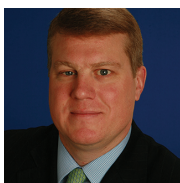


Investing Corporate Cash: Managing Risk and Efficiency



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Recent Citi global research¹ sheds light on the top treasury management priorities of major corporations. The research program, called Citi Treasury Diagnostics, benchmarks practices in six key areas of treasury operations: liquidity and investing; risk management; working capital management; subsidiary funding and repatriation; policy and governance; and technology.

The results revealed that risk management continues to be a key concern as companies deal with ongoing volatility in the markets. Throughout the recent economic crisis, firms focused on the safety of cash and strengthened investment policies to guide diversification and ensure scrutiny over counterparty exposures. Many are now focusing on integrating global treasury processes for more holistic approaches to risk identification and mitigation.

When it comes to investing corporate cash, capital preservation remains a priority. However, the coordination of global cash management processes across myriad subsidiaries creates many challenges. In general, there remains a gap between objectives and execution. Citi's research, for example, found that 73% of companies conduct comprehensive reviews of treasury investment policy at least annually, but only 28% have automated systems for monitoring global compliance with investment policy on a daily basis.

Keeping an eye on changes

Meanwhile, money market funds remain an important tool for corporates looking to maintain diversity, security and liquidity in their short-term investment portfolios. Citi's data indicates that many investors have shifted back to Prime/CP funds in search of yield, but asset levels in Government and Treasury funds remain strong, another indicator of investors' continued focus on capital preservation.

Investors are also seeing some changes in SEC rules governing U.S. money market funds. Recent amendments to Rule 2a-7 raise liquidity requirements, impose further portfolio limits based on credit quality, tighten maturity limits, and require added portfolio reporting. Overall, these changes should help mitigate investors' risks as they "are designed to make money market funds more resilient to certain short-term market risks."² The amendments became effective on May 5; however, compliance dates vary by provision, with substantially all changes becoming effective by December 31. At Crane's Money Fund Symposium in July, rating agencies indicated that they are reviewing rating methodologies and parameters in response.

Improving policies, practices and processes

Citi's Treasury Diagnostics study also found that companies are focusing on further centralization of treasury functions to gain a single view of firm-wide liquidity and risk. To this end, many companies have been establishing comprehensive treasury policies, standardizing global processes, setting common staff performance indicators, and rationalizing and centrally managing banking relationships. Corporate treasurers are also deploying technology to drive efficiency and to provide the framework for controlling far-flung operating activity.

In the area of investing, over the past few years integrated cash management portals have greatly streamlined day-to-day processes for cash positioning and decisioning, trading and settlement, and portfolio monitoring. This has helped companies eliminate manual processes, ensure that all surplus cash is invested, and centrally monitor portfolios. Increasingly, leading global providers are building features that make it easier for companies to access portfolio information and manage compliance with investment policy.

The Citibank® Online Investments service, for example, links clients' global cash management and custody banking to a full range of short-term investment services to help maximize yield and control risk. Clients can access it through Citi's CitiDirect® Online Banking and TreasuryVision® portals to invest in a variety of short-term instruments. Investment choices, which vary by locale, include more than 150 money market funds from 14 fund families and time deposits in 27 countries and 18 currencies.

Citibank Online Investments also provides the ability to monitor compliance with policy on both pre- and post-trade bases. Pretrade controls, supervisory override features, and online or e-mail alerts ensure that investment activity can be tightly managed. This is rounded off with detailed portfolio reporting, including drill-downs into exposures and compliance with policy limits established on the system. The portal also integrates investment trade details into treasury workstations or portfolio analysis tools such as Citi's TreasuryAnalytics service.

The road ahead

Treasurers' top priorities continue to revolve around risk management and efficiency. Conditions in financial markets and the economy have made it an imperative for treasurers to create capacity within their departments to improve risk management – not only in investments, but also in foreign exchange and derivatives, financing and operations. Applying the latest technology makes it easier to manage risks more effectively.

¹ Citi Treasury Diagnostics, *Global Treasury Benchmarking 2010*

² SECURITIES AND EXCHANGE COMMISSION, Release No. IC-29132

Citi: A trusted partner

Citi's Global Transaction Services offers innovative, end-to-end global liquidity and investments solutions that help clients centralize and invest cash. Our solutions link global cash management, custody, liquidity management and a full range of short-term investment services to maximize yields and control risk.

Citi's liquidity and investment services include Citibank® Online Investments, a secure global portal that provides access to a variety of short-term investments through our award-winning CitiDirect® Online Banking and TreasuryVision® web-based platforms. Citibank Online Investments allows clients to manage short-term investing with maximum efficiency and effectiveness.

With on-the-ground presence in over 100 countries, Citi helps clients achieve their local, regional and global treasury management objectives.

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