



**KLAROS**  
GROUP

# KLAROS GROUP

---

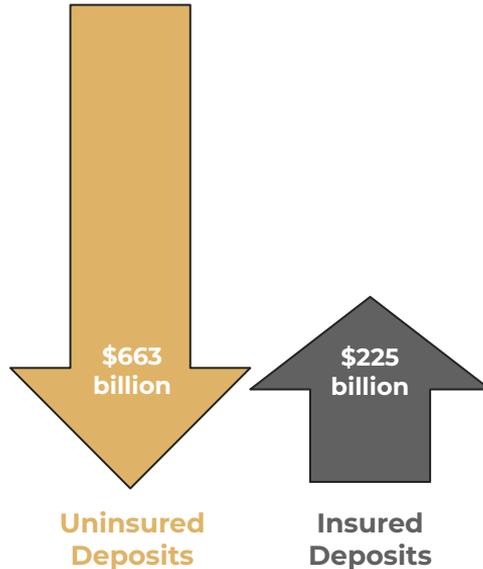
Treasury Management Best Practices

06/29/2023

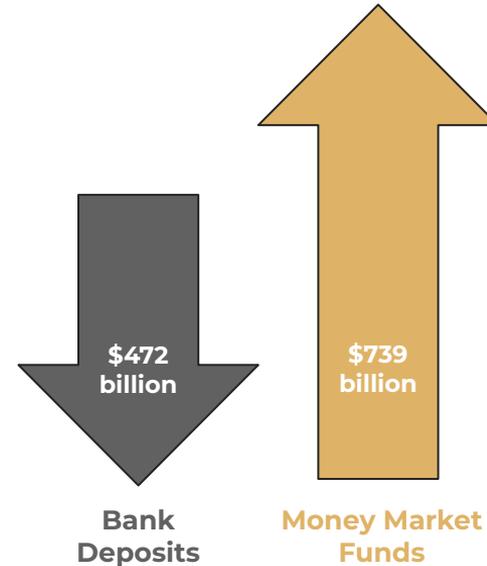
# Cash Moving in Response to Market

- The recent bank crisis and rapid increases in interest rates have triggered a swift, predictable and potentially permanent market response as businesses and consumers seek to optimize for both safety and yield

**Depositors reducing uninsured balances...**



**...migrating cash to higher yielding securities**



# Why Treasury Management is Critical

- Successful companies never run out of good people, ideas, or cash
- Investors expect us to be responsible stewards of their cash
- Recent bank failures and the government's responses provide a stark reminder that *where* we choose to put our money can have dire consequences
- Nevertheless, significant sums of corporate cash remain in accounts that are both *low yielding* and *not fully insured*, even though there are better alternatives
- Many banks have begun to raise deposit rates, but national averages *significantly lag* changes to benchmark rates

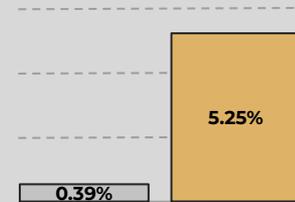


## 3 Days

Amount of time it took regulators to determine SVB's uninsured deposits would be protected

## >40%

Proportion of total deposits held at banks above \$10 billion in assets that are uninsured



National average rate for bank savings accounts vs. Fed Funds target rate

# Identify Inherent Risks and Their Tradeoffs

- The first step of any good treasury management framework is to understand your **inherent risks** and determine what your **risk tolerance** is for each type (e.g., low / medium / high)

## Operational

Risk of loss or disruption resulting from inadequate or failed internal processes, people, and systems or from external events (e.g., fraud, data breach, outages)

## Counterparty Credit

Risk of loss due to a counterparty's failure to meet the terms of their agreement or otherwise failing to perform as agreed

## Liquidity

Risk to financial condition driven by an inability to convert assets (including investments) into cash when needed to meet obligations or fund business activities

## Market

Risk of loss as a result of changes in the value of financial assets (e.g., due to changes in interest rates, lack of market liquidity, expected credit losses or other dynamics)

## Foreign Exchange

Risk of loss arising from movement of foreign exchange rates

# Key Elements of a Treasury Management Framework

## Effective treasury management does not have to be complex or time consuming

- A modest investment of time upfront can provide long-term comfort and assurance, with minimal ongoing burden on your team
- Most companies would benefit from a very simple framework
- Good treasury management practices are adaptable as your business evolves and grows
- Processes and discipline become ingrained over time and can largely be automated

1

**Determine your risk appetite**

2

**Categorize the firm's liquidity needs**

3

**Allocate free cash among alternatives**

4

**Track and manage transactions & positions**

5

**Adopt a policy to formalize your program**

6

**Gradually build efficiencies and seek opportunities to maximize returns**

# Categorize Cash by Timeframe and Predictability

- Segment cash into predefined categories according to the time period within which the funds will be needed (e.g., for expenses, distributions, future capital expenditures)

Category	Description	Time Horizon	Accessibility
<b>Operating</b>	Cash required to handle the normal ins and outs of running your business	<b>1-3 months</b> (also covers intraday needs)	Should be accessible <b>same day</b> , with no settlement or transfer risk
<b>Reserve</b>	Funds set aside for defined future needs (e.g., investments in people or equipment)	<b>30 days or longer</b> (typically)	Should be accessible <b>within 1-2 days</b> notice
<b>Strategic</b>	Funds available for yet to be determined opportunistic deployment (e.g., new product, M&A, strategy pivot)	<b>1 year</b>	Should be accessible <b>within 1 month</b> notice
<b>Restricted</b>	Funds tied up due to legal obligation or tax implications (e.g., subscriptions held for deployment; seed money held aside until specified milestone is achieved)	Variable	Determined based on nature of underlying obligation and any contractual commitments

# Alternatives to Deploy Cash

Category	Counterparty	Product Type	Enhancement Options
<b>Operating</b>	<b>Bank</b>	<b>Demand Deposits</b> (e.g., checking accounts)	<ol style="list-style-type: none"> <li>1) Manually manage balances to stay below FDIC insurance limit</li> <li>2) Automatically sweep balances &gt;\$250k amount to insured deposit network</li> <li>3) Sweep excess balances to third-party managed/custodied government money market mutual funds</li> </ol>
<b>Reserve &amp; Strategic</b>	<b>Bank</b>	<b>Savings or MMDA<sup>1</sup></b>	<ol style="list-style-type: none"> <li>1) Manually manage balances across one or more banks to stay below FDIC insurance limit</li> <li>2) Utilize a deposit network to maximize insurance</li> </ol>
		<b>Certificates of Deposit (CDs)</b>	
	<b>Brokerage (or Direct)</b>	<b>Uninvested Cash</b>	Enroll in a sweep program to government money market mutual fund or network deposits with full FDIC insurance (pay attention to net yield)
		<b>Money Market Mutual Funds</b>	Invest in government funds to mitigate credit risk
		<b>Government Debt Securities</b> (e.g., T-bills)	Ladder maturities to reduce interest rate risk and promote liquidity



<sup>1</sup> MMDAs are "money market deposit accounts," a type of insured bank deposit with limited transactional features. MMDAs should not be confused with a "money market mutual fund" (or MMMF), which is a type of investment not covered by FDIC insurance.

# Enhance Visibility of Cash and Investments

- Your ability to monitor cash across accounts is critical and should operate in real-time, just like your business

## › **Where are cash and investments placed?**

- Do you have online/mobile access to each account (and to any underlying custodians)?
- Can you aggregate positions across accounts at a given counterparty, and across counterparties, into a unified view?

## › **What are your end of day cash and investment positions?**

- Can you set triggers or alerts to help manage risk (e.g., deposit balances or transactions exceed a certain threshold)?
- Are your investments reliably valued?

## › **What new cash do you expect to receive, from whom, and when?**

- Do you have a forecast of expected inflows?
- What's typical turnover cycle for receivables?
- How long does it take for funds to become available in your account(s)?

## › **Where is cash being paid out?**

- Did it arrive at the intended destination?
- What is the typical lag between entering a payment, it clearing your account(s) and your counterparty receiving it?

# Developing a Cash Management Policy

An effective policy ensures **consistency**, drives **accountability**, and demonstrates **commitment** to external stakeholders

- › Establish clear requirements and standards for core program components:
  - ✓ Overall **philosophy and objectives** for cash management
  - ✓ Process for **setting risk appetite** for relevant inherent risks
  - ✓ Qualitative and quantitative **limits** aligned with risk appetite (e.g., acceptable counterparty/investment types, concentrations, etc.)
  - ✓ **Monitoring** adherence to internal limits, and process for authorizing and tracking exceptions thereto
  - ✓ Expectations for **cash flow forecasting** and how it will be used
  - ✓ **Internal controls** for critical functions (e.g., authorization and documentation for making investments and moving money)
  - ✓ Reconciliation and **reporting requirements**
- › Assign clear roles and responsibilities for the board, senior leadership, and staff to ensure ownership and accountability across the organization
- › Policy must have an owner (e.g., CFO) and an approver (e.g., board or management committee) and should be reviewed *at least* annually

# “Cliff’s Notes” for Treasury Management

- Minimum steps every firm should take to lay the foundation for an effective cash management program (Klaros can help if desired):

1

Adopt a 1-2 page policy establishing program, governance and key roles and responsibilities

2

Add automatic deposit network and/or government money market mutual fund sweeps to your existing checking account to maximize security; switch banks if they will not make that available

3

Move funds in excess of what is necessary to fund operations to some combination of savings deposits (with an appropriate sweep), direct investment in money market mutual funds, or direct investment in short-duration Treasury or Agency securities

# Thank you

---

Any Questions?

https://www.linkedin.com/in/brian-graham-924472057

# Contact Information

---



**Patrick Haggerty**

Senior Director, Klaros Group

 [Patrick@klarosgroup.com](mailto:Patrick@klarosgroup.com)



**Brian Graham**

Managing Director, Klaros Group

 [Brian@klarosgroup.com](mailto:Brian@klarosgroup.com)



**Tod Gordon**

Senior Advisor, Klaros Group

 [Tod@klarosgroup.com](mailto:Tod@klarosgroup.com)