# Risk appetite returns,

**JIM FUELL** OFFERS A SNEAK PREVIEW OF THE FINDINGS FROM THIS YEAR'S J.P. MORGAN GLOBAL CASH MANAGEMENT SURVEY. LIQUIDITY AND FINANCIAL STABILITY REMAIN KEY CONCERNS FOR TREASURERS, WHO ARE TAKING A CAUTIOUS APPROACH TO INVESTING SURPLUS CASH, BUT THE SEARCH FOR YIELD IS ALSO BECOMING KEENER.

The J.P. Morgan Global Cash Management Survey provides a unique barometer of corporate cash management trends around the world. Now in its 12th edition, the survey, with valuable help and support from the ACT, has provided a benchmark for corporate treasurers since its launch in 1999.

This year's survey was conducted by online questionnaire between July and September and attracted an impressive response rate, with a record 427 treasurers from around the world providing their views. The survey represents the only truly global analysis of the cash management industry, providing a vital resource for treasurers to compare themselves with their peers around the globe.

**BROAD RANGE OF RESPONDENTS** Respondents covered organisations of all sizes, from a wide range of regions and markets, from China to the Middle East. As would be expected given the pre-eminence of the US economy and US companies, as well as the longevity of the money market fund industry in the US, North American respondents made up the biggest group, although the survey also attracted significant responses from EMEA and Asia.

The survey captures the views of treasurers from small caps to leading multinationals. This year, around one in 10 respondents came from companies with a market capitalisation below $500m, while 34% were valued above $5bn. Respondents also represented companies and organisations from many different sectors and industries.

**DELVING DEEPER INTO CASH MANAGEMENT** The wide geographical spread and broad industry coverage mean this survey looks set to be one of the most comprehensive and informative to date. It also promises to provide a valuable insight into the cash management strategies and policies of corporate treasurers in today's volatile markets. The full survey report is still being compiled and will be available in early 2011. Initial findings suggest that, while extreme risk aversion is beginning to recede, treasurers remain cautious in the wake of the financial crisis. In particular, the survey shows a continued focus on liquidity, and an ongoing scrutiny of the financial strength of the institutions with which treasury departments invest.

**LIQUIDITY REMAINS IN FOCUS** In the 2009 survey, liquidity was treasurers most commonly cited concern, reflecting the severe dislocation of credit markets and the high-profile banking failures experienced during the financial crisis. A year on, liquidity remains in focus, as the global repercussions of the crisis continue to be felt.

Cash management is now seen by treasurers as the key area of importance in the treasury department, pushing cashflow forecasting into second place. Access to funds/daily liquidity was cited by treasurers as the most important factor when selecting a pooled investment from an asset management company, with 58% placing it among the top three factors they consider. Among treasurers who segment their surplus cash, liquidity requirements were also the largest consideration.

**Chart 1:** Survey respondents by location of main treasury centre

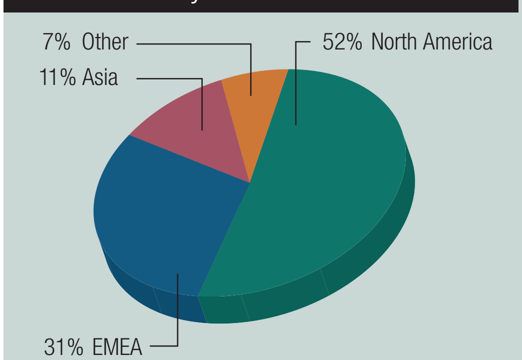
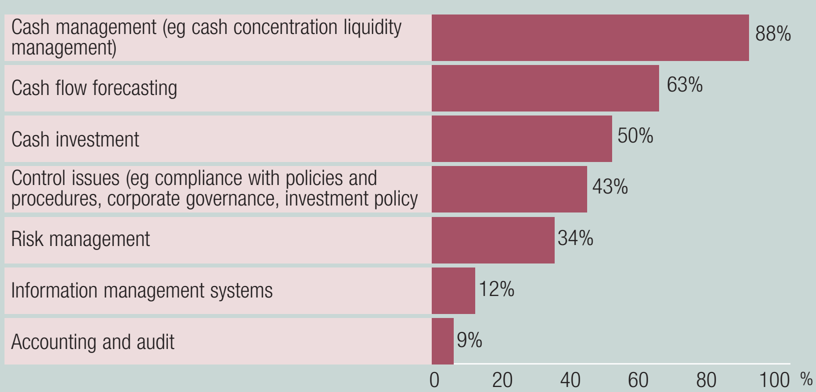



**Chart 2:** Areas of importance for the treasury department



# but slowly

## A YEAR ON, LIQUIDITY REMAINS IN FOCUS, AS THE REPERCUSSIONS OF THE CRISIS CONTINUE TO BE FELT.

Finally, when we asked treasurers to comment on the key concerns in their treasury departments today, the most selected response was liquidity, with most 68% placing it among their top five concerns.

**INCREASED EMPHASIS ON FINANCIAL STABILITY** A further reflection of the ongoing influence of the financial crisis on attitudes to cash management came from changes in attitudes towards banking relationships between the 2009 and 2010 surveys.

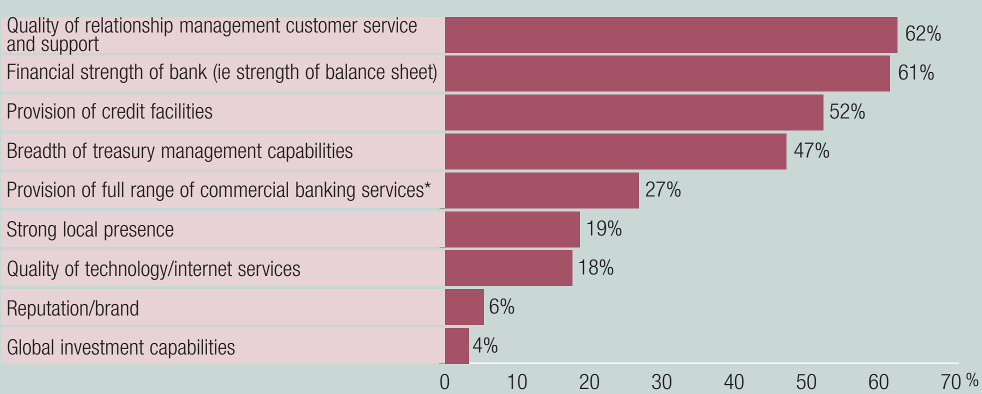
The desire to reduce risk is reflected in the criteria treasurers use to select their primary bank. A bank's financial strength has increased in importance for a second consecutive year, to rank almost equally with the quality of relationship management and customer service.

For a third successive year, treasury departments have increased the number of their banking relationships, with 29% of treasurers saying the number has risen, compared with 21% reporting a fall. This continued increase may stem from the greater focus on counterparty and operational risk following the financial crisis, with treasurers looking to diversify their exposure. Indeed, 64% of treasurers selected counterparty risk as one of the top five concerns today.

However, perhaps counter-intuitively, almost a third of treasurers have increased their exposure limits to their relationship banks. This may stem from the fact that companies continue to hold high levels of cash, and so need to increase the limits they hold with each of their counterparties. It may also reflect a change in the way treasury departments are managing counterparty risk. Given the greater focus on financial stability and reputation/brand strength, it is possible the higher limits are allowing organisations to consolidate their holdings with the banks they perceive as being the strongest. When selecting a pooled investment, too, the financial strength of the provider has become more important to treasurers. This year, bank relationship and reputation/brand overtook yield as important factors in choosing a pooled vehicle, moving up into second and third place (behind liquidity).

**CAUTION IN MANAGING SURPLUS CASH** The repercussions of the financial crisis are also evident in the amount of surplus cash that companies and organisations hold. More than half of treasurers said

**Chart 3:** Criteria for primary bank selection

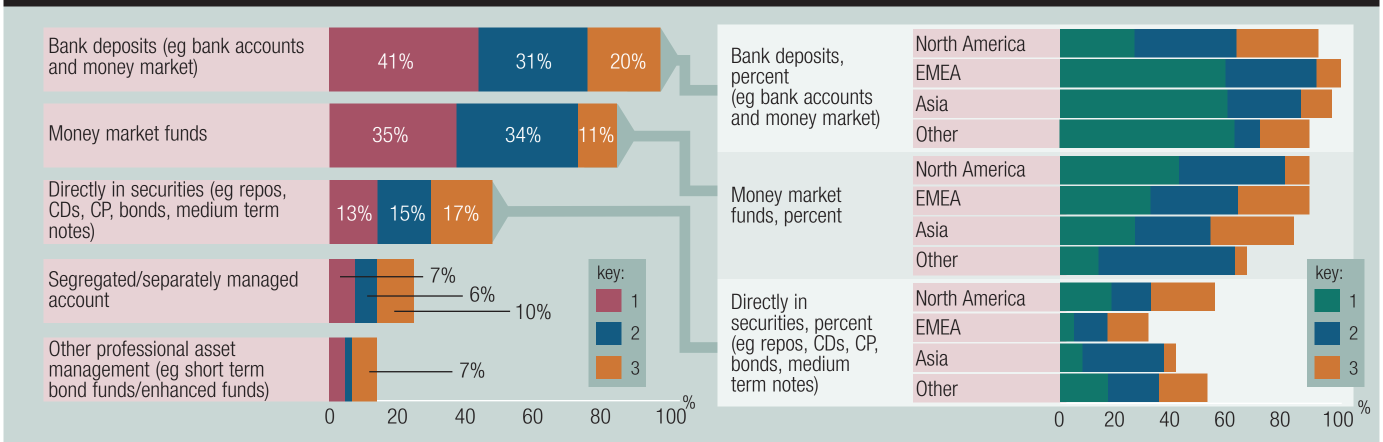



**2009 ranking**

| | | |
|---|---|---|
| 1 | Quality of relationship management, customer service and support | 59% |
| 2 | Financial strength of bank (ie strength of balance sheet) | 57% |
| 3 | Provision of credit facilities | 55% |
| 4 | Breadth of treasury management capabilities | 31% |
| 5 | Provision of full range of commercial banking services* | 32% |

*excluding treasury management capabilities

**Chart 4:** Allocation of surplus cash – Top three ranked




that surplus cash on their organisation's balance sheet was higher this year than in the previous year, which reflects a general trend for stockpiling cash since the height of the crisis. Next year, we may see cash levels fall again as companies put cash back to work through M&A and capital investment.

There remains a high degree of regional disparity in surplus cash allocations – unsurprisingly, given the adherence among cash investors to the cash management tools traditionally used in their regions. North American treasurers continue to allocate far more surplus cash to money market funds, with 41% ranking them as their most used by size of asset allocation. North American treasury departments also allocate less to bank deposits than their Asian and European counterparts, although bank deposits continue to receive the largest allocation

**Chart 5:** Target returns of short-dated cash

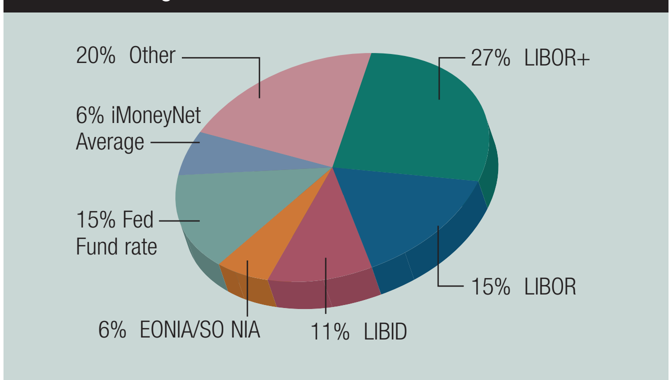
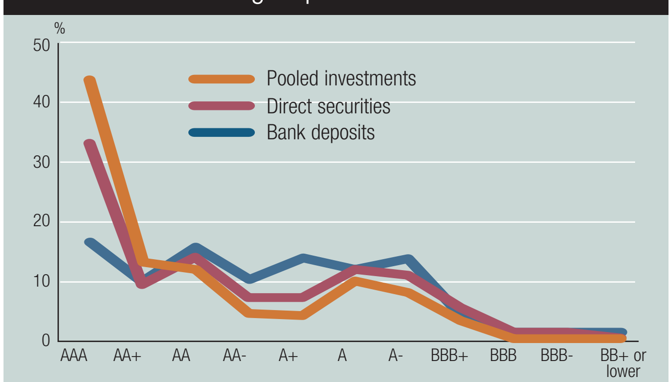



**Chart 6:** Credit rating requirements




overall, despite the impact of the financial crisis on confidence in the banking system. Among those using or considering money market funds there is an emphasis on liquidity and credit quality, with over three-quarters of respondents employing or considering prime money market funds (triple A rated, stable value funds), and almost 70% using or considering Treasury money market funds (triple A rated, stable value funds that invest only in government securities).

**BEGINNINGS OF A RETURN OF RISK APPETITE** Although the survey shows that treasurers, overall, remain cautious in the wake of the financial crisis, it also points to the beginnings of a recovery of risk appetite. While the majority of treasurers last year were content to receive returns in line with LIBOR from their surplus cash, the most commonly selected return preference this year was LIBOR+.

Given the lessons of the crisis, it is reassuring to see that treasurers are still largely unwilling to take on credit or liquidity risk in the quest for yield. Instead, those who are willing to add risk would prefer to take on duration risk. However, the majority of treasurers who are seeking higher yields remain unwilling to take on additional risk, suggesting that the priority is still security rather than yield.

By region, treasurers in Asia were most likely to be seeking LIBOR+ returns, and were more willing than their counterparts in the US and Europe to take on liquidity risk to achieve these return targets.

Although treasurers remain largely unwilling to take on additional credit risk, the past year has seen a slight relaxation in the stringent rating requirements put in place during the crisis. While a triple A rating remains the minimum requirement for most treasurers, across all three investment types – direct securities, pooled investments and bank deposits – there has been a small decrease in the proportion of policies requiring a triple A rating. This reverses last year's increase.

**NEW PRIORITIES**

This year's findings suggest that treasurers are emerging from the financial crisis with new priorities. The appetite for yield is returning, but the lessons of the crisis will not be easily forgotten: the emphasis remains on liquidity, credit quality and counterparty stability.

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