Concentrate on your liquidity

The New Normal of Managing Global Liquidity

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Fiona Deroo is Head of North America Liquidity and Investments.

In this role, Fiona leads a team of product specialists which helps client teams identify, support and execute on complex global liquidity and investment opportunities aimed at providing net interest margin and fee-related growth.

Fiona brings a wealth of valuable experience with her to this important role. She has been with Bank of America for 19 years, all in treasury management-related roles. A native of Belgium, she joined the firm in Bromley, UK, in 1995 in International Cash Management operations management. She moved to Chicago in 1999 and has served in a variety of sales leadership and international roles, plus a stint in Business Initiative Management. Most recently, Fiona has served as head of the Consumer & Retail Global Corporate Sales group, where she was responsible for a team of treasury sales experts who develop tailored working capital management solutions specifically for multinational corporations in the Consumer, Retail and Restaurant sector around the world. She has authored numerous publications in the international field and has been a regular speaker at national conferences on topical issues.

Prior to her banking career, Fiona held positions in Import/Export, Marketing and Investment Management during which she resided in Germany, W-Africa and United Kingdom.

Fiona completed her studies at Marlborough College in Cambridge, England.
Agenda

1. Global regulatory view
2. Trends & Objectives
3. Considerations
4. Questions
A world tour of change

The evolution of the regulatory environment continues to affect the flow of commerce around the world. Designed to protect, regulations also create challenges both from an interpretation and an implementation perspective.

Canada
- Liquidity adequacy requirements
- OSFI governance guidelines
- U.S. foreign bank organization rules

United States
- CCAR & stress tests
- Enhanced Prudential Standards
- Enhanced customer due diligence
- Dodd-Frank 1073
- Dodd-Frank Title VII
- FATCA
- FBAR
- LIBOR & Forex fixings
- Recovering & resolution planning
- SEC money market fund reform

Latin America
- Anti-bribery rules
- Anti-money laundering
- Currency controls
- Governance
- Treating clients fairly

Global
- Anti-money laundering (AML)
- Anti-bribery and anti-corruption (ABAC)
- Basel 3 Pillar 1 – capital & leverage
- Basel 3 Pillar 2 – supervision
- Basel 3 Pillar 3 – market disclosures
- Basel 3 Liquidity – LCR & NSFR
- Data privacy
- Financial Stability Board G-SIBs
- Interchange
- Too big to fail (TBTF)
- Treating clients fairly (TCF)
- Ukraine-related & Iran sanctions

European Union
- AIFMD
- Bank recovery & resolution directive
- CRD IV package
- ECB’s comprehensive assessment
- EMIR
- EU money market fund reform
- Financial transaction tax
- MiFED 2
- Single supervision mechanism
- SEPA/direct debits
- Solvency II

United Kingdom
- Banking Reform Act
- Depositor preference
- LIBOR & Forex fixings

South Africa
- Financial sector regulation bill

Asia Pacific
- Interest rate regulation
- Market liberalization

China
- Yuan deregulation

Hong Kong
- Risk weighting adjustments
- Stable funding requirement

Singapore
- Risk-based capital (RBC)

Australia
- APRA Basel 3 implementation
- Committed liquidity facility (CLF)
### Global regulations are plentiful...
New regulations promote safety and soundness of the banking industry

<table>
<thead>
<tr>
<th>Capital</th>
<th>Liquidity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CET1</strong></td>
<td><strong>SLR</strong></td>
</tr>
<tr>
<td><strong>Full name</strong></td>
<td>Common Equity Tier 1 ratio</td>
</tr>
<tr>
<td><strong>Objective</strong></td>
<td>Ensure sufficient common equity against risk weighted assets to cover bank losses</td>
</tr>
<tr>
<td><strong>Numerator</strong></td>
<td>CET1 capital</td>
</tr>
<tr>
<td><strong>Denominator</strong></td>
<td>Risk-weighted assets</td>
</tr>
<tr>
<td><strong>USA Timing</strong></td>
<td>Introduction (4%) Jan 2014 Full compliance (8% + buffers) Jan 2019</td>
</tr>
</tbody>
</table>

### Key Definitions:
- CET1 regulatory capital: common shareholder equity
- Tier 1 regulatory capital: CET1 plus disclosed reserves (retained earnings) and non-cumulative preferred shareholder equity
- Tier 2 regulatory capital: tier 1 capital plus supplementary capital
- High Quality Liquid Assets: sum of Lvl 1, Lvl 2A and Lvl 2B assets
## Trends impacting liquidity management

<table>
<thead>
<tr>
<th>Globalization</th>
<th>Global banking technology</th>
<th>Regulation and market changes</th>
<th>Working capital efficiency gains</th>
</tr>
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<tbody>
<tr>
<td>Corporates are still moving towards global operating models for ready access to information, consolidated cash balances and counterparty exposure</td>
<td>Increased automation, multibank visibility and centralization of cash and liquidity management as well as tools for forecasting, in light of new regulation are all issues being solved with technology</td>
<td>A number of treasury impacting regulations including Basel III, EMIR, FATCA and Dodd Frank have come into force. Conversely Asia is undergoing a process of deregulation in key markets. SEPA has also changed the banking landscape</td>
<td>Increased need to gain control over internal liquidity, decrease dependency on external funding and manage risk</td>
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</tbody>
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### Low rate environment

With a historically low interest rate environment and corporates becoming more bullish about yield, investment policies need to be reviewed and refined allowing for longer tenure of investment or lower rating of vehicle.

### Geopolitical risk

The nature of global business is such that geopolitical risk becomes a factor. Clients can take positive steps to reduce FX exposure and counterparty risk in such markets.
Meeting liquidity objectives

<table>
<thead>
<tr>
<th>OBJECTIVES</th>
<th>BEST PRACTICES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enhance yields on operating, excess, strategic and reserve</td>
<td>Capitalize on yield-producing opportunities globally</td>
</tr>
<tr>
<td>cash</td>
<td></td>
</tr>
<tr>
<td>Better control over regional and global liquidity</td>
<td>Consolidate bank relationships and accounts</td>
</tr>
<tr>
<td>Comply with a rapidly changing regulatory environment</td>
<td>Deploy cash management effectively to respond to changing</td>
</tr>
<tr>
<td></td>
<td>regulations</td>
</tr>
<tr>
<td>Improve cash forecasting through enhanced visibility</td>
<td>Utilize online tools — view cash position and investments</td>
</tr>
<tr>
<td></td>
<td>in real time</td>
</tr>
<tr>
<td>Optimize working capital</td>
<td>Consolidate multiple currencies across multiple markets</td>
</tr>
</tbody>
</table>
Liquidity Management helps you achieve the following:

- Ensure that cash is available when and where it is needed
- Manage funds from receivables and for payments as efficiently as possible
- Conduct short-term borrowing and investments in a timely and efficient manner that minimizes costs and maximizes returns

Many CFOs believe that better management of working capital will improve profitability

Source: Bank of America Merrill Lynch, 2014 CFO Outlook Asia
Liquidity solutions – considerations

1. Geographical footprint
   Organization culture
   Legal entity structure
   Existing banking relationships
   Technology infrastructure
   Policy and governance

2. Currency controls: convertibility and transferability
   Limits/conditions on intercompany lending
   Central bank reporting
   Cross guarantees

3. Taxability of interest
   Withholding tax
   Tax deductibility
   Thin capitalization
   Transfer pricing
   Indirect taxes
   Controlled foreign corporations
Investment policies

- 76% of organizations had a written cash investment policy
- An average of 4.4 short-term investment vehicles were permitted beyond bank deposits
- New regulations (e.g. Basel III and MMMF Reform) will increase the need for policy review
- Approximately 83% of short-term investments had a maturity of 90 days or less
- The most widely cited permissible investment vehicles beyond bank deposits were:
  - Treasury securities
  - Commercial Paper
  - Diversified money market mutual funds

Investment objectives:

- Safety: 68% surveyed said safety was their top investment objective
- Liquidity: 28% surveyed said liquidity was their top investment objective
- Yield: 4% surveyed said yield was their top investment objective

Thank you
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