



Template Bank Treasury Operating Model

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Agenda

- /// Treasury scope
- /// Level 1 target operating model

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Treasury strategy structure

- /// There is no one “right” Treasury operating model
- /// The first decision to consider is whether Treasury is a front-office function or a middle-office function
- /// The following slide describes the “universe” of all potential roles that may lie within the scope of the function...
- /// ...subsequent slides show observed alternative approaches amongst Tier 1 banks.

Universe of Treasury scope and roles

	Capital and balance sheet	Liquidity	Net Interest Income / NIM
STRATEGIC MANAGEMENT	<i>Capital management</i> Risk limits (RWA) Cost of capital Budget forecasting Setting capital policy Setting return metrics Defining capital structure and ratios Capital allocation	<i>Liquidity risk management</i> Liquidity limits Liquidity stress tests Liquidity policy Contingency funding plan LAB policy Liquidity cost calculation Funding strategy Internal funds pricing policy (FTP)	<i>Banking book interest rate risk</i> Interest rate risk management Interest rate risk modelling Forecasting NII/NIM
MARKET FACING FUNCTIONS	<i>Term Liabilities Issuance</i> Senior unsecured debt Subordinated debt Equity instruments Securitisation Secured -- ABS/MBS -- Covered bonds	<i>Money Markets Desk</i> Cash management Money markets -- depots -- CD/CP Repo <i>Collateral management</i> <i>Counterparty risk management</i>	<i>Swaps and Derivatives desks</i> Banking book Trading book Market risk hedging
		<i>Investor Relations</i> Rating Agencies Investors	
GOVERNANCE		<i>Finance and Risk Management</i> Financial control and reporting Regulatory reporting Risk and product control	



Front-office Treasury operating model

<i>Capital management</i>	<i>Liquidity risk management</i>	<i>Banking book interest rate risk</i>
<i>Term Liabilities Issuance</i>	<i>Money Markets Desk</i>	<i>Swaps and Derivatives desks</i>
	<i>Collateral management</i>	
	<i>Counterparty risk management</i>	
	<i>Investor Relations</i>	
	<i>Finance and Risk Management</i>	



Middle office Treasury operating model

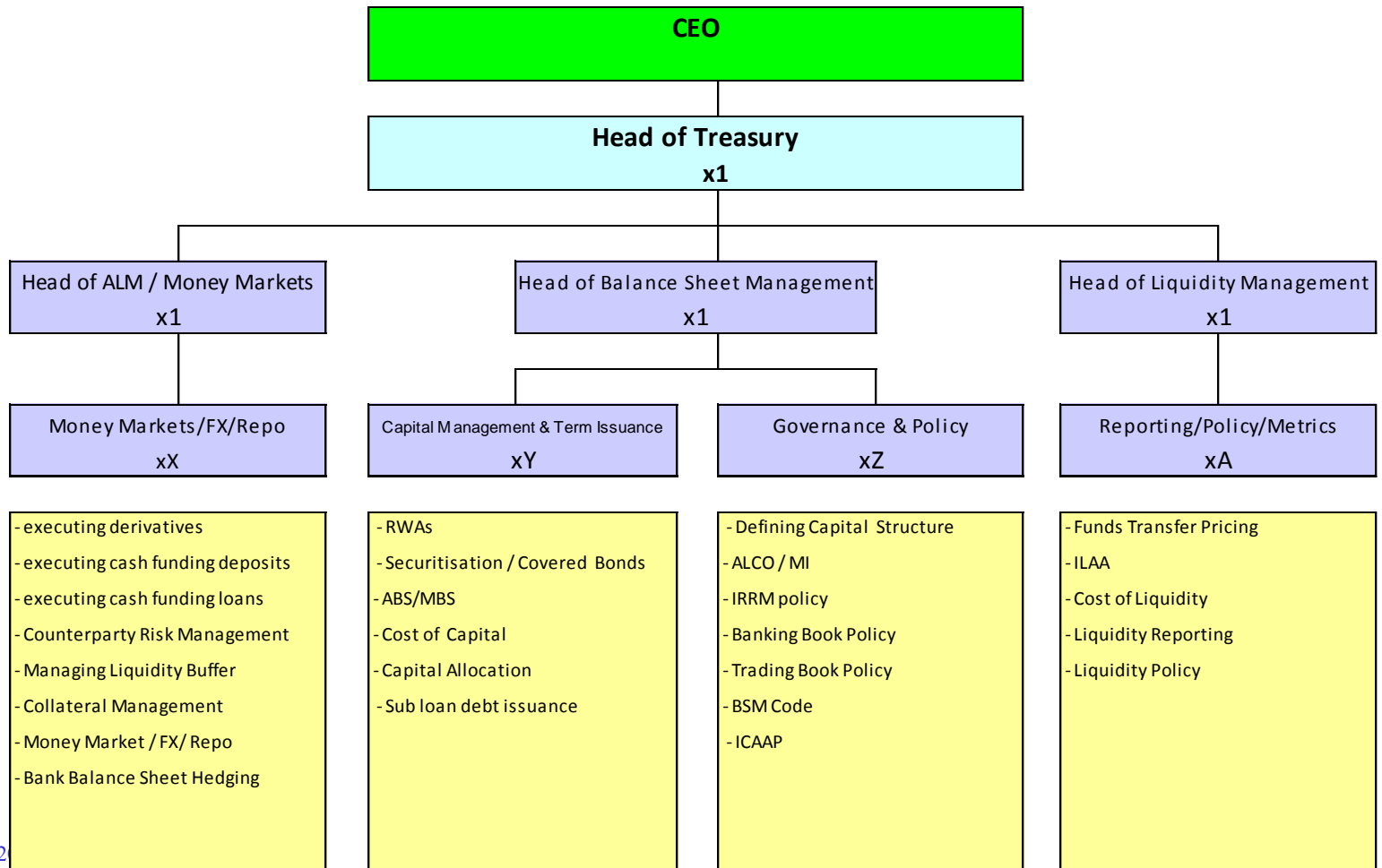
<i>Capital management</i>	<i>Liquidity risk management</i>	<i>Banking book interest rate risk</i>
<i>Term Liabilities Issuance</i>	<i>Money Markets Desk</i>	<i>Swaps and Derivatives desks</i>
	<i>Collateral management</i>	
	<i>Counterparty risk management</i>	
	<i>Investor Relations</i>	
<i>Finance and Risk Management</i> Regulatory reporting		



Treasury operating model with market facing function

<i>Capital management</i>	<i>Liquidity risk management</i>	<i>Banking book interest rate risk</i>
<i>Term Liabilities Issuance</i>	<i>Money Markets Desk</i>	<i>Swaps and Derivatives desks</i>
	<i>Collateral management</i>	
	<i>Counterparty risk management</i>	
<i>Investor Relations</i>		
<i>Finance and Risk Management</i> Regulatory reporting		

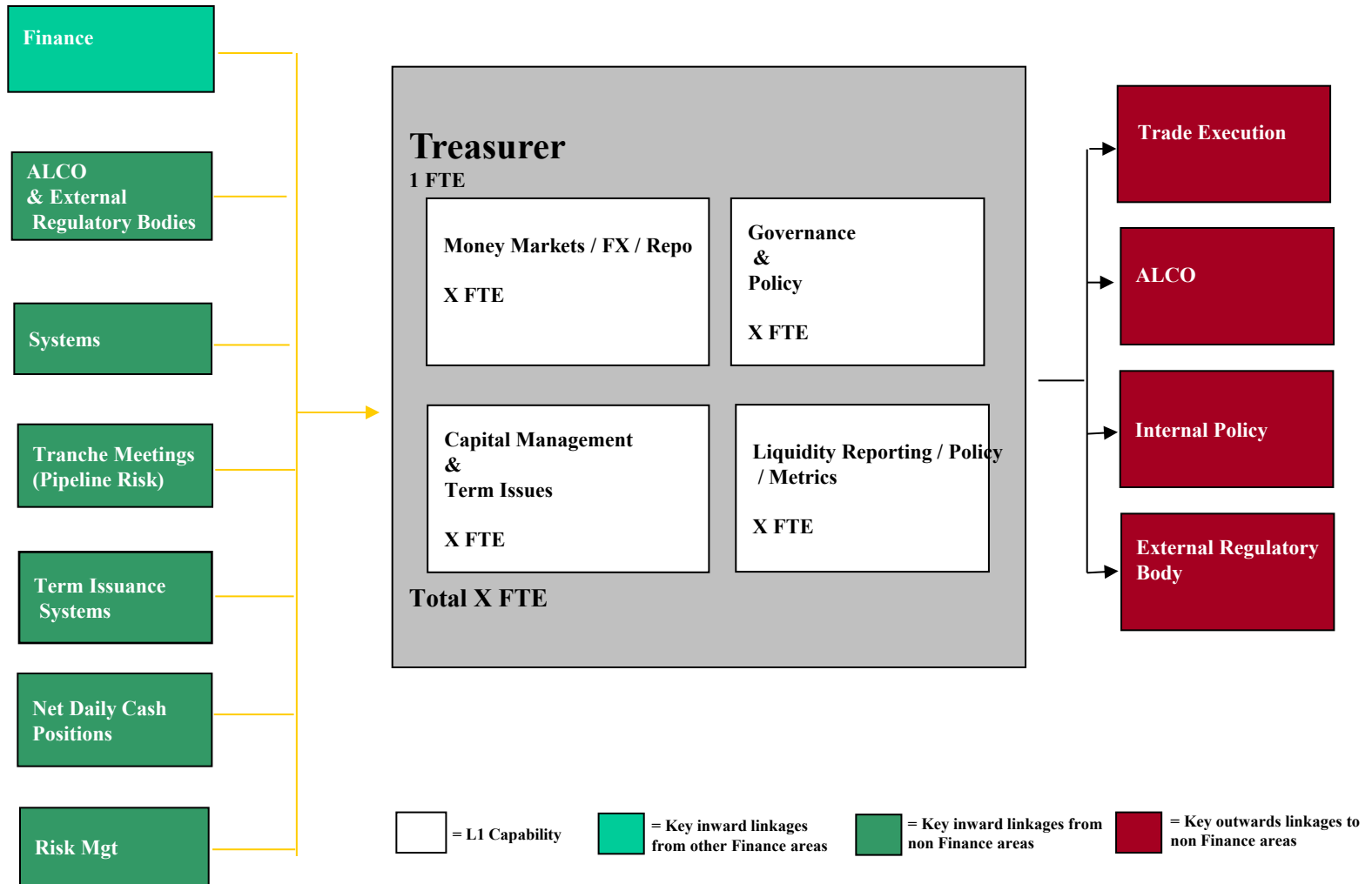
Recommended front office operating model



Treasury – Target Operating Model

High Level Overview

The below illustrates recommended core capabilities within the Treasury function, along with key linkages identified at L1



Treasury – Level 1 Target Operating Model

Description of core capabilities

The Treasury function will include the following capabilities :



Treasury – L1 TOM

Assumptions

- The following activities reside within a **separate Finance function**:
 - Mgmt of Treasury cost centres / Treasury Budgets
 - Financial Reporting
 - IFRS accounting P&L volatility
 - Fair value accounting
 - IFRS accounting risk
 - Pipeline risk (Fixed & Capped/Floored Customer Rates)
 - Customer Behavioural Analysis
 - FX Exposure calculations and instructions to Hedge
 - IRR Exposure calculation
 - GL product level mapping of the divisional Balance sheet
- Technology will manage all Treasury technology
- Risk Management will assume ownership of production and control of risk data , such as calculation of RWAs / VAR / Stress Testing
- Estate Management will manage Facilities



Treasury Infrastructure & Scope

Treasurer's (or Group Treasurer's) Dual Mandate

1. Mandated by the Chairman and CEO, and ALCO to manage balance sheet risk
 - /// Manage and control market & liquidity risk
 - /// Manage the activity & scope of local Treasuries
 - /// Draft and own liquidity and funding policies (Governance and Policy function)
 - /// **Funds Transfer Pricing policy and implementation (clearing centre is Money Markets desk)**
2. (Front office Treasury) Mandated by the Chairman and CEO to generate earnings
 - /// Money market trading / Repo trading
 - /// FX trading revenue
 - /// Portfolio management
 - /// Net Interest Income & gains from capital markets trading & holdings
 - /// **Funds Transfer Pricing – Treasury is the cash market place**

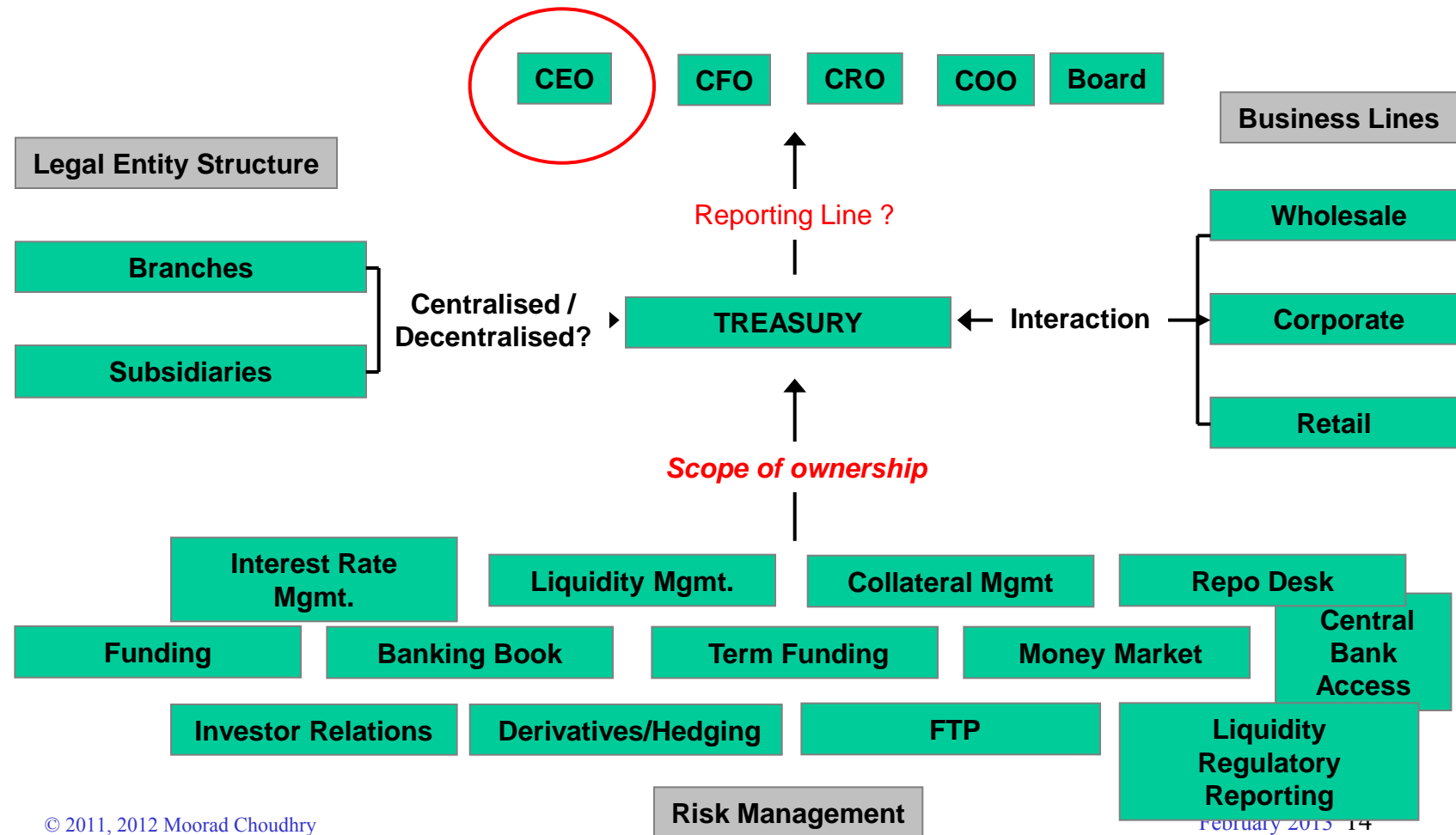


Treasury and Internal Funds Pricing

- /// The role of Treasury in relation to other steering functions in the bank and its overall scope of responsibilities has a bearing on the influence and effectiveness of the internal funds transfer pricing (FTP) regime
 - /// A front-office Treasury should be no less effective than a middle-office Treasury that embodies purely a governance and policy function – there is no conflict or contradiction
 - /// Post-crash liquidity management has transformed Treasury from an administrative back-office function (“electricity from the socket”) to a steering function being the manager/owner of scarce financial resources
 - /// **Therefore** liquidity management must be aligned and/or integrated with other risk steering frameworks such as domestic and cross-border funding, balance sheet structure, collateral management, credit- and counterparty limits, and FX and interest-rate exposures

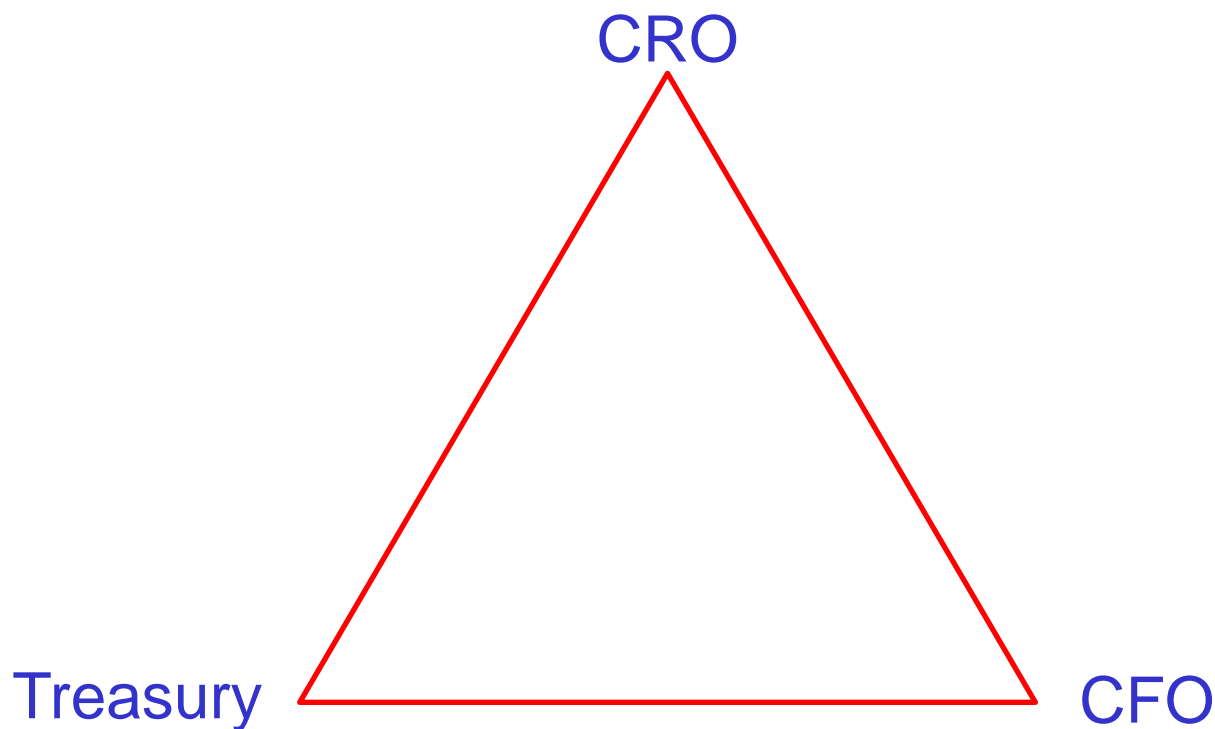
- /// **So** the two most important issues to sort out at start: reporting line and scope of responsibilities....

Operating model overview - *again*





The balance sheet risk “triumvirate”... so as peers it suggests Treasury cannot report to either the CRO or CFO



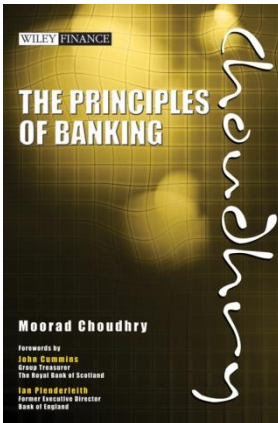


Treasury operating model - conclusions

- /// The Treasury organisation in a bank is the critical cornerstone of the bank's operating infrastructure
- /// Responsible for
 - /// Front office PnL generation (Money markets, Repo, Liquid Asset Buffer, Portfolio Management)
 - /// Liquidity and Funding policy, governance, strategy and management
 - /// Balance sheet management (capital/RWAs, governance and policy)
 - /// ALCO-related governance and MI
- /// Treasury is also a Centre of Excellence working with the business lines for advice and implementation regarding optimum deployment of capital and funding

Reference

/// Choudhry, M., *The Principles of Banking*, John Wiley & Sons Limited 2012, Chapters 12, 13, 18



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