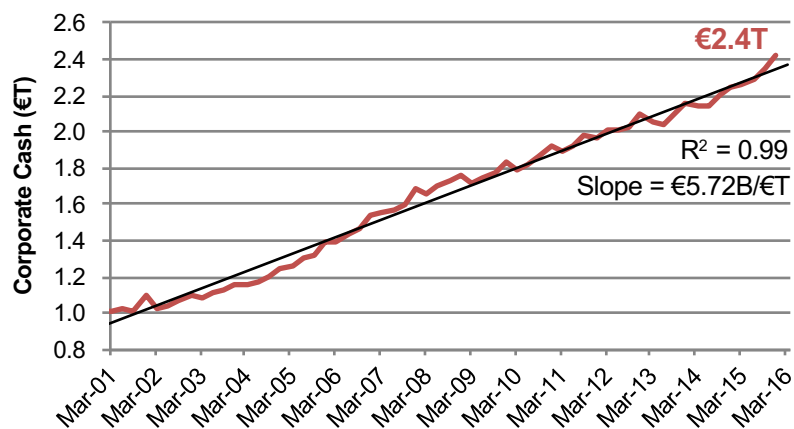
Source: Federal Reserve, Treasury Strategies

UK Corporate Cash



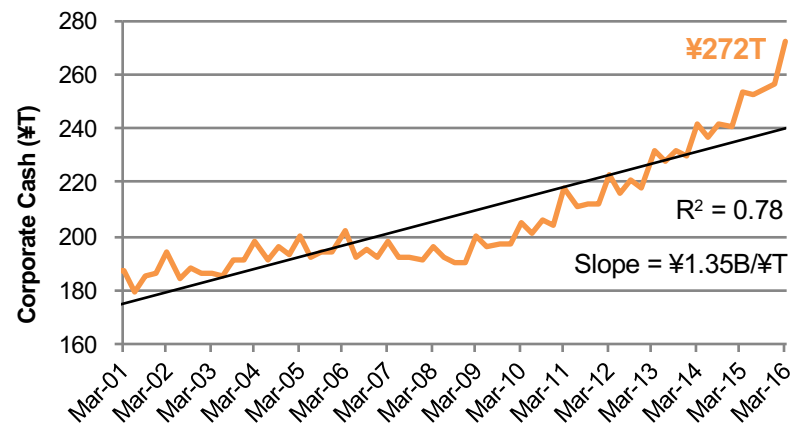
Source: UK Office for National Statistics, Treasury Strategies

Eurozone Corporate Cash



Source: European Central Bank, Treasury Strategies

Japanese Corporate Cash



Source: Bank of Japan, Treasury Strategies

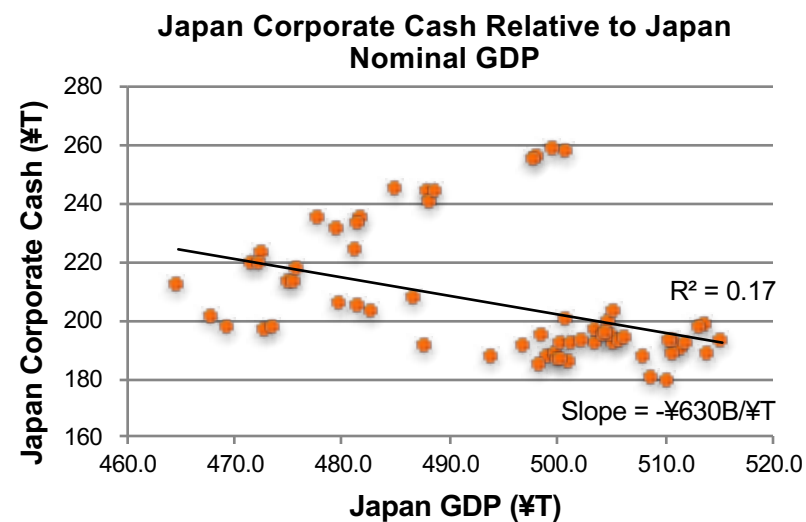
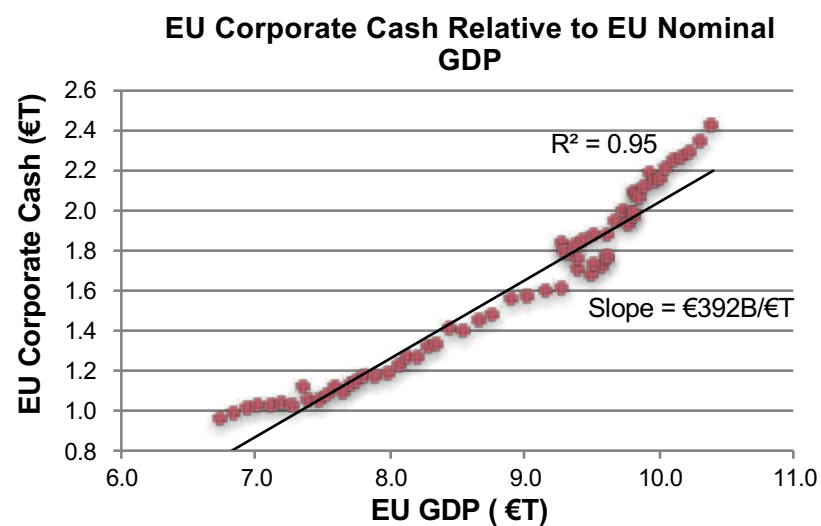
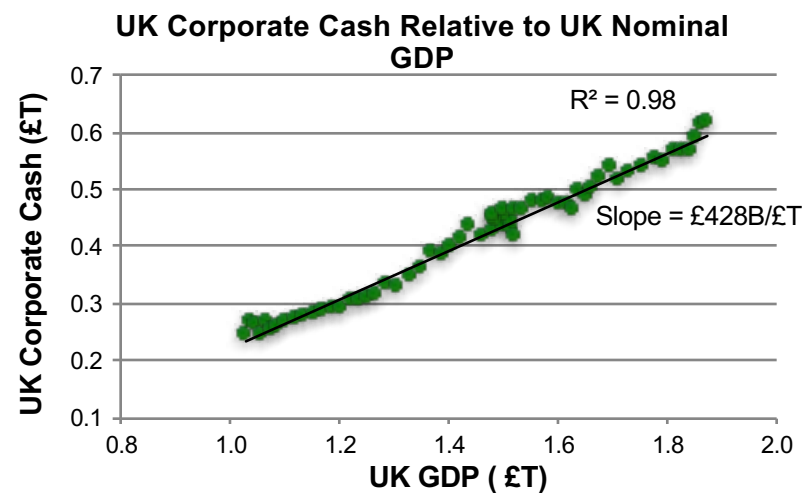
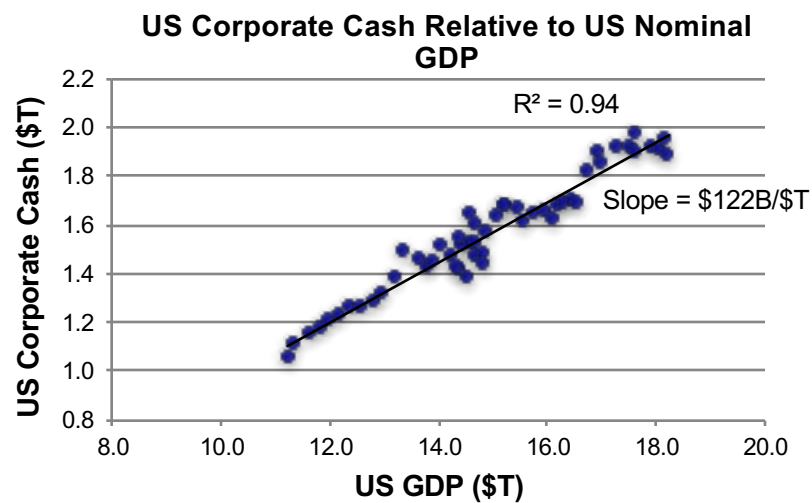
Corporate Cash as % GDP by Region



Country/Region	December 2000	March 2016
United States	9%	10%
Eurozone	15%	23%
United Kingdom	24%	33%
Japan	37%	55%

Source: Treasury Strategies' estimate

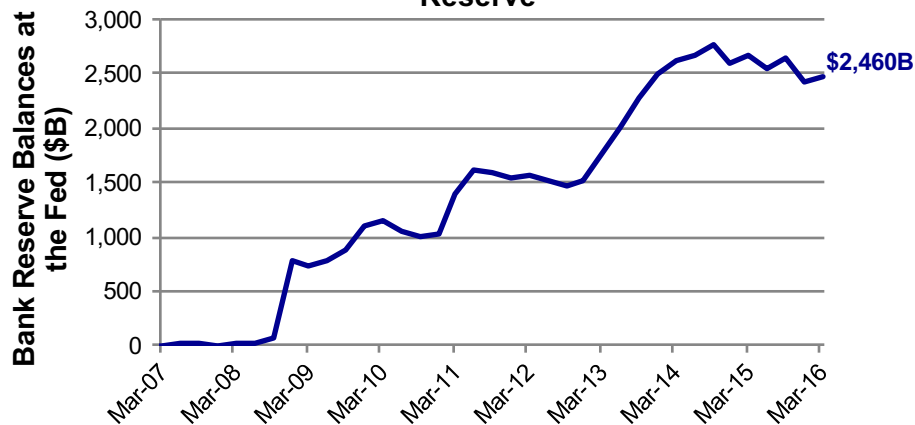
Corporate Cash Relative to Nominal GDP



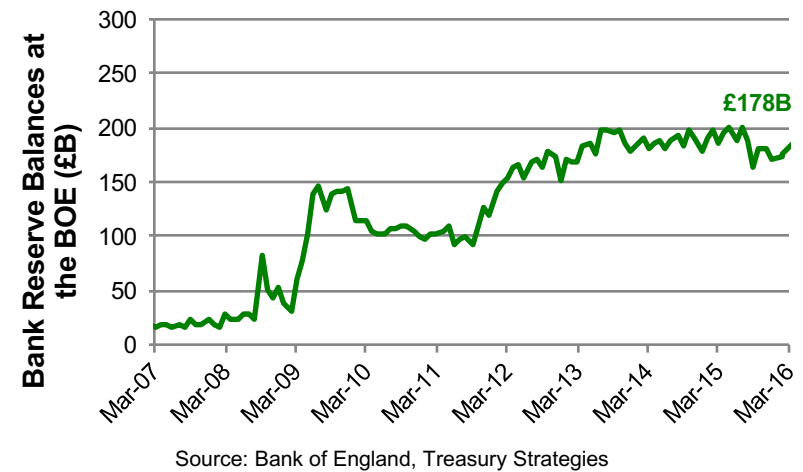
Reserve Balances



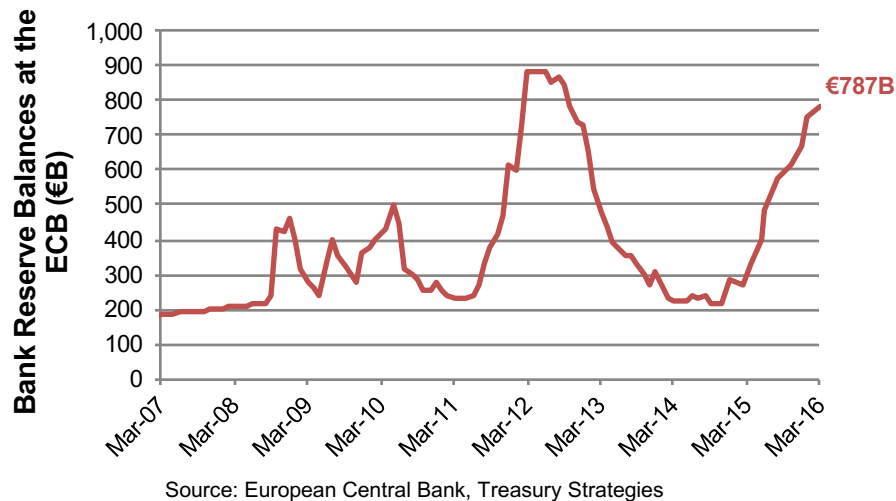
Bank Reserve Balances at the US Federal Reserve



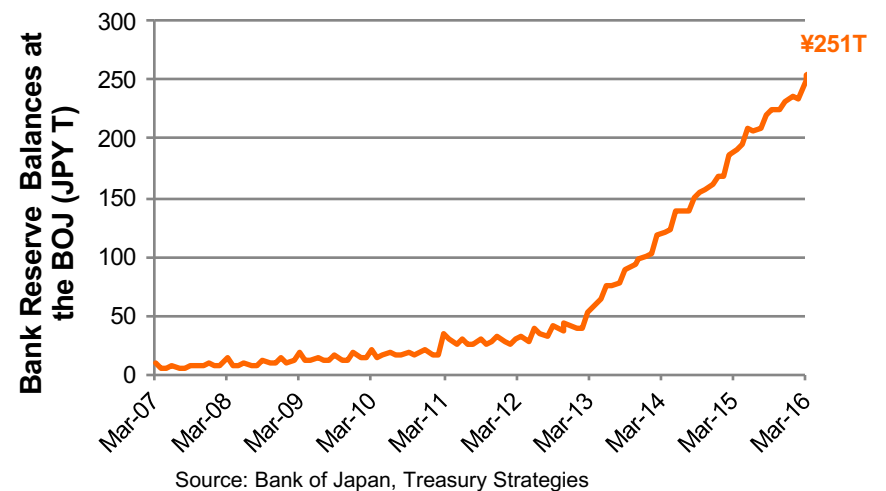
Bank Reserve Balances at the BOE



Bank Reserve Balances at the ECB



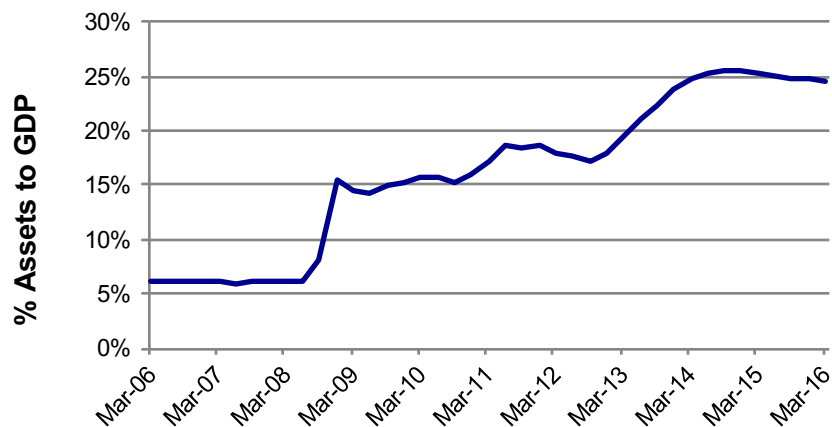
Bank Reserve Balances at the BOJ



Central Bank Assets as % GDP by Region

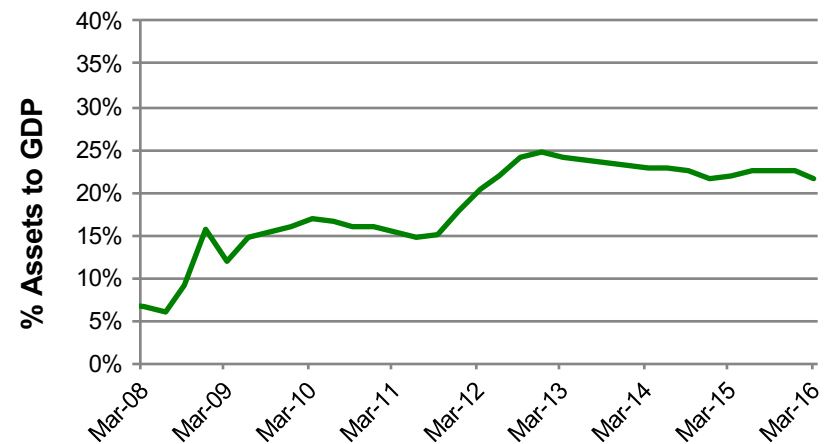


US Federal Reserve Total Assets as % of GDP



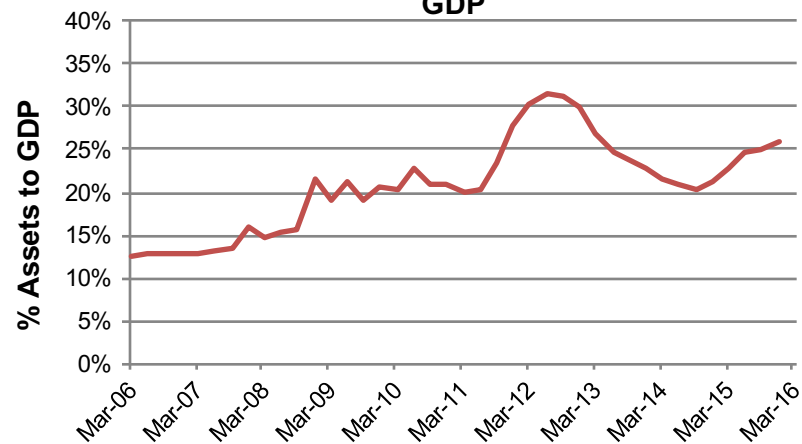
Source: U.S. Bureau of Economic Analysis, St. Louis Federal Reserve, Treasury Strategies

BOE - Total Assets as % of GDP



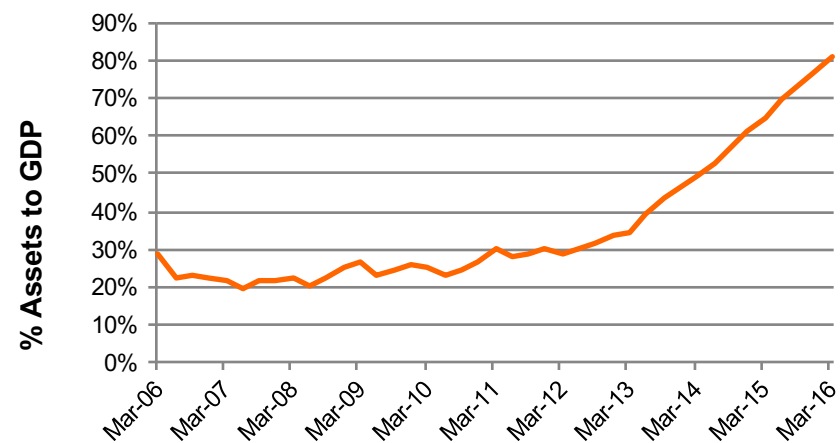
Source: UK Office of National Statistics, Bank of England, Treasury Strategies

European Central Bank - Total Assets as % of GDP



Source: St. Louis Federal Reserve, Treasury Strategies

Bank of Japan - Total Assets as % of GDP



Source: Bank of Japan, St. Louis Federal Reserve, Treasury Strategies



US Dept. of the Treasury IRS Rule 385



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Overview of the Proposed Regulations



Treatment of Certain Interests in Corporations as Stock or Indebtedness (REG-108060-15)

Primary intent is to reduce or eliminate corporate inversions in which a US company merges into a non-US company.

Secondary intent is to penalize certain intercompany cost allocations which Treasury refers to as “earnings stripping.”

Practical effect is to put at risk most corporate treasury management programs and the supporting bank services.

- Corporate cash commingling that fails several complex IRS tests will be subject to serious penalties.
- Debt involved in routine corporate cash management transactions could be reclassified as equity or a hybrid, resulting in lost of interest deductions, tax credits, etc.

“The proposed rules apply to purported indebtedness issued to certain related parties, without regard to whether the parties are domestic or foreign. “

Source: www.irs.gov



Areas of Concern for Corporations and Financial Institutions



1. Impact on routine cash management practices and banking structures
2. Extensive documentation for commingling intra-corporate funds
3. Low threshold of \$50M
4. Three-year look back and three-year look ahead
5. Draconian penalties



Unintended Consequences



1. The rules go far beyond the scope of corporate inversions and potentially impacts most mid-sized and large American businesses, increasing costs and reducing capital efficiency.
2. The rules will decrease bank lending to businesses and consumers by forcing commercial banks to incur higher capital requirements, and an increase in “high quality liquid assets” (HQLA) required under Basel III.
3. The rules will add a further drag to capital efficiency. Corporations will set aside additional capital to fund routine transactions rather than risk tripping a violation of these far-reaching rules. Banks will then need to set aside more capital and HQLA to support the increase in corporate deposits. Together, this additional stranded corporate and bank capital will depress economic activity.



A Path Forward



Treasury Strategies proposes that Rule 385 be drafted more narrowly to avoid these draconian unintended consequences. The new draft should:

1. Enumerate the cash management principles we outlined above as being outside the scope of 385.
2. Define a specific safe harbor for companies so they will not need to take extreme measures to avoid accidentally triggering a reclassification.
3. Eliminate the three-year look back and the three-year look ahead for transactions that take place solely within a corporation's operating cash pool.

See <http://www.treasurystrategies.com/sites/default/files/TreasuryStrategies385PathForward.pdf>

Email us at Tony_Carfang@TreasuryStrategies.com to be included in our 385 email updates.

Panelist Discussion



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Disruptors

1

MMF REFORM

2

BREXIT

3

BEYOND BREXIT

Brexit and Beyond Brexit



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Meet Our Speakers



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About Treasury Strategies

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We serve corporate treasurers, their financial services providers and technology providers for the complete 360° view of treasury.



Solutions

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- Cash Forecasting
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- Treasury Organization
- Payments Strategy
- Leading Practices Review and Benchmarking
- RFP Support for Banking Services
- Technology Business Requirements and Gap Analysis
- Technology Optimization and Updates
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- Technology Implementation and Connectivity
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About the ACT



Who We Are

The Association of Corporate Treasurers (ACT) sets the benchmark for international treasury excellence. As the chartered body for treasury, we lead the profession through our internationally recognised suite of treasury qualifications, define standards and support continuing professional development. We are the voice of corporate treasury representing the interests of our members.

What We Do

ACT supports the growth and professional development of treasurers and finance professionals. We are an active global network of treasury, risk and finance professionals with members and students in 98 countries.

- We promote treasury as a discipline, as a profession and as a career.
- We provide informed and unbiased technical advice.
- We teach, examine and qualify treasury professionals and offer ongoing CPD.
- We stimulate debate and facilitate the exchange of ideas and information through our events, conferences, webinars and forums.
- We represent the real economy and influence relevant regulation and market practice.



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About Federated Investors, Inc.



Delivering investment solutions since 1955

Founded: 1955

Headquarters: Pittsburgh

Global Operations: New York, Rochester, Boston, Houston, Dublin, Frankfurt, London and Tokyo

AUM: Approximately \$355 billion

Ownership:

- Publicly traded, privately held (NYSE: FII)
- 20% employee ownership

Revenue Distribution

Equity	46%
Liquidity	32%
Fixed-income	22%

Representative Clients

- Corporate/Public Defined Benefit
- Defined Contribution
- Endowment/Foundation
- Taft-Hartley
- Insurance
- Sub-Advisory
- Local Government Investment Pools (LGIP)
- Financial Intermediaries

Equity Management

- Independent investment teams each focused on a specific style or approach with commitment to proprietary research
- Portfolio managers average 23 years of experience, nearly 11 with Federated
- Strategies are a result of both carefully cultivated homegrown initiatives as well as key strategic acquisitions
 - Value (Clover)
 - Quantitative (MDT)
 - Balanced/Macro
 - International Equity
 - Growth/Income
 - Alternatives (Prudent Bear)
 - Dividend Oriented
 - Growth (Kaufmann)
 - Managed Risk

Fixed-Income Management

- Experienced, specialized teams with strength across the yield curve
- Portfolio managers average 25 years of experience, nearly 18 with Federated
- Modular process is portable across fixed-income styles and lends itself to portfolio customization
 - Multi-Sector: Active Cash, Short, Intermediate
 - Sector Specific: Corporate, High-Yield, Emerging Markets, Trade Finance, Municipals

Liquidity Management

- Pioneer in liquidity management for more than 40 years and one of the largest institutional money market fund managers in the industry*
- 34 liquidity management professionals with 19 years working together at Federated
- Have never bought a security out of or infused capital into a money market fund to maintain a stable \$1.00 NAV
 - Prime
 - Tax-Free
 - Government
 - Non-U.S Domiciled

All information is as of 3/31/15 unless stated otherwise.

*Source: iMoneyNet, Inc. February 28, 2015



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