Treasury

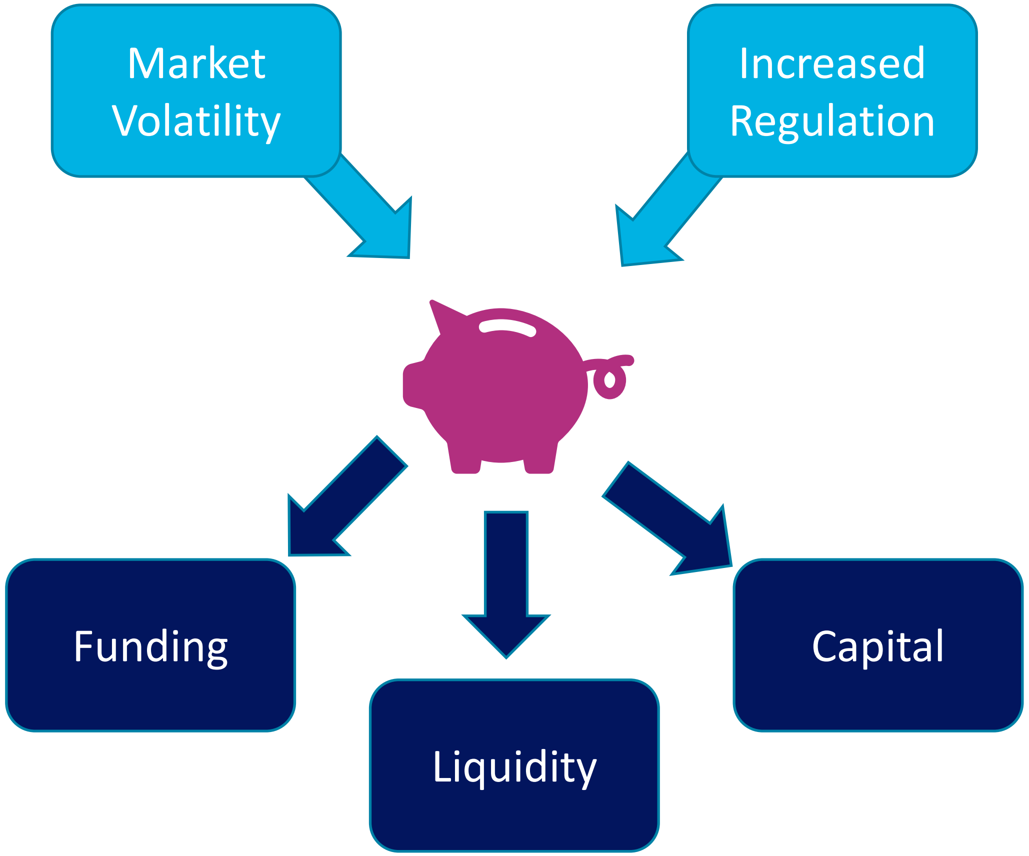
mthree Alumni Training

Objectives

The objective of this course is to gain an understanding of the treasury business in a bank.

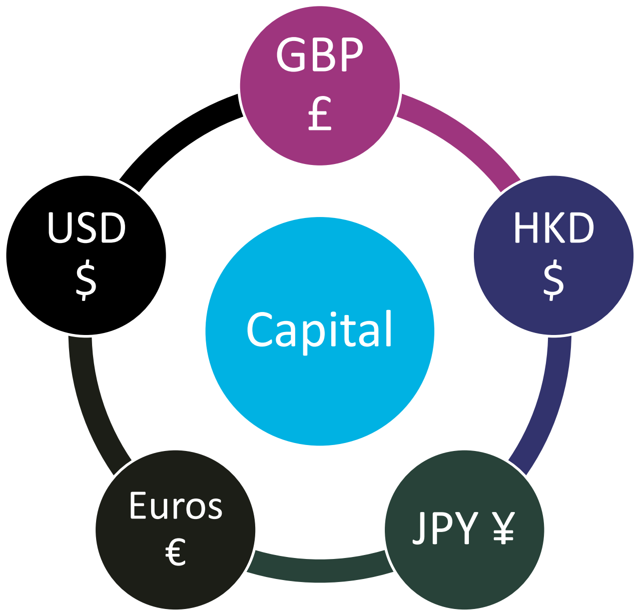
Treasury

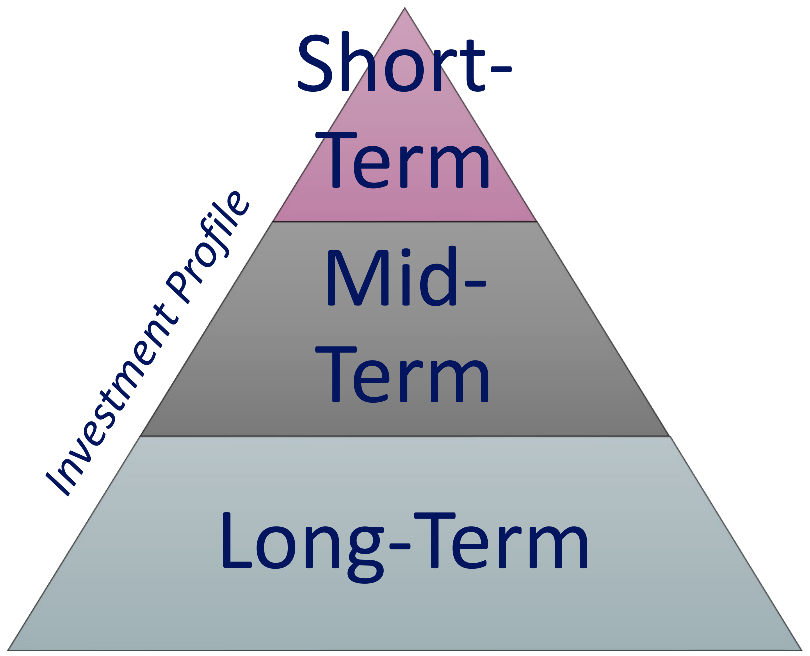
- The treasury department controls and manages the bank's own money.
- Treasury operates in a global environment of market volatility and ever-increasing regulation.
- Treasury manages funding, capital management and liquidity for the bank.



Capital Management

Treasury has responsibility for structuring the bank's funds to ensure returns are maximized whilst meeting regulatory standards.





Global banks will take positions in multiple currencies to efficiently fund transactions undertaken across the bank in those currencies.

Treasury Stakeholders

Due to the nature of the treasury business, there are many stakeholders across the bank. The below shows examples of some of them (not exhaustive list):

Internal Stakeholders

End-to cost of a transaction — Finance

Implication of the trading on the bank's capital — Trading Desk

Development of stress-testing models — Risk

Data for auto-calculation and distribution of recharge metrics — Technology

External Stakeholders

Investors — Advertise the strength and stability of the company

Regulators — Comply with required standards

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Execution Services

Treasury manage the bank's requirement to execute multiple transactions in multiple currencies.

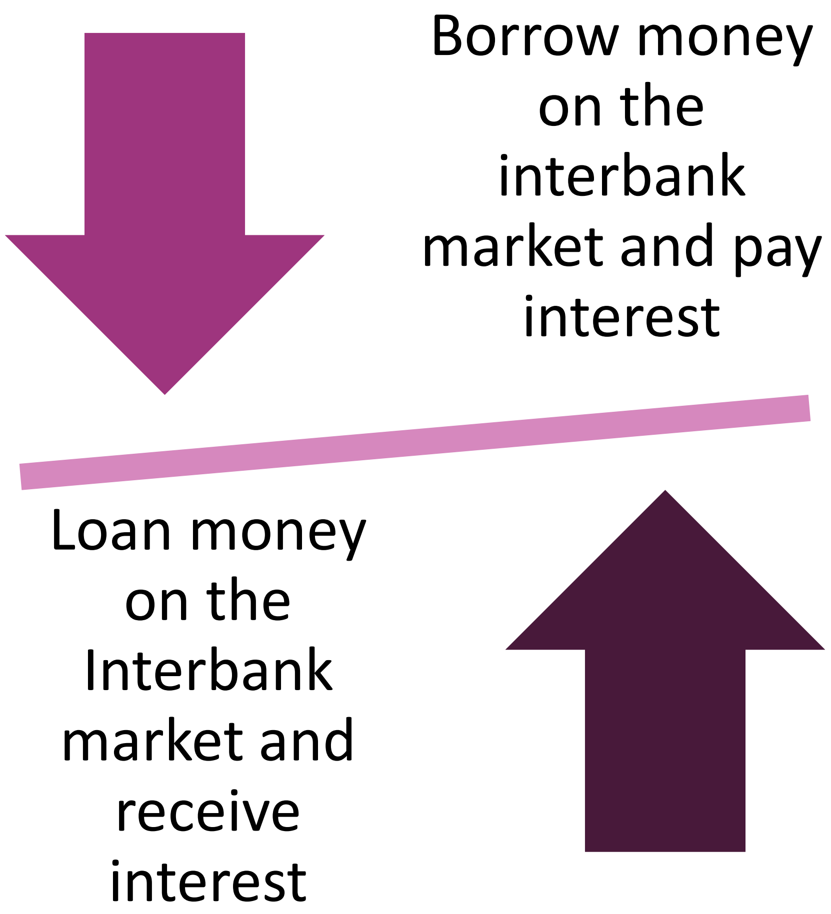
- For example, a front office team, like the capital financing, may have agreed a business loan in euros. They need to purchase the euros on the money market.
- Treasury Execution services will facilitate this and advise on cost.

Bank A needs
$300,000,000

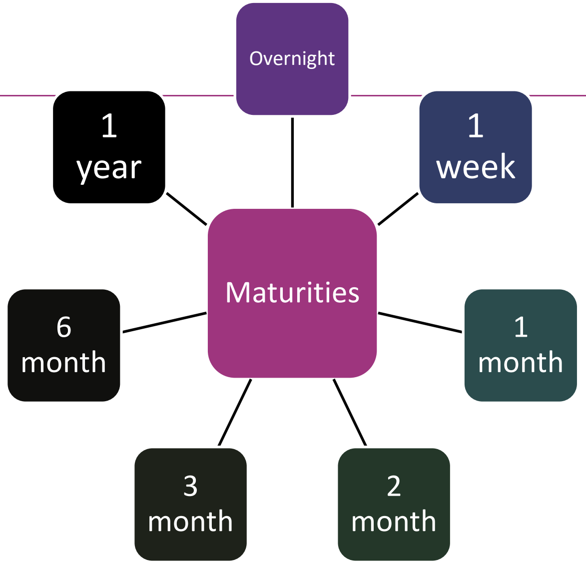
How many £ will buy
$300,000,000 today?

Interbank Lending

- Banks loan assets to each other for a specified period, usually short term, often overnight.
- Interest is calculated using the interbank rate.
- The interbank rate is driven by the availability of money in the market: more lenders = lower rates, fewer lenders = higher rates.
- Interbank rates include: ICE LIBOR, EURIBOR, US Dollar LIBOR.
- Banks have credit ratings which also impact the rate paid for borrowing.

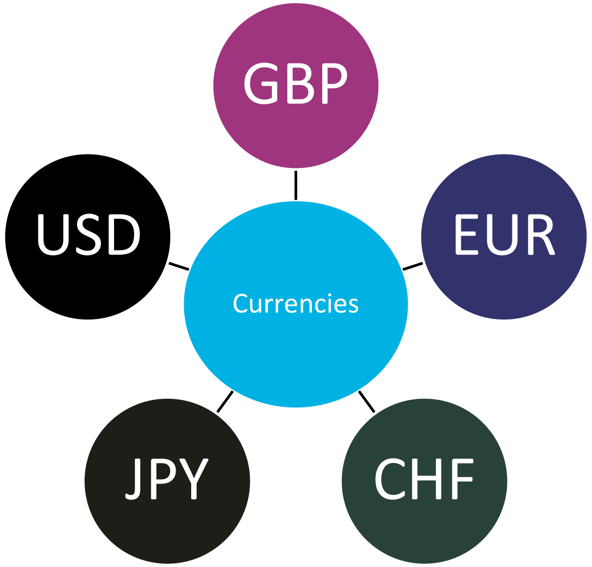


LIBOR – London Interbank Offered Rate



LIBOR : A benchmark rate for currency borrowing

- Produced on daily rate submissions from 11 - 17 contributor banks who answer the question:
- “At what rate could you borrow funds, were you able to do so by asking for and then accepting interbank offers in a reasonable market size just prior to 11am London time?”



- The rate is intended to be representative of the average rate a bank could borrow at in the London money market
- LIBOR rates are quoted as an annualized interest rate: a 1-month GBP rate at 2.00000% interest = payment of 2% divided by 365

LIBOR History

LIBOR then…..

- Pre-2012 LIBOR Rigging Scandal
- Little oversight
- Rates were submitted that would benefit rates swap traders instead of being the actual rates that the bank would pay to borrow money
- Traders colluded across different banks to collectively adjust the rate

LIBOR now….

- New governance: ICE LIBOR
- Rates based on actual transactions with records kept
- Criminal sanctions in place to enable prosecution in case of manipulation of benchmark interest rates

Funding

Funding teams ensure that the investment bank has sufficient liquidity to meet payment obligations on a daily basis.

Sufficient cash must be available in the correct currencies in all required locations to ensure that trades can be settled as agreed.

Banks hold a proportion of highly liquid assets to meet short-term liabilities: cash, FX swaps, overnight deposits, etc.

Stress Testing

After the 2008 financial crisis, banks have been subject to stress tests that assess how well a bank can withstand market shocks and liquidity disruption.

The Bank of England introduced stress testing of UK Banks in 2014; the Federal Reserve does stress testing as part of Dodd Frank Regulation.

> *The BoE set a 4.5% minimum Core Tier One Capital ratio (hurdle rate) in 2014 but adjusted this in 2016 tests to reflect differences required by global systemically important banks.*

Core Tier 1 Capital = Shareholders' equity & retained earnings

Core Tier 1 Capital Ratio = the Ratio of a banking firm's core equity capital to its total risk weighted assets