



2011 AFP Liquidity Survey

Introduction and Key Findings

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Underwritten by



**Association for
Financial Professionals®**

Association for Financial Professionals
4520 East-West Highway, Suite 750
Bethesda, MD 20814
Phone 301.907.2862
Fax 301.907.2864
www.AFPonline.org



Citi is pleased to sponsor the 2011 AFP Liquidity Survey. Since inception, the survey has provided insights into how organizations are managing their cash and short-term investments. This year's survey also offers some important new insights into global trends, from top treasury priorities, to the distribution of cash and investment instruments used across borders all within an evolving market and regulatory environment.

As a leader in liquidity management solutions, Citi has a long history of supporting organizations around the world. As companies expand their global footprint to more countries, and are required to manage a greater number of currencies, Citi's global presence, on-the-ground experts and advanced solutions have helped clients minimize idle cash, reduce borrowing and optimize yields, all while controlling risks — wherever they do business.

As seen from the survey results, across developed and emerging markets alike, an uncertain economic environment, regulatory reforms and rule changes can have a profound impact on treasury practices and financial costs — emphasizing preservation of capital and access to liquidity. It is also clear from the survey that investors continue to remain attentive to counterparty risk as they exercise diligence over their investment policies, with strengthened review and monitoring for policy compliance. Essential to this review process is the tremendous value expressed in visibility across all cash and short-term investments and the need for effective forecasts to optimize use of cash.

With counterparty risk continuing to be a key concern, survey respondents emphasized that a diversified portfolio is also essential. As noted in the survey, respondents still choose bank deposits and money market funds as their primary investment vehicles, given their high-quality. At the same time, the growth of feature-rich portals, such as Citibank® Online Investments, provides convenience, efficiency and cost reduction in managing a global short-term investment portfolio.

We invite you to explore the valuable insights presented in this industry survey and use them to examine the latest technological advances that are changing liquidity management practices around the world. And as always, we encourage you to engage in discussions with your banking advisors to learn how you can improve your practices and grow your business.

Sincerely,

Elyse Weiner
Managing Director
Head of Global Liquidity & Investments
Global Transaction Services
Citi

2011 AFP Liquidity Survey: Introduction and Key Findings

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- The selection of money market funds (MMFs)

To read the full report, go to www.AFPonline.org/liquidity. Please note that the full report is available to both members and non-members of AFP, and only requires you to log into the website to gain access to the full report.

2011 AFP Liquidity Survey

Introduction

As of mid-year 2011 the U.S. and global economies continue their slow rebound from the sharp economic recession and financial system meltdown. One of the many impacts from the recent recession was a shift of corporate cash and short-term investment holdings into three classes of ultra-safe investment vehicles: bank deposits, money market funds and U.S. Treasury securities. The key focus was safety of the principal rather than improving liquidity or seeking yield. In addition, as credit markets tightened many organizations found few desirable investment opportunities, and companies built out cash reserves.

Given the slow pace of the economic recovery, observers are watching closely for a shift in organizations' desire to accumulate cash and the desire to place short-term investments in vehicles that provide safety of principal over any possibility of significant yield. In the case of the former, the cash could be used for share repurchases, retiring debt and investing in long-term business opportunities (e.g., M&A activity, capital investments). The latter could take the form of placing a greater percentage of investment holdings outside of the trio of ultra-safe vehicles noted above.

In addition, companies face a number of new challenges and opportunities for their short-term investment holdings. These include evolving rules for money market funds which are meant to increase transparency, regulations regarding holdings of cash outside of the organization's home country (in part because of tax policies), and the possibility of commercial banks paying interest on business checking accounts.

In May 2011, the Association for Financial Professionals (AFP) conducted its sixth annual *Liquidity Survey* to provide financial professionals with an understanding of how organizations currently manage their short-term investment portfolios. Through the end of May, the survey generated 364 responses which are the basis of this report.

AFP thanks Citi for underwriting The *2011 AFP Liquidity Survey*. Citi also generously provided important insight during the development of the survey instrument and the production of the final report. The Research Department of the Association for Financial Professionals, which designed the survey questionnaire, analyzed the survey results and wrote/edited the report, is solely responsible for the content of this report.

Key Findings

The data from the *2011 AFP Liquidity Survey* indicate organizations are less likely to have built cash balances during the 12-month period through May 2011 than they had in previous years. This may be a sign of improving macroeconomic conditions and business prospects for a number of organizations. Thirty-eight percent of organizations held greater cash balances in the U.S. during the first-quarter of 2011 compared to the cash balances they held during the same quarter in 2010. Increased cash flow was the source of the additional cash for most of these organizations. Three out of ten organizations report reduced cash and short-term investment balances due mainly to lower operating cash flows, increased capital expenditures, the organization paying down debt, and acquisition/expansion activity. The latter three causes may suggest an increased willingness of some organizations to invest in the future.

Most organizations remain very cautious and prudent when managing their short-term cash and investments. The majority of respondents (77 percent) report that safety is the most important cash investment policy objective for their organizations' cash and short-term investment holdings. Eighteen percent of survey respondents indicate that the top investment objective is liquidity, while five percent cite yield as the primary objective. The share of organizations that hold liquidity as their most important investment objective declined from that reported in the *2010 AFP Liquidity Survey*. The percentage of respondents citing "yield" as their organizations' primary objective increased from 2010, suggesting that there *may* be (a little) more confidence in the market from a counterparty risk standpoint since the bank crisis started in 2008.

Even if financial professionals have a slightly more upbeat outlook, companies continue to hold nearly four-fifths of their cash and short-term investment holdings in three historically ultra-safe investment vehicles: bank deposits, money market mutual funds and Treasury securities. Recent regulatory changes are not currently anticipated to cause any greater shift to bank deposits. For example, survey respondents indicate that their organizations are not planning to alter their investment in bank deposits as a result of the repeal of Reg Q (which will allow for interest payments on corporate bank deposits).

Outside of the U.S., a vast majority of cash and short-term investment holdings are maintained in bank deposits. Fifty-three percent of survey respondents hold cash and short term investments outside of the United States, including 69 percent of publicly traded companies. The majority of these organizations anticipate maintaining their non-U.S. balances over the coming years. A major reason behind this view is the tax laws—both the U.S. and in the nations where the cash is currently held—that are a disincentive for the free flow of capital across borders.

Priorities and Focus of Treasury

Financial professionals face a number of challenges given their organizations' priorities and the macroeconomic conditions in which they operate. Three-quarters of survey respondents see "improving cash and liquidity management" as a key area of focus for their companies' treasury operations. More than two out of five organizations also focus on improving financial risk management (43 percent) and extending treasury involvement in working capital management (41 percent). Other priorities for treasury operations are:

- Integrating treasury processes of acquired companies and joint ventures (24 percent)
- Access to bank funding (21 percent)
- Improving counterparty risk management (15 percent)
- Dealing with treasury implications of faster top-line growth (14 percent)
- Attracting and retaining talent (12 percent)
- Developing attractive tax-efficient strategies for offshore trapped cash (12 percent).

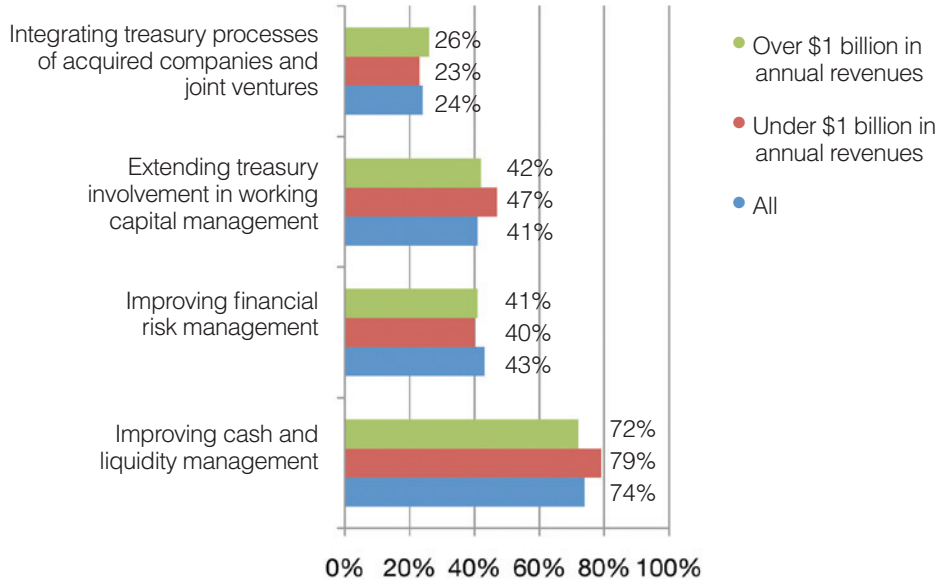
In general, the priorities and focus of organizations' treasury operations are similar regardless of the size of the company. However, there are differences depending on whether organizations are net borrowers or net investors, as well as differences based on the organization's credit rating status and ownership type.

- Respondents from smaller organizations are somewhat more likely than those larger ones to identify improving cash and liquidity management and extending treasury involvement in working capital as top areas of focus.
- Conversely, organizations with annual revenues greater than \$1 billion

are more likely than others to consider integrating treasury processes of acquired companies and joint ventures, improving counterparty risk, integrating treasury processes of acquired companies and joint ventures, and dealing with treasury implications of faster top-line growth as top areas of focus for their treasury operations.

- While net investors are more likely than net borrowers to consider improving financial risk management to be important, net borrowers are more concerned about developing attractive tax-efficient strategies for offshore trapped cash, access to bank funding, and extending treasury involvement in working capital management.
- Non-investment grade organizations are more likely than their investment-grade counterparts to focus on the development of tax-efficient strategies for offshore trapped cash, extending treasury involvement in working capital management, attracting/retaining talent and access to bank funding. Those with investment-grade ratings are more likely to see dealing with treasury implications of faster top-line growth as a top focus.
- Publicly owned organizations are more apt than are private companies to focus on improving financial risk management, integrating treasury processes of acquired companies and joint ventures, and finding attractive investments for trapped offshore cash. Privately held companies are more likely to place priority on improving cash and liquidity management, access to bank funding and extending treasury involvement in working capital management.

Current Top Areas of Focus for Treasury Operations
(Percent of Organizations)

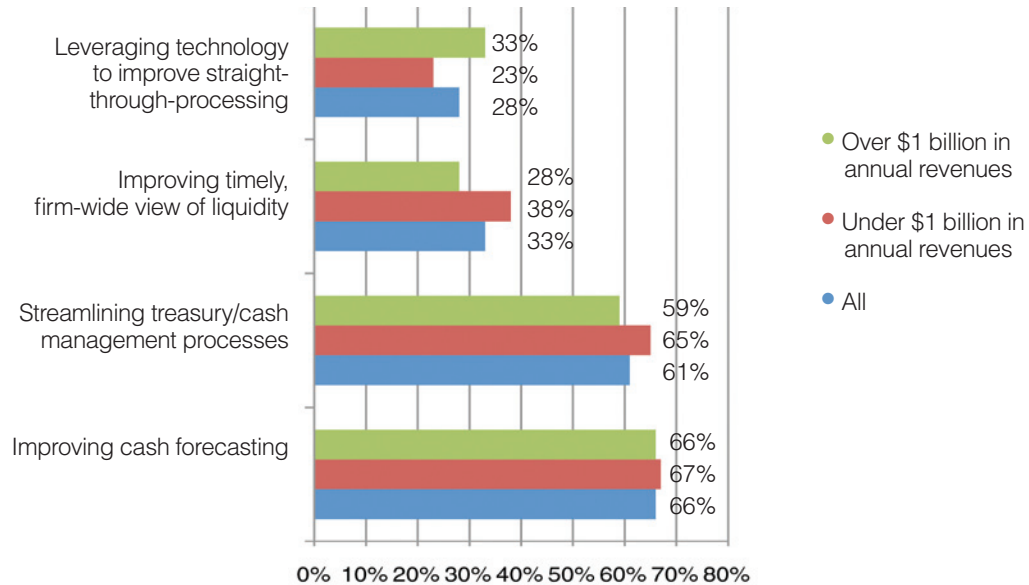


Two-thirds of survey respondents cite improving cash forecasting as one of the top three priorities in cash/liquidity management. Financial professionals from smaller organizations and privately held companies are more likely than those from large and public held ones to identify improving cash management as a top priority. In addition, more than three out of five survey respondents (61 percent) report that streamlining treasury/cash management processes is a

priority. Other top priorities for cash and liquidity management include:

- Improving timely, firm-wide view of liquidity (33 percent)
- Leveraging technology to improve straight-through processing (28 percent)
- Centralizing/accessing global cash (21 percent)
- Rationalizing bank structures (21 percent).

Top Current Priorities in Cash and Liquidity Management (Percent of Organizations)



Holdings of Cash and Short-Term Investments

Both macroeconomic conditions and business prospects have improved for a number of organizations. Consequently, organizations are less likely to have built cash balances over the past year. Thirty-nine percent of organizations held greater cash balances in the U.S. during the first quarter of 2011 compared with the amounts held during the same quarter of 2010. Three out of ten organizations report having reduced their cash and short-term investment balances while 31 percent report no significant change in cash holdings. There is little relationship between organization size and any change in cash and

short-term investment balances over the past 12 months. However, organizations that are net investors are far more likely than net borrowers to have increased their cash holdings over the past year. Forty-six percent of net investors expanded their cash holdings over the previous 12 months compared to 29 percent of organizations of net borrowers that did so. Investment-grade organizations are more likely than those with non-investment grade credit ratings to have grown their cash balances over the past year (41 percent versus 31 percent).

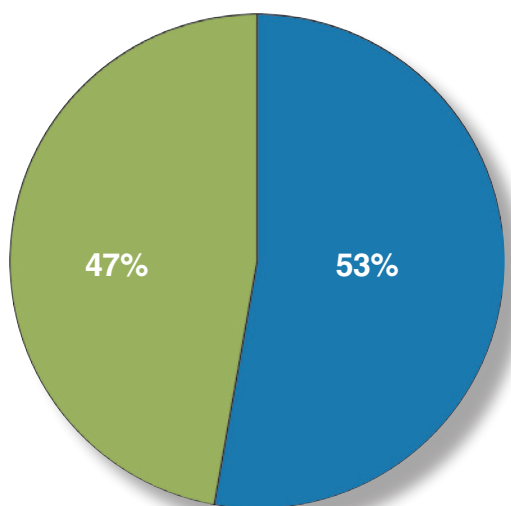
Change in U.S. Cash and Short-Term Investment Balances Over the Past Year (Percentage Distribution)

	All Responses	Annual Revenues Under \$1 Billion	Annual Revenues Over \$1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Much larger	15%	12%	16%	11%	18%	16%	12%	16%	15%
Somewhat larger	24	25	22	18	28	25	19	19	22
No significant change	31	33	32	40	24	31	32	36	30
Somewhat smaller	18	19	18	17	19	18	21	17	17
Much smaller	12	12	12	14	10	10	16	11	17

Fifty-three percent of survey respondents indicate that their organizations have cash holdings outside of the U.S. Fifty-seven percent of large organizations have non-U.S. cash holdings versus 38 percent of organizations with annual revenues under \$1 billion. These organizations hold, on average, 57 percent of their total cash holdings in the U.S. Another 14 percent of these cash holdings are held in either Canada or Mexico while 17 percent of the cash holdings are in EMEA (Europe, the Middle East and Africa).

Most organizations with cash and short-term investment holdings outside of the U.S. report that these cash balances have not changed significantly over the past 12 months, although they are more likely to indicate balances have increased over the past year rather than decreased.

Organizations with Non-U.S. Cash Holdings (Percentage Distribution)



- Organization has cash holdings outside the U.S.
- Organization does not have cash holdings outside of the U.S.

Full Chart Available in [Appendix 1](#)

Change in Cash and Short-Term Investment Balances Over the Past Year—By Region
(Percentage Distribution of Organizations with Balances in Region)

	Canada/ Mexico	Central/ South America	EMEA	APAC
Much larger	9%	1%	8%	11%
Somewhat larger	19	30	29	28
No significant change	61	62	49	54
Somewhat smaller	8	6	9	7
Much smaller	3	-	5	-

A majority of organizations that increased their cash holdings over the past 12 months did so simply because they were generating a higher operating cash flow (56 percent). Other factors that led certain organizations to grow their cash holdings include:

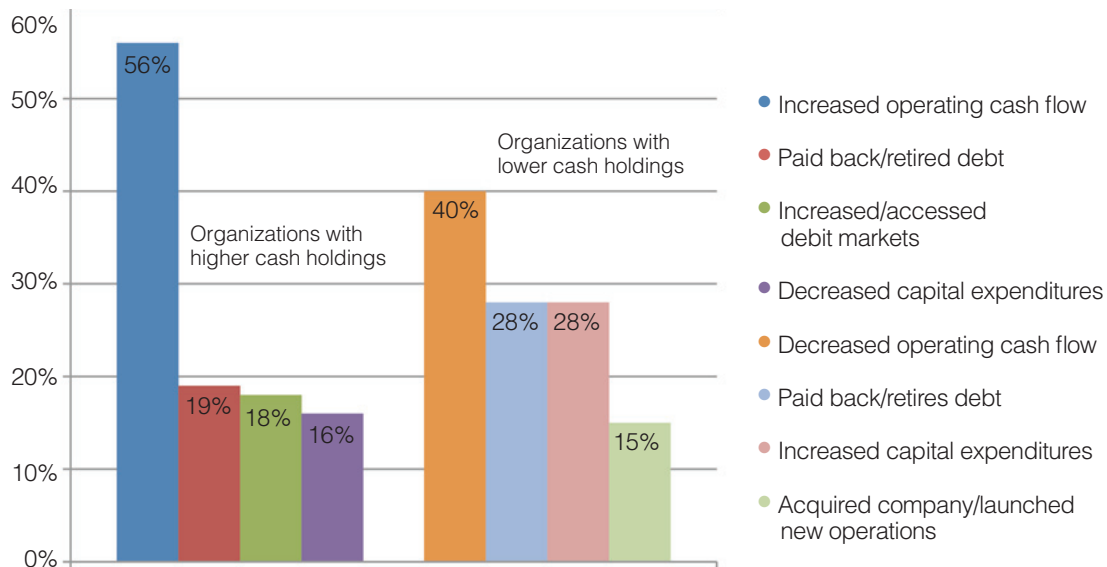
- Increased/Accessed debt markets (18 percent)
- Decreased capital expenditures (16 percent)

- Shortened/Decreased working capital cash conversion cycle (14 percent)
- Divested company/subsidiary and/or closed operations (eight percent)
- Increased rate of return on cash and investments has raised the importance of “yield” as an objective of the short-term investment portfolio (seven percent).

Two out of five respondents (40 percent) from organizations that saw their cash balances decrease over the past year indicate that the contraction was the result of decreased operating cash flow. While this is the most widely cited reason for a smaller cash balance, there are a number of other reasons that suggest organizations are deploying their cash because they have greater confidence in future business prospects. Those reasons include:

- Increased capital expenditures (28 percent)
- Paid back/retired debt (28 percent)
- Organization acquired a new company/subsidiary and/or launched new operations (15 percent)
- Increased share repurchases or dividends (12 percent).

Leading Causes of the Net Change in Organization’s Cash Holdings Over Previous 12 Months
(Percent of Organizations)



As business conditions continue to improve gradually in 2011, financial professionals indicate that their organizations are less likely to further increase their U.S. cash balances over the next year. Half of organizations do not anticipate altering the size of their cash and short-term investment holdings over the next year. Twenty-nine percent of organizations anticipate growing their cash balances over the next 12 months while 21 percent expect cash balances to contract.

Larger organizations, those with non-investment grade ratings and those that are privately held are more likely than other organizations to anticipate growing their cash and short-term investments balances over the next year. Thirty-two percent of organizations with annual revenues greater than \$1 billion expect that their cash holdings will expand over the next 12 months compared to 24 percent of smaller organizations that expect the same. The difference between non-investment grade organizations and investment grade organizations that expect to increase their cash holdings over the next 12 months was 31 percent versus 25

percent. Similarly, 34 percent of respondents from privately held organizations also anticipate an increase in their cash holdings.

On the flip side, survey respondents from investment-grade organizations and those that are net investors—the types of organizations which presumably have more cash (or at least greater access to credit)—are more likely to report a desire to shed U.S. cash holdings over the next 12 months. Twenty-six percent of net investor organizations and 24 percent of investment grade organizations intend to decrease their U.S. cash holdings over the next 12 months.

A majority of organizations with non-U.S. cash and short-term investment balances intend to maintain these balances at current levels over the next year. Two-thirds of organizations with cash holdings in Canada and/or Mexico anticipate these holdings will be unchanged over the next 12 months. Fifty-six percent of respondents from organizations with cash in APAC (Asia Pacific) and half of those from organizations with cash in EMEA report the same intention.

Expected Change in U.S. Cash and Short-Term Investment Balances Over the Next Year (Percentage Distribution)

		All Responses	Annual Revenues Under \$1 Billion	Annual Revenues Over \$1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
U.S.	Larger	29%	24%	32%	28%	29%	25%	31%	29%	34%
	About the same	50	53	47	56	44	50	50	53	43
	Smaller	21	23	21	16	26	24	19	18	21

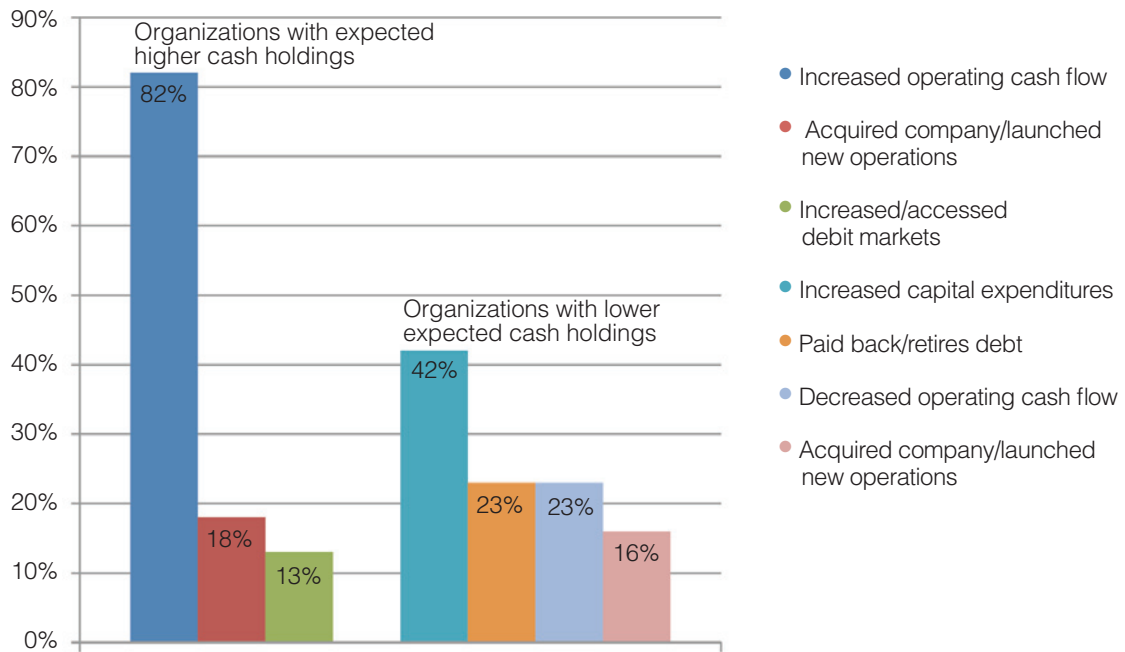
Expected Change in Cash and Short-term Investment Balances Over the Next Year—By Region (Percentage Distribution of Organizations with Balances in Region)

	Canada/Mexico	Central/South America	EMEA	APAC
Larger	23%	22%	36%	35%
About the same	68	72	49	56
Smaller	9	6	15	9

The anticipated change in cash holdings over the next 12 months appears to be largely based on a growing optimism about future business conditions. Among those survey respondents who anticipate their organizations will *build* cash holdings, a large majority (82 percent) believe such action will be the direct result of an increased operating cash flow.

Forty-two percent of organizations that expect to *shrink* their cash holdings will do so because of a decision to increase capital expenditures. Just under a quarter anticipate using cash to pay back and/or retire debt and one-sixth expect to acquire a company and/or launch a new operation. Less than a quarter of this group believes cash holdings will decline because of deteriorating operating cash flow.

Primary Drivers for Anticipated Change in Short-Term Cash Balances Over Next 12 months
(Percent of Organizations)



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AFP Research

AFP Research provides financial professionals with proprietary and timely research that drives business performance. The AFP Research team is led by Managing Director, Research and Strategic Analysis, Kevin A. Roth, PhD, who is joined by a team of research analysts. AFP Research also draws on the knowledge of the Association's members and its subject matter experts in areas that include bank relationship management, risk management, payments, and financial accounting and reporting. AFP Research also produces *AFP EconWatch*, a weekly economic newsletter. Study reports on a variety of topics, including AFP's annual compensation survey, and *AFP EconWatch*, are available online at www.AFPonline.org/research.



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The Association for Financial Professionals (AFP) headquartered in Bethesda, Maryland, supports more than 16,000 individual members from a wide range of industries throughout all stages of their careers in various aspects of treasury and financial management. AFP is the preferred resource for financial professionals for continuing education, financial tools and publications, career development, certifications, research, representation to legislators and regulators, and the development of industry standards.

General Inquiries AFP@AFPonline.org

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Phone 301.907.2862