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Establishing A Broad Client Liabilities Strategy

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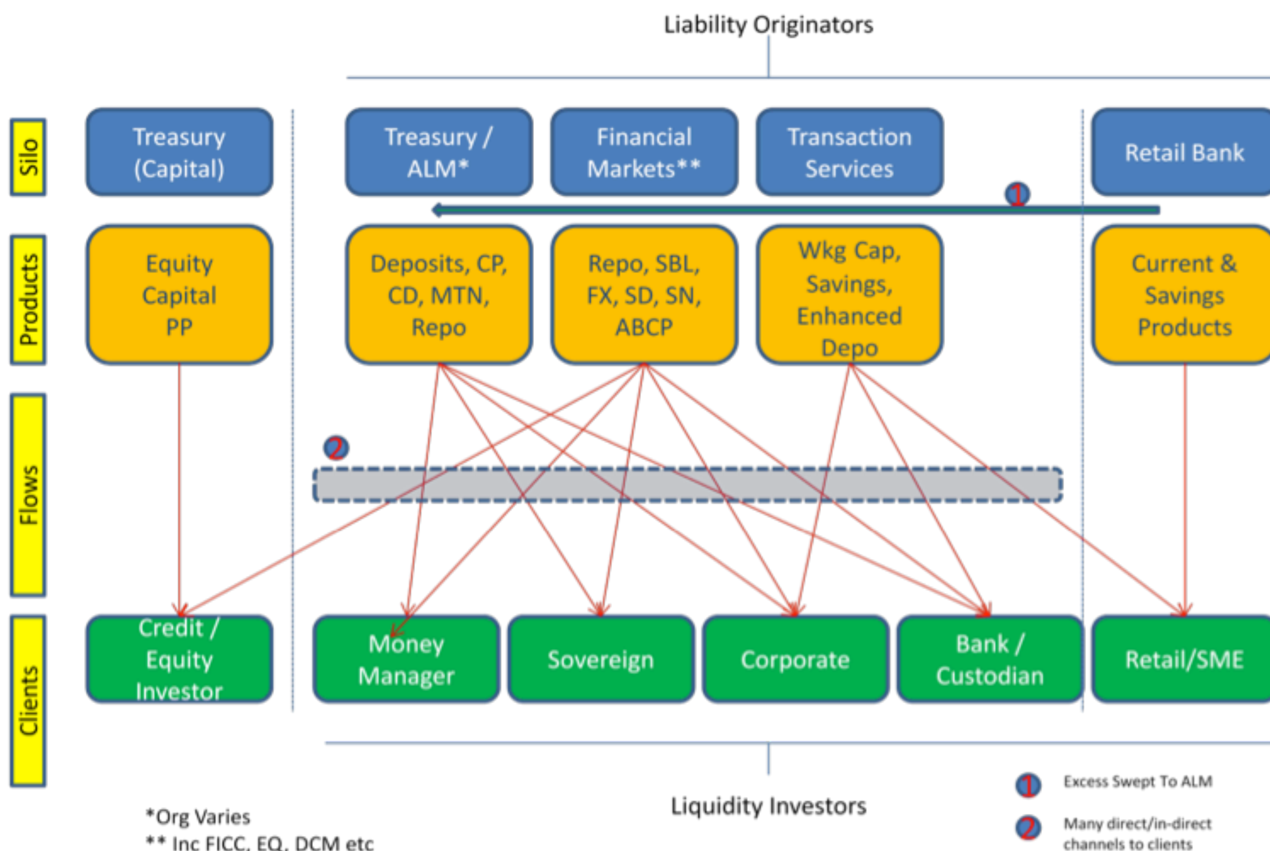
As regulatory impact upon the availability and cost of liquidity increases complexity of funding plans many banks are reviewing their liquidity management strategies. This often identifies multiple liquidity centres within a bank conducting similar funding activities and accessing common pools of funding. The sense of urgency over the last two years in this area has been reinforced by the need to ensure balance sheet cost is managed most efficiently and that co-ordination of funding and collateral activities is as transparent as consistent as possible.

All of these aspects have an influence upon source and type of funds available, and therefore upon clients who provide liquidity directly or in-directly to a borrowing bank. Regulation has impacted all market participants – Banks, Corporates, Money Managers, Government – to varying degrees and often with conflicting outcomes or goals.

With this in mind a holistic approach to client liability relationships, and how businesses deliver them, can prove valuable in capturing the optimal liquidity balances for a bank group and ensuring that quality, quantum and cost are managed.



There is no one-size fits all approach to this challenge as bank groups are organised differently, culture takes time to evolve and client bases vary significantly. For those that bank a predominantly wholesale client base there is an opportunity to organise liquidity product pricing and execution in a coordinated manner to achieve transparency to sources of funds, manage excess cash in an improved manner and to influence the balance (and cost) of client liquidity on balance sheet.

Simple Examples:

- Many banks are reducing Commercial Paper Issuance in favour of raising deposits but wish to maintain access to CP markets. Asset Backed CP intermediaries are growing as bank trading businesses look for external sources of funding. Depending on deal structure (pooled or single name) the buyers of these ABCP issuances may be the same and may include these exposures under the same limit as un-secured Issuance from the same bank. This may impinge on borrowing capacity for the issuing bank.

- Multi-National Corporate Treasury Desks often manage FX and Money Markets from the same desk, Investing in vanilla and yield enhanced deposits in a search for yield. In the picture above this client could be covered by different sales channels and see competing products from different product owners inside the same bank. (NB: This is not necessarily a wrong outcome as one product paying higher yield might be more profitable or cost effective to the borrower and value added to the client).

- Similar Evergreen or Call Structures might be offered from Treasury, Markets and Transaction Services platforms, each might be unaware of the other's offering and pricing approach. Client coverage and external pricing policy should be aligned.

These few examples highlight the need for an aligned internal / external lens on access to and use of sources on funding including an order of preference – usually but not entirely driven by cost.

Framework:

Establishing a "liabilities hierarchy" which takes into account regulatory value, fully loaded internal cost treatment, source (client or market), market depth and external price (ie profitability) can be helpful in managing the funding portfolio and aid decisions on market access.

As banks review ways to manage liquidity buffers and cost to become as efficient as possible making an informed decision between sources of funding (ie supporting a client relationship) as well as deployment (ie bespoke rather than rigid Transfer Price driven) will likely become much more of a daily requirement.

Building knowledge of all client liquidity touch points via market intermediaries and direct coverage is one way of building a short term liquidity management approach that is transparent and increasingly efficient. Asset pipeline can be supported by known client funding capacity, or deployment of excess buffer can be driven by known sources of funding behaviour.

This takes time to establish as client knowledge and behaviour profiles are built up, as deposits become an increasingly key part of the day to day liquidity management of the bank they should provide an additional lens into funding capacity, product cross sell, and support funding sourcing decisions.

About the author

David Castle is Managing Partner of Waltham Partners Ltd, a financial services consultancy. Formerly Global Head of Money Market and Financing Sales at Standard Chartered Bank where he spent 15 years in a number of senior positions in the group, including Head of Global Markets, UK/Europe, and the same role for the Americas. Prior to joining Standard Chartered, David worked at Citigroup in Money Markets and Fixed Income. With more than 25 years of financial markets experience, his expert knowledge spans a wide range of products including fixed income, treasury, asset-liability management. While based in the US he served on the NY FRB FX Committee, is IMC certified and a member of the UK CFA and ACI, and a Fellow of the Institute Of Directors.

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