BANK OF AMERICA

Global Liquidity Speaker Series
Techniques to Manage Liquidity Challenges
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Attendance List:	Ryan Donovan Henrik Lang Sam Bones
Title of Meeting:	BOA Global Liquidity Speaker Series – Techniques to Manage Liquidity Challenges

Coordinator: Good day, everyone, and welcome to the BOA Global Liquidity Speaker Series. This week's call is Techniques to Manage Liquidity Challenges hosted by Ryan Donovan. My name's Elaine, and I'm your event manager. During the presentation your lines will remain on listen-only. [Operator instructions]. I'd like to advise all parties that the call is being recorded for replay purposes.

And now I'd like to hand over to Ryan. Please go ahead.

Ryan: Hello, everyone. Good morning, good afternoon. Thank you for making the time to attend today's call. Before we start, like to say we hope that you and your families are staying safe, staying well, making the best of the current environment.

So, again, thank you, and welcome to the second session within our Global Liquidity Speaker Series. We received great feedback on the first session, and we will like to continue that momentum today.

Our first session that took place a couple weeks ago was hosted by my colleague John Pazdan. He brought on panelists Ian White and Mark Cabana, and they had a great conversation around negative interest rates in the US, the different considerations and implications of what that might mean for our clients.

For those of you that missed that conversation, no need to be alarmed. The consensus from the panel was that we would not see negative interest rates in the US. So, given that we really do not expect the Fed to implement negative interest rates, we did want to spend today's session to talk about a couple more timely, more present challenges that you and your organization might be facing.

Before we get into those challenges, let's do some quick introductions. First of all, my name is Ryan Donovan. I'm a member of the Global Liquidity Specialist Team here at Bank of America, helping clients design and build custom liquidity solutions and structures for managing our cash. Before coming to the bank, I did the same thing, but as a client of the bank for a large multinational institution, helping them design, implement, and run global cash management structures.

I am pleased today to be joined by Henrik Lang. He is the Head of Global Liquidity for Bank of America. He has oversight over our complete liquidity strategy, as well as product development.

The third member of our crew today is Sam Bones. He's a Product Manager within Liquidity, and shares some unique experience, having just transferred back to New York after spending some time in our London office. Sam has held several roles within the organization, and will be able to give us some key insight into utilizing different Bank of America products and tools.

So, with introductions out of the way, I'd like to spend a minute kind of describing today's conversation and how we'll work through the different points. Like I mentioned, today's call we're going to discuss Techniques for Managing Liquidity Challenges. Those two challenges that we'll focus on today are, one, responding to a crisis, and then second, how to manage cash in a low-rate environment.

These challenges might be different for each organization, but within the first challenge of responding to a crisis, we have developed a fairly simple, straightforward framework that can be applied by everyone on the line here today.

Like I said, we'll move through the first challenge of responding to a crisis. We'll move through the three steps in the framework before moving on to our second challenge.

So, in terms of responding to a crisis, this three-step framework that I've mentioned a couple times starts with, one, evaluating your cash position, and then consolidating your cash for safekeeping, and then third, strategically deploying that cash. We'll work through some insight there on all three steps of the process, and provide some real-life case studies and ways that you can learn from what clients have been doing, and then share some insight as to how Bank of America can assist within that three-step process.

So, that's enough for me. I think everyone would like to hear from our panelists. I think I will start with Henrik. I will start with you, and begin directing some questions your way.

So, in the first step of the process of evaluating your cash position, Henrik, you were out there talking to a lot of our clients this spring, hearing feedback from a lot of them. As they were faced with an unknown global pandemic, and they were trying to evaluate their position, what were some of the key themes and topics that you heard? What was top of mind for our clients as they were heading into an unknown pandemic?

Henrik — Thank you, Ryan, and I really appreciate being able to speak with you, speak with Sam, speak with our clients here.

So, really from my perspective, there were a number of things. Shortly after the market's disruption in March, one of the most important things for clients when they were evaluating that cash position was having the ability to access liquidity. That was the number one priority. I think that was through their revolver credit facility drawdowns that happened very shortly after the March market disruption. That's where we have seen significant corporate activity.

I think every treasurer [ph] out there really wants to make sure that they have access to cash, it's sitting in their bank accounts, and they are prepared for any sort of market uncertainty. So, their revolver drawdowns were definitely a key factor.

Interestingly, we received many feedbacks from corporates at a time to open bank accounts with great speed, as they were trying to place those reward drawers into different places which they deemed safe. So, speed, and the ability to open bank accounts very quickly was also critical. So, all the new digital solutions that we have rolled out over the years came very handy in this new remote and touchless world. Leveraging digital signatures, for example, on client contracts, and being able to open accounts with great speed was very useful for treasurers [ph], as they were responding to the market uncertainty.

I would say the second point, in addition to access their liquidity, was safety and soundness. So, that was also on everybody's mind. Whenever there is market uncertainty, there is a level of flight to quality, and treasurers [ph] really want to make sure that whatever happens, they had their cash balances in a safe place, and we definitely have seen an influx of balances related to flight to quality.

I know it's a cliché, but it's true more than ever. When market disruption happens, the return of capital is a lot more important than return on capital for treasurers [ph]. I think that was really evident in, again, some of the [indiscernible - 8:06] experience of clients who really started to diversify their risk.

The third kind of key theme, as clients were evaluating their cash position flow in the market disruption, was flexibility. So, a lot of the large corporations, smaller corporations, pretty much regardless size, I have spoken with, working to retain as much flexibility as possible. If you think back to March, no one really knew how wide the market disruption was going to be and how long it's going to be, so they really wanted to make sure that whatever happened, they are prepared, and they have flexible solutions in place to deploy cash balances.

So, if, for example, the market disruption disappears very quickly, they wanted to be able to repay their revolving credit facilities very quickly, and maybe replace it with other debt insurances or excess government stimulus. So, I think flexibility was also key. So, they moved away from [indiscernible - 9:14] investment options, for example, or investment options that tire [ph] at cash for a certain period of time, and kept their portfolios very, very short.

So, again, if I need to summarize, probably these are the three key themes when evaluating cash position post-crisis, or immediately after market disruption. One was access to liquidity, the second one was safety and soundness, and then the third one is retaining flexibility.

Ryan

All right, thank you. Sam, with that in mind, with the understanding that speed and flexibility are extremely important in terms of responding to a crisis, what kind of tools and Bank of America capabilities did you see our clients using as they tried to maintain that flexibility, or have speedy access to their cash balances?

Sam

Thank you, Ryan, and hello to everybody. Thanks for having me on. To answer your question and to sort of continue on two of the themes Henrik mentioned, both are innovation and sort of the digital space, as well as our ability to let clients have flexibility with, information with data, over 2020, we've progressively launched eight new Excel-based cash management reports. So, when you're addressing the forecasting and position management needs in a real-time manner, you'll have that data, so as you need it and when you need it, in a format that's easy to use and flexible for whatever purpose it serves your needs.

Placing that data in the hands of our clients is one of our biggest focuses at the moment, and when we think about our development from a product perspective, and really is focusing our shift towards a liquidity digital experience. So, with the reports that are available now, both through standard statements, but also through CashPro information reporting and through our CashPro balance dashboards within your CashPro digital experience, we're really, again, focusing on how that information gets into client's hands and keeps it at a way that they can use and manipulate the information, to see whatever needs come along.

Ryan

So, maybe those needs are creating a forecast with real-time data starting with real-time balances, or maybe those needs are generating a report that can be viewed by your CFO or your treasurer, because in a crisis, everyone wants to know where their cash is, they want to know that it's secure, and they want that real-time access to that information.

One piece of advice that we give our clients is, utilize Bank of America's digital capability to build an automated report for your CM management. Give them a daily report of, here's where my cash is. It can be as simple or as complex as you need. I've certainly done this in my prior role. It made everyone's life easier. The CFO wasn't calling to say how much cash we have, where is it located, am I safe, am I exposed to currency fluctuation? All those questions can be easily answered with a simple report that can be automated either through CashPro or your TMS system.

Another case might be providing that report, gives everyone a feeling of security knowing where their cash is and how much they have.

So, if we move on to kind of the second step of responding to a crisis, now that you've evaluated your cash position, our clients have gone out to the markets and raised debt, drew down on their revolver loan, maybe upsized the size of their revolver loan, or maybe they took advantage of a stimulus program. We saw large-scale usage of the PPP program. Medicare Advance program certainly helped our healthcare clients. And then we also saw some clients take advantage of some commercial paper programs in the UK.

After you've done all that work, gotten your hands on some cash, kind of the next step that we recommend is to consolidate that cash.

So, Henrik, when it comes to taking a few key strategic relationship banks and placing your cash with them, how do you think about that process, and that process of consolidating your cash into a few banks or a few entities; is that a process we have seen increase as clients have reacted to this pandemic?

Henrik

Yes, absolutely. So, again, clients tend to have a number of credit facilities in place, and also, they filed [ph] their excess cash in several distant [ph] investment options. But again, when you are facing market uncertainty, your ability to react is critical. So, we've seen a lot of our clients reevaluate where they keep their excess cash. Many of them decided to actually consolidate their cash balances, but because they're still very mindful of local currency and regulatory restrictions to move currency around, or balances around, tax requirements, accounting requirements, those are all still top of mind, but to the extent it was permissible by the local regulations, what we've seen that many of our clients actually run through a process of consolidation shortly after the crisis, because this allowed them to react a lot more quickly.

Again, when you're facing uncertainty, you don't know what's going to happen next, and if you still need to spend time getting your cash positions into one location, often there is no time for that. So, a lot of our clients, as a contingency, straight after the market crisis hit in March, started to consolidate their cash balances with key bank providers they have in their bank group [ph], making sure their cash is readily available [audio muffled - 16:15] where it's most needed.

What was very interesting to me, that a very good portion of our client base already utilizes automated solutions [indiscernible - 16:30] solutions to consolidate cash, so they either used automated suite [ph] functionality, or they leverage [indiscernible - 16:37] in key locations across London, Hong Kong, Singapore. Many of our clients, they often benefit from further automation. And that I think was clearly highlighted, and we have many of our clients add further suite [ph] structures and further automated solutions [audio muffled - 17:01]. That was just interesting to see, that there is definitely even more room to automate and be more efficient.

Ryan There's always room for automation. Obviously, automation allows, especially in a crisis, automating your cash consolidation process gives you the time to spend less time setting up a manual wire transfer, and more time to focus on the forecasting, risk management, cash deployment strategies.

So, Sam, what are some of those specific tools that clients can use to automate their cash consolidation?

Sam Yes, and Henrik mentioned a few, but we see a lot of clients leverage cash management overlay structures, often to complement their needs or desire to maintain those multiple banking relationships. And we also see this as a way to speed up and simplify treasury integrations, when we see clients that acquire a new entity or participate in a merger.

And the way that the clients do that is through an offering we have for fully-automated multibank sweeps, which connect to local bank accounts within the cash management overlay, and allow clients to then move funds daily, weekly, or monthly, based on their predefined target balances. And so, automating the sweep and movement of those funds, so that they can participate in an overlay structure, again, creating some of the instability of those balances, as well as the visibility into the overall structure.

And a really great example of this was one of the multinational media companies we work with based in Latin America, who set up a multibank sweep structure across of their Brazilian banks. I believe they had some instances where they needed to maintain individual accounts in those jurisdictions for tax payments. But what this enabled them to do was to consolidate their funds within a single bank, Bank of America in Brazil, and to then ultimately move some of those funds into the US to improve their visibility and efficiency.

Number of different examples like this where clients benefit from an overlay. Ryan, actually, I'm sort of curious in your past experience, did you ever have any situations where you saw that happen, or where you guys used that type of functionality?

Ryan Yes, we did. We used it in many situations, but kind of one of the first ones that comes to mind, from my old company, is a situation where we were going through an M&A transaction, a large, global, complex M&A transaction, with acquisitions going on in every country. Through our due diligence process, we notices that the M&A target had a large amount of cash in France. We, in the short term, would love to get that cash into our overall liquidity structure, but in order to truly work that [indiscernible - 20:20], it would take an ERP implementation and accounting transition to our software, which we would do in full time.

But in the short term, two days after closing the acquisition, we set up a multibank sweep, set them up with a target balance of only $5 million, and we were able to sweep everything out of that French entity, bring it into our overall structure. And so, quickly got access to that cash, and was able to utilize it very quickly there.

We've gone through a couple examples here of cash consolidation, and we realize that during the crisis, consolidating your cash can be a manual process that we can help automate. And really, this automation, it is not a large amount of work. In order to kind of automate some of your cash consolidation efforts, you don't need to go through a large-scale treasury transformation. You can quickly set up sweeps, and then save the large-scale treasury transformation for times of more stability.

But in the interim, there are a couple quick techniques and tools and solutions that can provide benefits to your innovation.

If we now move on to this third step of responding to a crisis, the third step is strategically deploying your cash. You consolidated your cash, you've gone through all of your forecasting analysis process to find where you would like to place cash, and now you'd like to deploy that cash as needed. Most likely, deploying that cash is going to create an intercompany loan for you. We recommend intercompany loans because they're the most flexible instrument in terms of moving cash between your different entities.

Next, we do have a call coming up in two weeks, where our advisory team can give you some more insights on intercompany loan documentation, how to use those, how to interact with your tax and legal teams on intercompany loans. But Bank of America also has some tools to help with intercompany loans, as you deploy that cash strategically.

Sam, can you touch on that a little bit?

Sam

Yes, happy to. As you mentioned, our global cash management services are essentially moving funds across entities and across regions, and across different countries. And so, there are a lot of considerations, and our advisory team will—it sounds like they're speaking next week, to really dive into some of those implications.

But from a truly operational perspective, as we're using target balances to determine those sweeps and moving them around the world, we're often creating intercompany loans in the structures that we set up. And with that, we also offer services to then track and settle the intercompany rates. A treasurer would essentially otherwise manage, either manually, or possibly within a TMS system.

And so, setting your intercompany rates within your structure can generate operational efficiencies by automating the interest calculation, but also, automating the physical settlement. So, as your sweeps are occurring, we would settle the interest that is generated on your behalf, and provide that reporting back in, again, a detail where you're able to then reconcile and provide evidence to both your internal teams and to potentially audit partners or tax regulators.

We also offer a function called Net Cash Position. And so, clients can use our Net Cash Position feature as a way to enforce intercompany loan terms, and also does help you adhere to your internal risk and exposure limits across those entities. So, where we've seen clients leverage that is, if they only want a certain amount of exposure to an entity, you would set that limit, and once that limit's hit, the sweeps would stop for the period of time that's been determined.

So, it's a really great way for treasurers to continue to, again, maintain their own internal risk and exposure framework, while continuing to move funds in an automated fashion.

Ryan All right, thank you, Sam. In the interest of time, let's move on to the last topic, which is the second challenge that we wanted to talk about today, which is how to manage cash in a low-rate environment.

Henrik, I'll come back to you here. Two weeks ago, we heard from Mark Cabana on this series call that rates would not go negative, but we also heard the phrase from him that we're probably all too familiar with, which is, rates will be lower for longer.

So, with that in mind, Henrik, how do you recommend clients maximize their excess cash balances?

Henrik Great question. Thank you, Ryan. Maybe others don't share my view, but I actually find the lower interest rate environments quite exciting. I think there is a lot of value that banks [audio muffled - 26:04] to highlight a few. I see this question shift from treasury departments creating interest income, and it's all about efficiency, it's all about cost reduction, interest expense reduction. I think with innovation over the last few years, there are so many great tools available to help treasurers to make their operations a lot more efficient.

To give you a few example, domestically, we're seeing great utilization in our earnings credit rate products. I think most of our audience is familiar with the concept, but essentially, using your core operating balances to offset your treasury fees is a fantastic way of maximizing the value of your cash balances. If you were to look to invest the same balances in money market funds or other short-term fixed-income instruments, you would be struggling to get any [audio muffled - 27:17] moving to more risky asset classes, but leaving it in your bank account and allowing those balances to help you offset some of your core treasury fees could be a very efficient way of leveraging cash.

Another example, which I find, again, very prevalent in a low-interest rate environment is overdraft. Cost of overdrafts, because they are unsecured, uncommitted lines, tend to be quite high across the industry. So, the best thing you can do as a treasurer [audio muffled - 27:55] overdraft costs across your bank providers, and trying to minimize those. You will find that the interest expense savings you've achieved through minimizing overdraft is probably far greater than what you can achieve just by earning a basis point or two on your excess cash.

And when you're trying to minimize overdraft costs, again, there are great solutions in place that can make that even more automated for you. So, fee structures, [audio muffled - 28:27], all of those are techniques that you can easily, relatively easily implement, and can really make a huge difference to your treasurer P&L, and really can help you with these interest expenses and costs within your operation.

Those are just two techniques, but there are many more [audio muffled - 28:50] in this current rate environment.

Ryan — One quick follow-up to that, Henrik, before we wrap up here. You're recommending that the clients keep a relative amount of safety with their current cash balances, they don't go out and reach for yield. They take this time in this environment to look at their own internal structures, and identify efficiencies. Is it fair to say that the bank internally is also taking a similar approach?

Henrik — Yes, I think that's right, yes, 100%.

Ryan

Okay. Well, thank you, Henrik, thank you, Sam, and thanks again, everyone, for joining. We hope you enjoyed today's call, and we look forward to speaking with you in a couple weeks.

As always, if you would like to have a continuation of today's conversation, reach out to your Treasury Officer or Global Liquidity Specialist, and we are happy to continue discussing the themes that we were talking about today.

Again, thank you, and everyone, enjoy the rest of your day.

Coordinator

Thank you, Ryan. Everyone, that concludes your call for today. You may now disconnect. Thank you for joining, and enjoy the rest of your day.

[END OF CALL]