Treasury and Money Market Services

Stock exchanges are *where* investors buy and sell. Capital markets products are *what* investors buy and sell.

Treasury and money market services work behind the scenes to manage risks (see page 2 for examples of these risks) that exist within these capital market products.

Capital market transactions result in either one or a series of financial transactions. It is these transactions that create financial risk and where treasury and money market services come in.

In this document you will discover more about:

- what ‘treasury’ means
- what a treasury policy is
- what treasury functions do and why they do it
- the main types of money market products
- why clients choose Jersey for these products and services

What does ‘treasury’ mean and what does it cover?

Treasury is an important part of making sure that capital market transactions, which often involve the flow of large sums of money, are processed correctly and on time.

When large sums of money are moved around, there are financial risks that need controls. These risks include credit, liquidity, currency and interest rate risks (read on for more detail on what these risks mean). Treasury is responsible for identifying and mitigating these risks.

In partnership with:

What is a treasury policy?

The treasury function operates under a series of rules and procedures, set out in a treasury policy.

The treasury policy:

- sets out the client's risk appetite (this appetite may be unique to each client),
- defines how treasury will manage the financial risks, and
- details how treasury will interact with the client, and anyone working with the client, in managing these risks.

The credit risk appetite of the client dictates which banks are appropriate to use when deciding which bank or type of bank account to use. The credit worthiness of a bank is often measured by comparing the ratings from independent credit ratings agencies, such as Fitch, Moody's or Standard & Poor's with other performance measures such as bank performance and whether they meet international banking regulations.

A treasury policy should also outline how other financial risks are managed, such as:

- liquidity risk (this is the risk that a client may be unable to meet short term financial demands. This usually happens when a client cannot convert assets into cash without losing money in the process)
- currency risk (the risk that movements in exchange rates can impact the value of a client's assets or cashflow), and
- interest rate risk (the risk that fluctuating interest rates have a negative impact on capital market products)

The way that treasury interacts with the client is also an important part of treasury policy. It defines treasury timelines, reporting and lines of communication.

What does a treasury function do and why?

The treasury function manages the financial risks faced by clients. The function carries out tasks set out in the treasury policy. Responsibilities include:

- **Opening bank accounts for clients**

The first role of treasury is to make sure bank accounts are opened so money can be received and paid. Often the choice of bank is important. Not only do treasury need to confirm the bank can offer the right product or service needed for the financial transaction, but they also need to ensure the bank's risk profile (or credit rating) is acceptable to the client, i.e. the bank's credit rating is within the guidelines set out in the treasury policy.

Banks offer a wide range of products and services. It is important that the services of the bank match up with client's banking needs.

Opening a bank account can be time consuming because the bank must complete various Know Your Customer (KYC) or anti-money laundering checks. Treasury can support clients in opening a bank account and try to make this process more efficient.

- **Selecting bank products**

Once bank accounts are open, cash is paid into the account to facilitate transactions, but it is also common for some cash to remain in a bank account, especially when a transaction may be delayed or the client wants to hold cash as an asset (find a list of other Asset types in the Put Simply Capital Market Products document).

Treasury is involved with managing this cash and ensuring it receives an appropriate rate of return. This function is often referred to as 'cash management'. Different banking products offer different rates of returns (or interest rates) and successful cash management aims to get the best return from the products available.

The main types of money market products

These products include:

- **Current accounts**: This is a bank account where cash can be easily accessed, on demand but often does not pay any interest on the cash held in the account.
- **Call accounts**: Accounts similar to current accounts but without the option of transactional services. These accounts earn interest.
- **Notice accounts**: A type of savings account where the account holder is required to give a notice prior to any withdrawal. These accounts often pay a higher rate of interest than call accounts as access to the funds is less flexible.
- **Fixed deposits**: This is a type of account where cash can be placed for a very

specific time period, during which it cannot be accessed. Again, because there is less access, these accounts often pay a premium rate of interest. Generally, the longer the period of time that funds are placed in this type of account, the higher the rate of interest.

If the amount of cash is very large, it is sensible to use a range of different products and banks when managing cash in order to spread the counterparty risk, (not having all of your eggs in one basket).

A treasury and money market function is also responsible for:

- **Managing a client's money**

One of the fundamentals of cash management is ensuring cash is always available when the client needs it. This is often known as 'liquidity management'.

By understanding how cash is used and received in a capital markets transaction, funds can be more actively managed. Not having cash available when it is needed can be very costly, so liquidity management is a priority in figuring out the financial risks of a transaction.

- **Converting currencies and foreign exchange**

In some cases, capital market transactions may involve the need to convert one currency into another or holding cash in multiple currencies. Treasury can help in finding and ensuring the exchange rates used in conversion between currencies are appropriate.

Transactions that involve multiple currencies can also introduce foreign exchange risks. This risk can be managed by using different financial products, referred to as derivatives. This process of managing this type of risk is generally referred to as 'hedging'.

Currency risk can be influenced by a number of external factors like global trade agreements or political decisions (e.g. Brexit), and often it is treasury's role to help understand what these factors are and to help establish the best options for managing these risks.

Where a capital markets transaction involves issuing a financial instrument, such as a bond with an interest rate or coupon, associated with it, there is an interest rate exposure risk. The level of interest rates is influenced by external economic factors and moves in line with the performance of an economy. Interest rate exposure can, like currencies, be managed by hedging.

- **Identifying and managing risks**

Treasury's role is to assist in both identifying risks and finding the most appropriate financial product to manage the risks.

In some cases, while capital markets transactions create both currency and interest rate risks, it is not always necessary to hedge them. It depends on the client's risk appetite, as set out in their treasury policy, which may consider these types of risks as acceptable.

However, as both interest rates and exchange rates move up and down every day due to global economic and political factors, it is important to monitor risks throughout the lifetime of a capital market transaction.

Why Jersey?

There are 26 bank branches and subsidiaries located in Jersey and they include nearly half of the top 25 global banks, measured by the level of their capital.

Banks and service providers in Jersey are often involved in supporting clients with the issuance and administration of capital market transactions. Treasury functions within these firms work with clients to structure and administrate these transactions.

With a broad range of banks and service providers on the Island, clients have access to a wide range of financial products and expertise. It helps them to identify and manage financial risk and enable the successful management of risk within Jersey.

As a leading international finance centre, several of Jersey's banks are part of global banking institutions. This ensures Jersey is well connected to the global payments infrastructure that helps move money efficiently and reliably around the world.

FinTech, or Financial Technology, is about making financial services better through improved customer experiences, but also more efficient back-end digital processes. Significant fintech activity across a wide range of technologies and capabilities is currently taking place in Jersey.

With the growth of fintech innovations, Jersey has seen a rise in the number of treasury support services and technology companies. Fintech based solutions can support professionals in both identifying and managing these financial risks.

Fintech is a key enabler of the Jersey Finance digital aspiration: “to be the easiest International Finance Centre to do business with remotely in a digital world”. Find out more in Jersey’s A-Z of Fintech .