



J.P. Morgan Global Cash Management Survey 2009



J.P.Morgan
Asset Management

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Introduction

We launched the J.P. Morgan Global Cash Management Survey back in 1999 so that we could identify and comment upon the cash management preferences of corporate treasurers around the world. In the subsequent ten years it has grown into one of the most comprehensive and informative annual examinations of the corporate cash management industry.

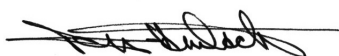
The survey's ongoing success owes much to our partnership, since 2002, with the Association of Corporate Treasurers (ACT). The ACT's valuable advice and support continues to help us reach out to the broad global community of corporate treasurers, while ensuring the widest possible distribution of the results. More recently the survey has also benefited from the endorsement of the European Association of Corporate Treasurers and, for the first time in 2009, the Association of Corporate Treasurers Singapore.

This latest survey (our eleventh edition) was conducted by online questionnaire between July and September 2009 and attracted an impressive response rate, with a record 334 treasurers from across Europe, the US and Asia providing feedback. The survey has once again also captured views from treasurers representing organisations of all sizes, from small-caps to leading multinationals.

Indeed, the wide geographical spread and broad industry coverage achieved in this year's survey makes it one of the most comprehensive to date. At the same time, with all of the responses received in the run up to the first anniversary of the collapse of Lehman Brothers, the report shows in detail how the global banking crisis and subsequent economic downturn has impacted the cash management strategies and policies of corporate treasurers worldwide.

As always, I'd like to thank everyone who took the time to answer our questionnaire. As you can see from the results, your contributions have helped provide an interesting and valuable snapshot of the global treasury function. This year, for the first time, those treasurers who completed the survey were also given the opportunity to receive an advance copy of the findings as well as a customised report showing their responses compared to peers in their particular industry. We believe these customised results will serve as a valuable benchmarking tool for those participants who completed the survey.

I hope you find this year's J.P. Morgan Global Cash Management Survey a useful reference resource. If you require further information please visit our website where past survey results are available for download www.jpmsgloballiquidity.com



Robert Deutsch
Head of Global Liquidity
J.P. Morgan Asset Management

Executive summary

The international banking crisis and global recession have had a clear impact on this year's survey.

Firstly, the combination of tighter credit conditions and economic downturn has placed severe liquidity constraints on many companies around the world. As a result, there has been a clear attempt by treasurers to manage cash more skilfully and more efficiently in order to avoid potential cash flow difficulties.

Secondly, recent high profile banking failures and ongoing concerns over the health of the global financial system has resulted in treasurers placing unprecedented scrutiny on the financial strength of the institutions they deal with. Counterparty risks have been reduced wherever possible, the number of banking relationships and the nature of the services used have changed (either by choice or forced by the withdrawal of lenders from local markets), while treasurers with surplus cash to invest have been tightening policy guidelines and seeking out only the highest quality products, even at the expense of yield.

These trends towards risk reduction, greater efficiency and increased liquidity have been identified throughout the survey. Below is a summary of the key findings:

- **Banking relationships are increasing** – another increase in the number of banking relationships (particularly in Asia) suggests that some treasurers have diversified counterparty risk, while others may have been forced to use more banks for the services they require in the wake of the global financial crisis.
- **Treasurers are taking a more strategic role** – difficult trading conditions, the weak economic backdrop and a lack of available credit lines are creating a greater focus on cash flow forecasting and liquidity.
- **Bank deposits are still favoured by EMEA and Asian treasurers** – Most surplus cash is allocated to bank deposits across EMEA and Asia despite several recent high profile banking failures and a drop in banking credit ratings. Meanwhile, the percentage of treasurers permitted by their guidelines to invest in pooled funds has dropped. This is surprising as demand for triple-A rated money market funds has been strong through the financial crisis, but perhaps reflects to some degree the concerns of continental European treasurers about the quality of riskier European cash funds that do not maintain a stable NAV.
- **American treasurers favour money market funds** – US respondents continue to make much higher allocations to money market funds and lower allocations to bank deposits than in Europe and Asia.
- **Treasurers are sacrificing yield for higher credit ratings** – the survey suggests treasurers are seeking higher minimum credit ratings when investing in pooled funds, direct investments and even bank deposits. In return for this reduction in risk, treasurers have generally reduced their return expectations over the last year.
- **De-risking theme set to continue** – future concerns for treasurers are dominated by worries over liquidity, counterparty risk and cash flow forecasting. These concerns suggest that nervousness and uncertainty will continue to impact the cash management industry for some time to come.

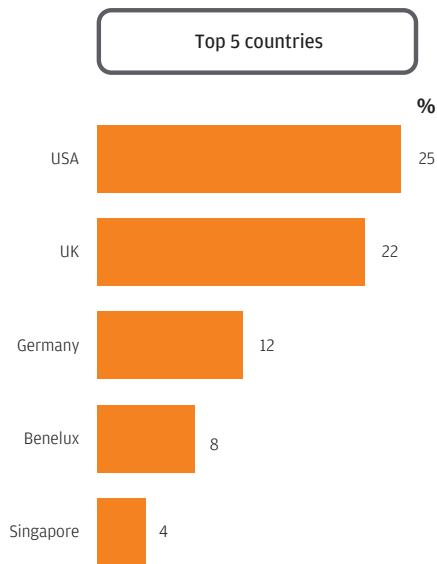
1 The respondents

Number of respondents

This year's survey attracted a record 334 qualifying responses from treasurers representing companies from across the industrial spectrum. For the first time, respondents to the survey were offered the chance to receive customised survey results comparing their responses to those given by other treasurers in their particular industry.

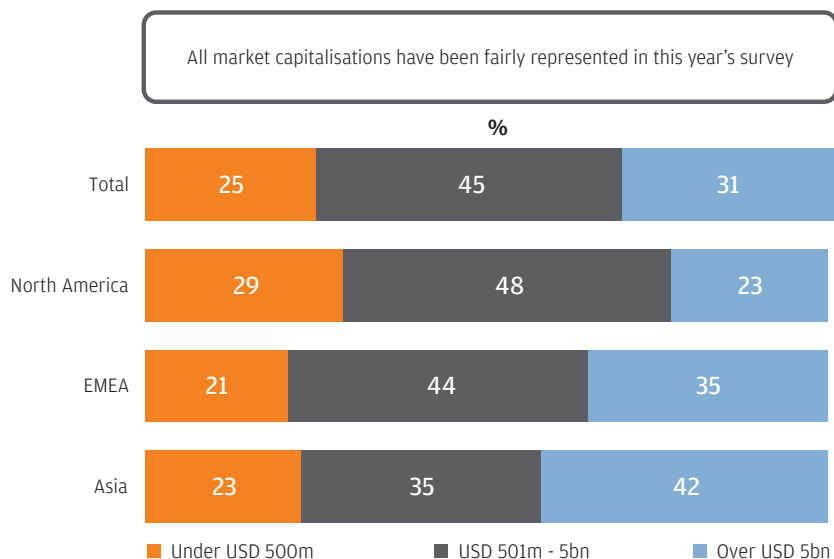
Country where surplus cash is managed

The survey maintained a broad global focus, with treasurers responding on behalf of cash management offices located across North America, Europe and Asia. As in 2008, the largest percentage of respondents were located in the US (25%), followed by the UK (22%). Overall, 10% of respondents were located in Asia.



Market capitalisation

As always, the survey strives to capture the views of treasurers from organisations of all sizes, from small-caps to leading multinationals. This year the respondents were well balanced across the market cap spectrum, with 25% of respondent companies having a market capitalisation of less than USD 500m, while 31% were valued at more than USD 5 billion.

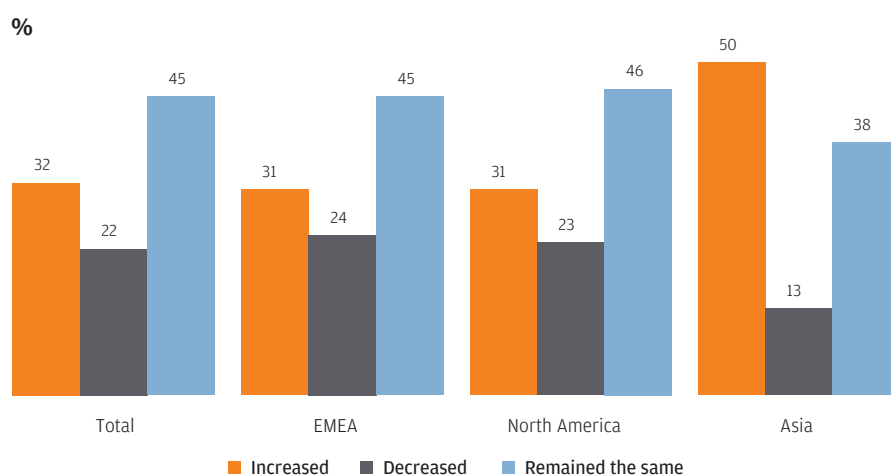


2 Banking relationships

Number of primary banking relationships

More respondents have increased their banking relationships than have decreased them across all regions again this year, with 32% of respondents saying they've increased the number of primary banking relationships compared to 22% that reported a decrease. Asian treasurers have been most likely to increase their relationships, with 50% reporting a rise compared to just 13% reporting a drop.

The number of banking relationships, on balance, has increased slightly, potentially reflecting a reduction in counterparty risk among treasurers



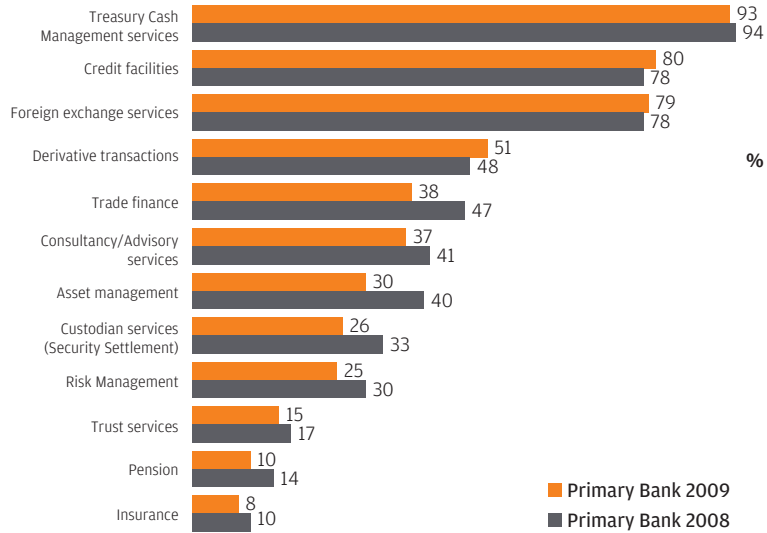
This increase could be due to the global financial crisis, which has left treasurers looking to diversify their banking relationships to reduce counterparty or operational risk. Indeed, this is now the third successive survey in which we've seen an increase in bank relationships - a trend that began at the beginning of the global credit crisis back in the summer of 2007.

However, the increase in banking relationships may not only reflect a move to diversify counterparty risk. It could also reflect a retreat from the marketplace by some of the banks hit hardest by the financial crisis, forcing some treasurers to seek out multiple new providers for the services they require. It may further reflect the fact that some companies are doing business in more areas of the world and therefore need to use more banks to obtain all the services they require.

Services primary banks are used for

Treasurers continue to use their banks for a full range of services, with treasury cash management services, credit facilities and foreign exchange services topping the list. However, the number of outsourcing services used has fallen from the 2008 survey, perhaps suggesting that some treasury departments are moving some functions back in-house due to corporate cost cutting and/or because of a drop in trust in the banks following the financial crisis.

The number of services used with primary bank has fallen over the past year -
 In 2009 the average number was 4.9 vs. 5.3 in 2008.
 This suggests a move to a more specialised banking service

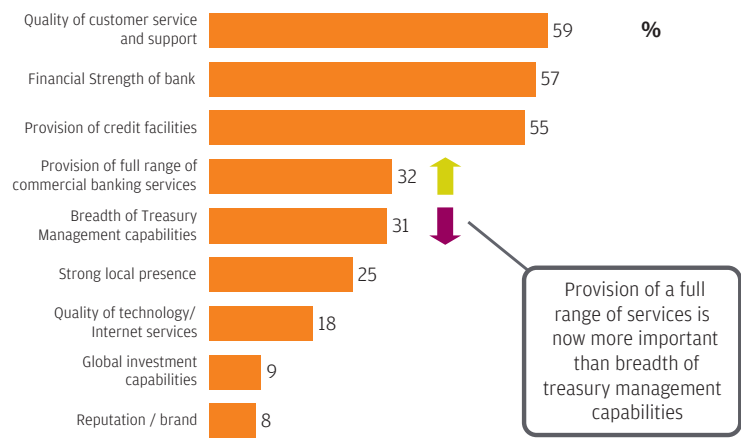


Bank selection criteria

Trust is clearly a major factor in the selection of banking service providers, with the quality of customer service ranking top once again this year. Reputation and brand ranks much lower, but it is possible that many treasurers see customer service as a key attribute for the building of trust.

The desire to reduce risk is also reflected in the criteria used by treasurers to select their banking partners, with a bank’s financial strength ranked almost as important as the quality of customer service provided.

The quality of customer service remains the most important attribute when choosing a bank, however for 2009 the new code Financial strength of bank is a close second



3 Treasury function

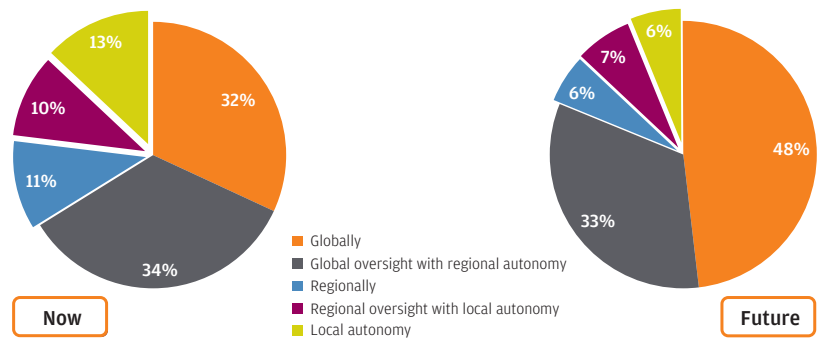
Cash management structure

The survey suggests that the role of treasurer is becoming more strategic, with increasing importance now placed on finding a secure home for surplus cash and ensuring adequate liquidity and cash flow rather than achieving an enhanced yield.

The added importance of the treasury role reflects the continued move towards greater global cash management structures, with 66% of respondents currently using either a global structure or global oversight. In the future this proportion is expected to rise to 81%.

The events of the last two years have highlighted how critical it is for treasurers to have immediate access to information including cash balances, counterparty exposures and foreign currency exposure across their entire firm.

Global or Global with Regional Autonomy are the favoured structures for cash management and are predicted to grow in the future



Areas of importance for the treasury department

Another important change in attitude identified by this year's survey is the growing importance of cash flow forecasting. In fact, cash flow forecasting is now the most important area for global treasury departments, overtaking cash management, which was the most important in 2008.

The difficult economic environment has placed cash flow constraints on many companies, with almost half of respondents saying that they have less surplus cash this year than in 2008. As a result, it is more important than ever for treasurers to be able to accurately forecast future cash flows to avoid potential liquidity issues.

Cash flow forecasting received the most mentions, cash management was the previous most important area and is now second



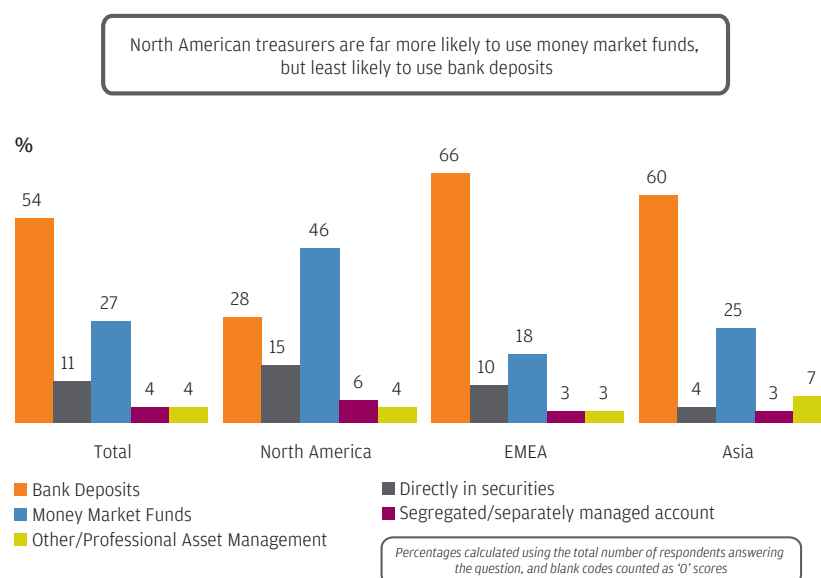
4 Investments

Surplus cash allocation by region

There remains a high degree of regional disparity in surplus cash allocations, with treasurers in EMEA and Asia continuing to allocate most of their surplus cash to bank deposits despite the impact of the global financial crisis on confidence. However, the overall allocation to bank deposits has continued to fall, from 61% in 2007 to 55% in 2008 and 54% in 2009.

US treasurers, meanwhile, continue to maintain the highest allocation to money market funds. This is unsurprising given that US cash investors have traditionally used money market funds rather than bank deposits for their excess cash requirements.

Money market funds overall had a 27% allocation in this year's survey - down from the 32% allocation given in 2008 to pooled funds, but this year's survey did include a 4% allocation to segregated accounts and a 4% allocation to professional asset management that wasn't captured in 2008. The allocation to direct securities, at 11%, fell slightly from last year, when it stood at 13%.



Pooled instruments used

By far the most popular pooled funds are triple-A rated liquidity funds and government liquidity funds. This is not surprising given the move to higher credit ratings seen earlier in the survey. Of the respondents who use pooled funds, 47% use triple-A rated funds, 27% use triple-A rated government funds, 12% use segregated accounts and 10% use others.

Criteria when selecting a pooled instrument

In 2008, treasurers rated yield as most important when selecting a money market fund. This year, however, yield has moved into second place, with access to funds and daily liquidity now the priority. Reputation/brand moved from second to third place.

Given the emphasis on risk reduction in this year's survey we may have expected a provider's reputation to have been given a higher priority. However, the focus on daily liquidity is consistent with the cashflow constraints and liquidity concerns also highlighted elsewhere in the survey.

Yield in 2008 was most important but in 2009 it is second important to access to fund / daily liquidity in AAA rated MMF - a new area of importance for this year's survey

%	AAA Rated Money Market Funds	Separately Managed Accounts	Other Funds
Reputation/brand	39	37	32
Yield	44	37	43
Bank relationship	34	31	31
Depth of resources (e.g. credit & analysts)	8	14	10
Fees	25	29	29
Size/importance of liquidity business	13	10	12
Cut-off time	14	9	8
Access to funds/daily liquidity	45	31	34
Size of fund	23	16	18
Quality of customer service	5	7	6
Education and training	1	3	1
Transparency	19	18	21

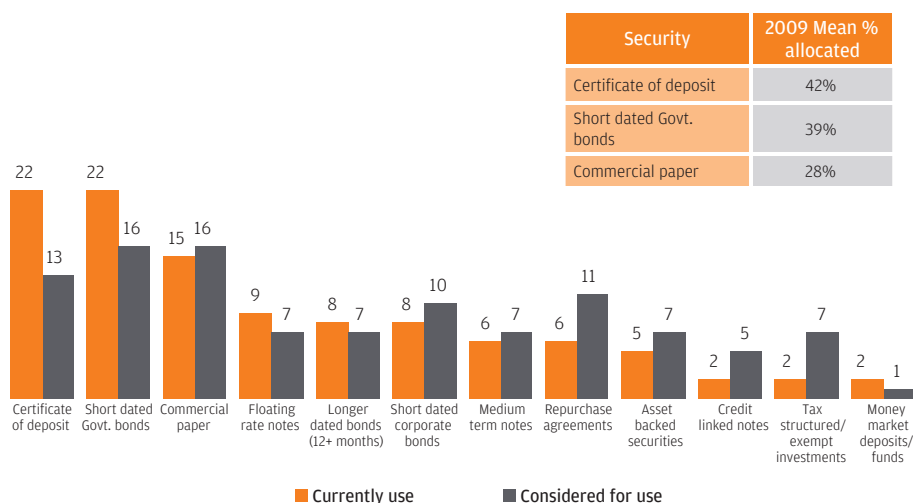
Reasons for not using pooled funds

For treasurers who do not currently use pooled funds and are not planning to do so in the future, the main reason continues to be a preference to manage cash directly. This is true for both triple-A rated money market funds and other pooled vehicles. In both cases, the second most commonly cited reason is that the treasurer's investment guidelines do not allow them to invest in these vehicles.

Money market instruments used/considered for use

In 2008, commercial paper was the most commonly used instrument among those who invest directly in money market securities. In 2009, commercial paper has fallen into third place, reflecting the drying up of liquidity in this market after the collapse of Lehman Brothers but also due to credit quality concerns and changes to investment policies.

Another significant change is that in 2008, the percentage of respondents considering using most instruments outstripped those who were already using them. This year, if respondents are not already using instruments, they are less likely to be considering adding them in the future. This potentially reflects the derisking trend.

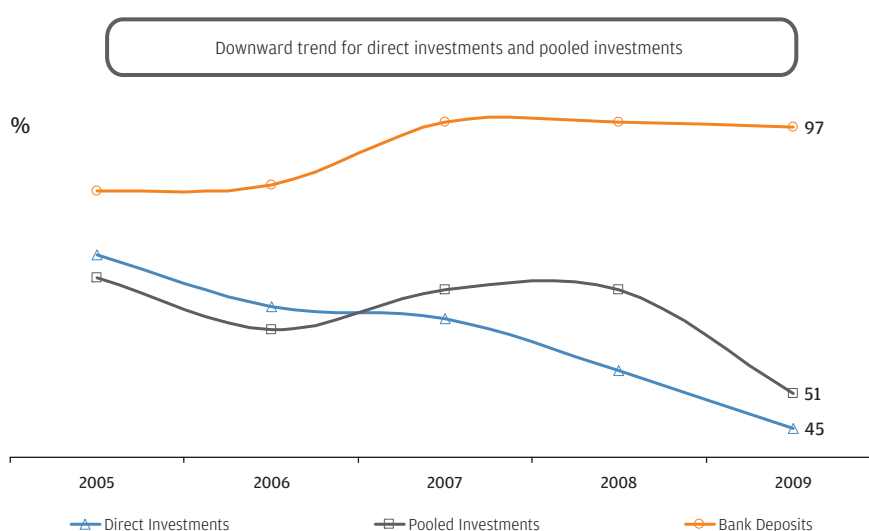


5 Criteria for investing surplus cash

Investments allowed by guidelines

Continuing the trend seen last year, there was a reduction in the proportion of treasurers permitted by their investment guidelines to invest directly in money market instruments. This may be due to the tough money market environment experienced since the collapse of Lehman Brothers in September 2008 and the desire among investors to reduce portfolio risk.

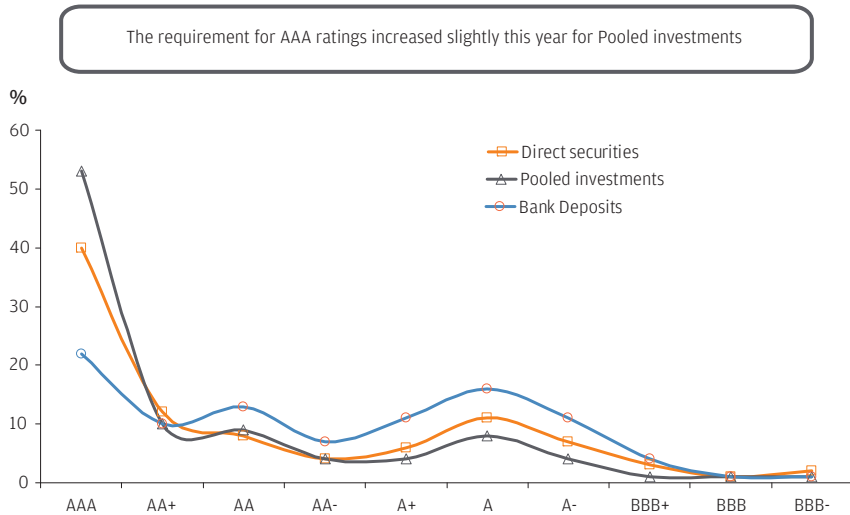
There has also been a significant decrease this year in the percentage of treasurers permitted to invest their surplus cash in pooled funds, but bank deposits continue to be permitted in the investment guidelines of 97% of the survey's respondents despite the negative impact of the global financial crisis on the banking sector.



The large number of respondents from continental Europe and Asia may help explain why the proportion of treasurers allowed to use pooled funds has dropped. Whereas in the US, money market funds are covered by regulations designed to reduce risk and provide certainty to investors (specifically rule 2a-7), money market funds in Europe and the rest of the world have a much broader definition. Certainly, some riskier European cash funds (not stable NAV money market funds) experienced difficulties in late 2008 and early 2009, and European treasurers may now have tightened their investment guidelines to exclude these funds. Instead European treasurers appear to be focusing on conservatively managed cash funds that adhere to the strict standards set out by the Institutional Money Market Funds Association (IMMFA).

Minimum credit ratings required

This growing risk aversion is also reflected in another rise in the minimum credit ratings required for pooled investments, with more than half of respondents who use pooled funds now demanding a triple-A rating as minimum - this is up slightly from just under 50% last year, but is much higher than the 35% who demanded the highest rating back in 2007.



This trend suggests that those treasurers who are permitted to use pooled funds are demanding the highest quality funds, such as stable NAV triple-A rated money market funds covered by IMMFA’s code of practice in Europe and by the US Securities and Exchange Commission’s rule 2a-7.

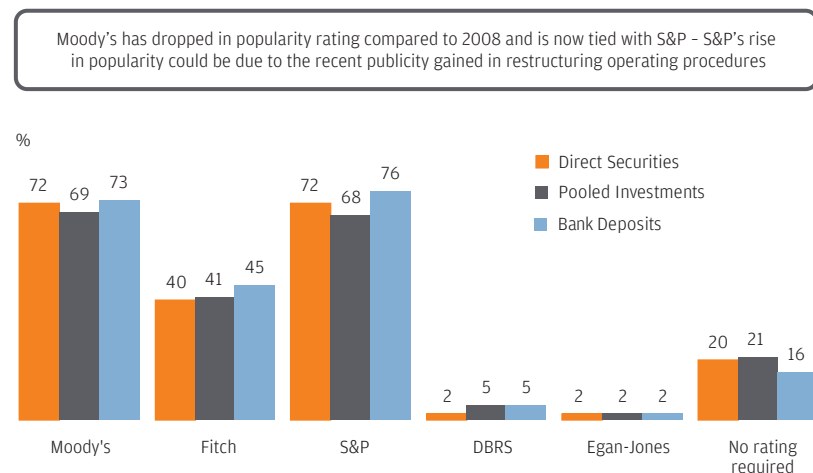
We have similarly seen a slight move up the credit scale in direct investments, perhaps due to an increase in demand for the safety provided by government securities due to liquidity problems encountered in the short-term funding markets.

Interestingly, there has been another slight move up the credit rating scale for bank deposits, with more than 20% of respondents now demanding that their bank has a triple-A rating as minimum. This is interesting given that there is still only one triple-A rated bank to choose from – Rabobank.

Treasurers may also be considering banks that have government guarantees to be triple-A rated but that may be a risky strategy as government guarantee programmes are not all created equal and some support programmes have already started to be withdrawn.

Ratings allowed by investment guidelines

Standard & Poor’s and Moody’s are the most popular ratings agencies once again for treasurers looking to assess the credit ratings of potential investments. Standard & Poor’s has marginally gained ground at Moody’s expense over the past year.

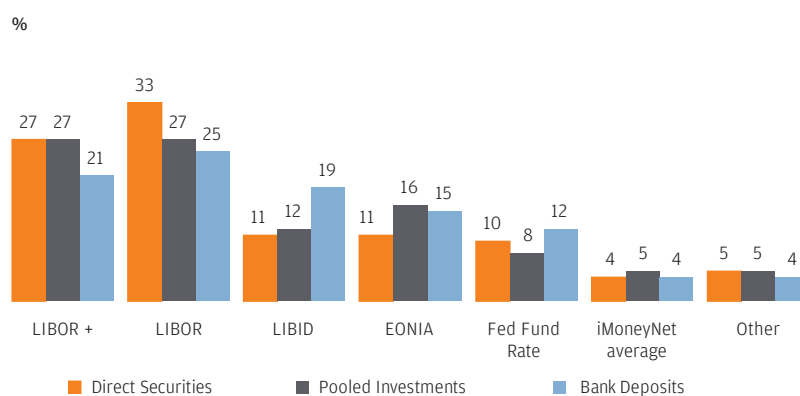


Target returns of short dated surplus cash

Reflecting the desire for higher credit ratings, treasurers have this year moderated their return expectations for their cash investments. More respondents now expect returns in line with Libor rather than Libor + for both bank deposits and direct investments (a reversal from last year).

Furthermore, while as many pooled fund investors are looking for Libor + returns as those looking for Libor (27% of respondents for both), there has been a clear reduction in expectations from last year when 40% of pooled fund investors said they expected a Libor + return compared to just 14% for Libor.

Decrease in expectation for all three investment types in LIBOR+ but an increase in expectation in LIBOR, possibly due to reassessing benchmarks in the current economic climate



Investment period and cash balance

The desire to reduce risk and to maintain maximum levels of liquidity can be seen clearly in the average amount of time that treasurers tend to invest their surplus cash, with most respondents (59%) investing their short-term operating cash overnight. A significant number of respondents also invest their reserve cash (17%) and strategic cash (15%) for no longer than one night.

The fact that so many respondents are only prepared to invest surplus cash overnight, even for medium-term and longer-term reserves, could suggest the following:

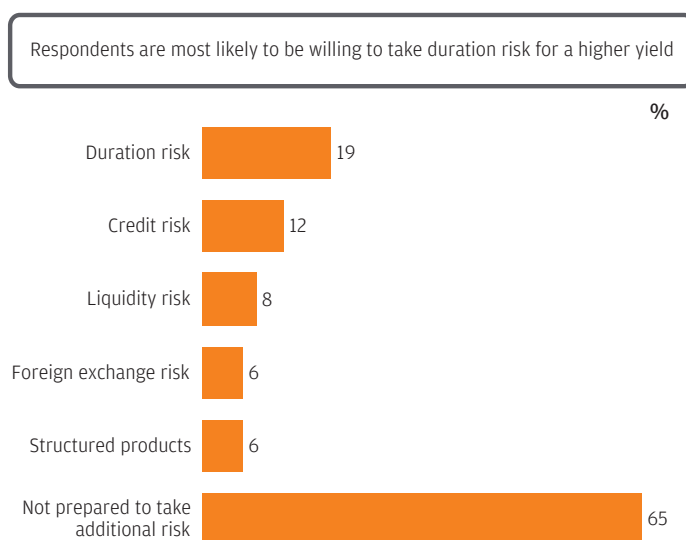
1. Treasurers are holding onto higher cash balances to mitigate the need for external funding.
2. Cash flow forecasting is not trusted enough to allow treasurers to invest for longer periods.

Both of these factors are particularly true in the current uncertain economic environment where a lack of credit availability and volatile cash flows make liquidity a key concern for finance directors.

The desire of so many treasurers to maintain overnight liquidity may also account for the drop in the use of pooled funds within investment guidelines seen earlier, with a large number of treasurers (particularly those based in Europe and Asia) perhaps still not aware that money market funds can provide fast access to their cash should they need it.

Areas willing to take risk when seeking a higher yield

Most treasurers said they are not currently prepared to take any additional risk to boost yield from their cash investments. But among those that are prepared to increase risk, the most popular way to boost yield is to take more duration risk.



Changes in approach to risk

Worries over counterparty risk and credit quality come through clearly from the responses, with 55% of treasurers saying they have changed their investment policy as a result of the credit crisis and 45% saying they no longer rely so heavily on credit ratings.

The most striking change is a large increase in counterparty limits for all types of investment. As would be expected given the flight to quality seen over the last year, nearly all treasurers (91%) have increased their limits to government securities. But there has also been a wholesale increase in counterparty limits to banks, money market funds and direct investments, which is more surprising given the desire expressed elsewhere in the survey to reduce risk.

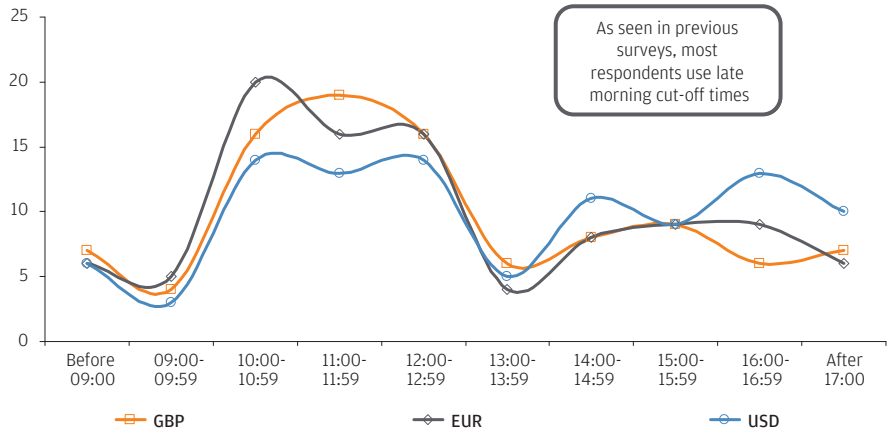
However, the increase in counterparty limits to banks is probably due to two factors:

1. Companies are holding record levels of liquidity and are therefore comfortable to use fewer large banks for their surplus cash investments. Therefore, counterparty limits to these banks have increased.
2. There are now fewer banks doing business in many markets, forcing treasurers to raise the amount they can invest with the banks that remain open for business. For example, consolidation in the financial industry has reduced the number of available counterparties - for example J.P. Morgan and Bear Stearns, Bank of America and Merrill Lynch, RBS and ABN Amro.

Similarly, with many treasurers now holding larger cash balances, it may be the case that they feel more comfortable increasing the amount of money they are prepared to allocate to selected money market funds, particularly those with larger cash balances.

6 Investment timing

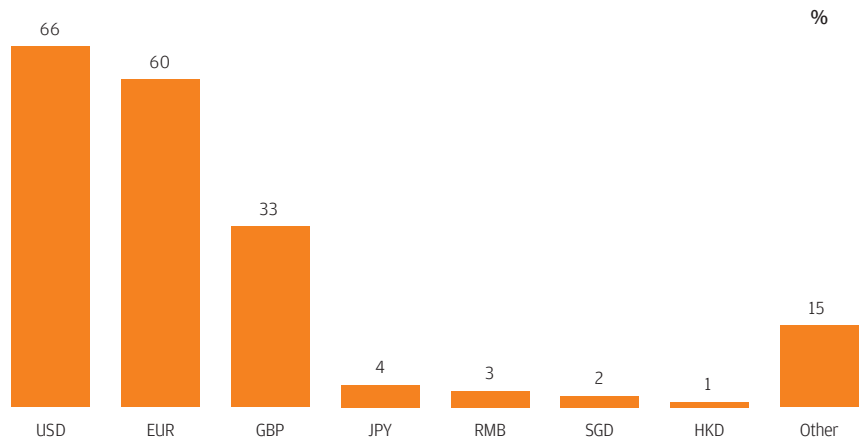
As in previous years, most respondents favour late morning cut-off times for sterling, euro and US dollar positions. Cut-off times for all three currencies also have a smaller peak in the afternoon.



7 Cash and liquidity concentration

Currency of surplus cash

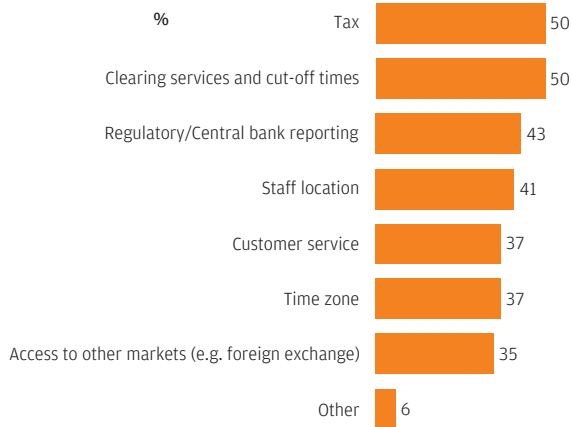
US dollar holdings dominate, reflecting the high proportion of respondents from the US, as well as the tendency of respondents in other countries to hold their cash either in their local currency or in US dollars.



Reasons for choice of cash location

The most significant drivers of choice of cash location continue to be tax and then clearing services & cut-off times.

Clearing services and cut-off times and Tax continue to be the main drivers

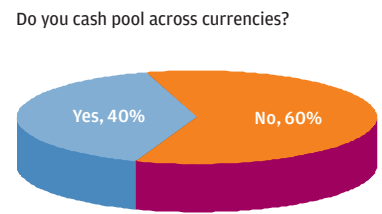
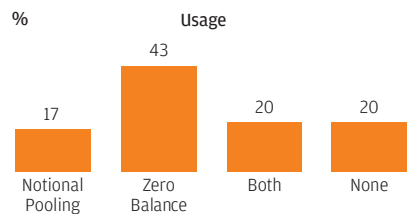


Techniques used in cash concentration

As in 2008, zero balance structures were the most popular vehicles among treasurers. The proportion has remained almost the same, as has the proportion of respondents using notional pooling.

Retaining local treasury control remains the most commonly cited reason for notional pooling, while tax, accounting and legal factors remain the most significant deterrent.

The proportion of users of notional pooling remained the same, but those using zero balance has dropped slightly. Retaining local treasury control is less of a compelling reason (down from 73% in 2008).



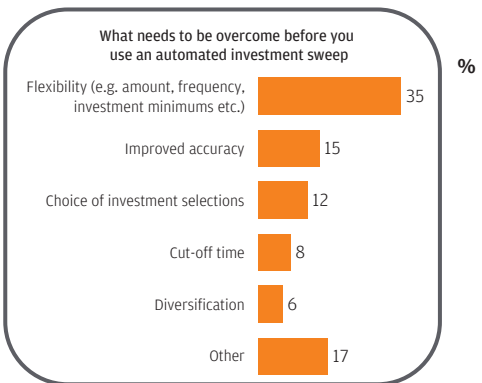
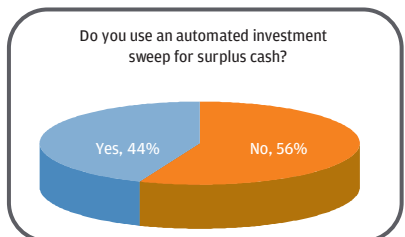
Reasons for using notional pooling in cash concentration structure	
Retaining local treasury control/transparency for subsidiaries	59%
Tracking inter-company borrowing/lending	54%
Regulation/Central bank reporting	37%
Tax	34%

Reasons for not using notional pooling	
Tax, accounting, legal	27%
Internal company policy	27%
Regulatory	22%
Documentation and guarantee requirements	18%
Not needed/not relevant to us	8%
Other	17%

Use of automated investment sweeps

Use of automated sweeps has fallen from 52% of respondents in 2008 to 44% in 2009. Of the 56% who do not use automated sweeps, the most commonly cited reason is lack of flexibility. Last year's most commonly selected factor, improved accuracy, was this year selected by only 15% of respondents, compared with 67% last year.

There has been a decrease in the usage of automated investment sweeps, and flexibility remains the most important problem for treasurers thinking about investment sweeps

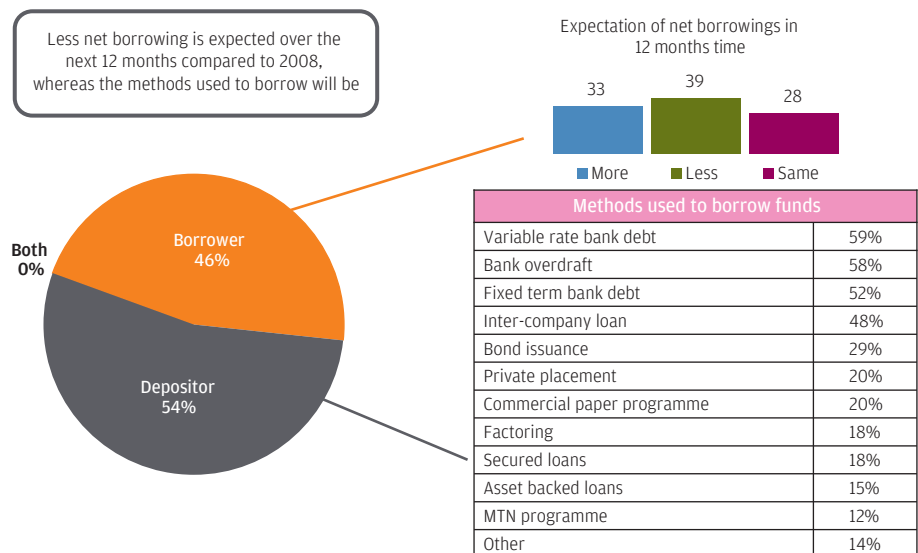


8 Debt position

After several years of stability, cash positions changed significantly in 2008, with only 28% of treasurers saying their companies were net borrowers, compared with 40% in 2007. This year's survey saw a reversion to the trend, with 46% of respondents now net borrowers, perhaps reflecting an easing in credit market conditions compared to last year's survey.

The increase in borrowers may also reflect the fact that some companies took the opportunity to lock in some debt at very low market rates early in 2009, before credit spreads began to tighten.

In general treasurers expect to borrow less in 12 months than they are now, possibly indicating a more upbeat outlook for the economy and for corporate profits. However, methods used to borrow remain heavily biased towards the banks, suggesting conditions could be difficult if treasurers need to borrow more than they expect in the next 12 months, with bank lending remaining tight.



9 The future of cash and treasury management

Concerns in the treasury department

At the end of the survey we asked respondents to comment on the key concerns they have about their treasury departments in the future. Perhaps unsurprisingly, liquidity concerns have moved to the top of the list of concerns this year, reflecting the severe dislocation of credit markets, corporate cash flow constraints and the high profile banking failures that have been experienced since the 2008 survey was compiled. Similarly, counterparty risk was cited as the second biggest future concern.

However, longer-term concerns continue to be mentioned by a significant number of treasurers, with funding rule changes, regulatory changes, M&A activity and pension risk all featuring in the list of treasurers' key worries as we head into 2010.



Conclusion

The J.P. Morgan Global Cash Management Survey 2009 has once again taken the pulse of treasurers around the world. This year's findings suggest that risk aversion remains high and that nervousness continues to stalk financial markets. As a result, treasurers have continued to reduce counterparty risk wherever possible, maintain higher levels of liquidity and focus more than ever on credit quality.

Yet we've also seen treasurers take on an increasingly strategic role as the financial crisis has highlighted the need to keep a tight control on costs and reduce the need for reliance on external sources of finance. As a result the survey reveals that treasurers are continuing to innovate and make use of a full range of tools to help them carry out their cash management duties as effectively and efficiently as possible.

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