CASHFAC

Liquidity Management: Maximising the Return on Client Money & e-Money

CASHFAC SOLUTION LITERATURE

www.cashfac.com

Introduction

All client money and e-Money businesses must manage their liquidity. Enhanced liquidity management ensures access to readily available cash to fund short term client calls while ensuring the optimum return from that cash for clients and, where permitted, your firm.

Forecasting and planning is crucial to effective liquidity management. It requires finance, cash operations and the treasury function to work together so that all funds which are tied up in the firm's settlement, investment, and cash banking operations, can be made available when clients require it. This can be difficult if your organisation operates hundreds or thousands of client bank accounts.

Liquidity risk, the risk that an organisation may be unable to meet short term cash calls, can quickly cause service failures, regulatory breaches, damage to your organisation's credit rating and potentially corporate failure. Typically, illiquidity occurs when the organisation fails to convert a security or other asset to cash without a loss of capital and/or income in the process.

Cashfac's liquidity management solution works with your existing accounting/ERP, treasury management and back-office systems to allow you to:

- **Collect**, identify and allocate client deposits as efficiently as possible
- **Pool** your client bank accounts
- **Forecast** and **project** client cash positions and requirements
- **Invest** your clients' cash to gain the highest possible return for your organisation or its clients

Using this functionality your organisation can ensure a maximum return on client cash invested, while also guaranteeing that there is enough cash available to meet ongoing requirements.

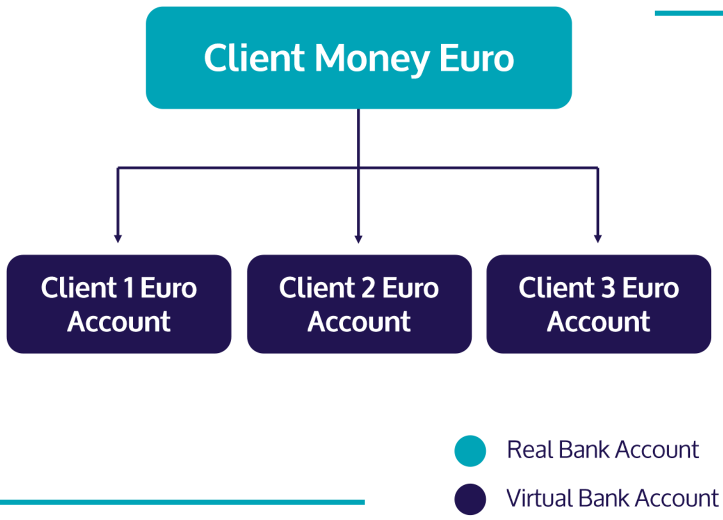
The Cashfac Solution

Our solution is designed to seamlessly link to your existing systems and, on a real-time basis, feed all the information required to carry out their tasks to the optimum standard.

Pooling Client Money Funds

Option 1: Full Pooling
Cashfac's virtual bank account solution plugs into your existing real bank account and allows you to run a banking sub-ledger of an unlimited number of virtual bank accounts off the real account. The virtual accounts are fully functional bank accounts allowing you to offer a full bespoke self-serve banking solution to your firm's clients whose money your company holds on trust and perhaps also under regulatory requirements such as Client Money (CASS) regulations or e-money rules.

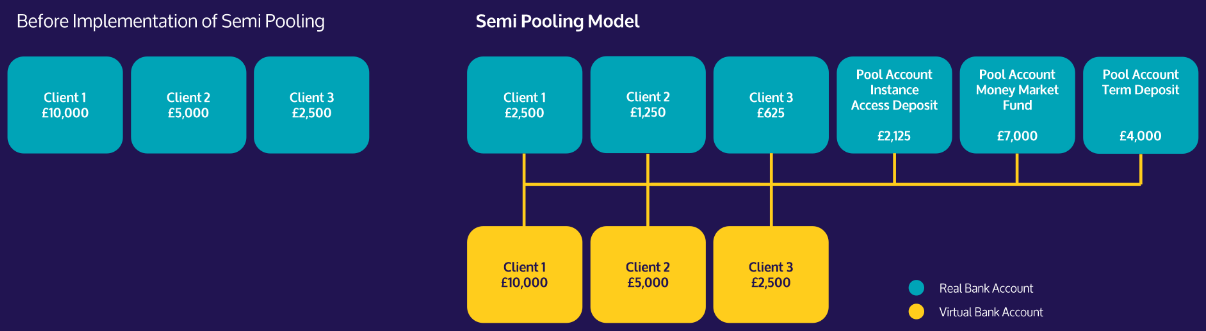
Replacing real bank accounts with virtual accounts means that the organisation's cash is automatically pooled into one real bank account per currency for client funds. This can slash banking costs, but perhaps more importantly, it gives you a pool of cash that is easy to analyse, allocate and invest for higher returns.



Option 2: Transition to Full-Pooling

This model recognises that your organisation has many real bank accounts which are required to remain active. At the same time though, you want a pooling model to better control liquidity.

Our solution is used to manage hundreds, if not thousands of bank accounts, and can do this within a single platform, managing a mix of any number of bank accounts and any number of virtual accounts.

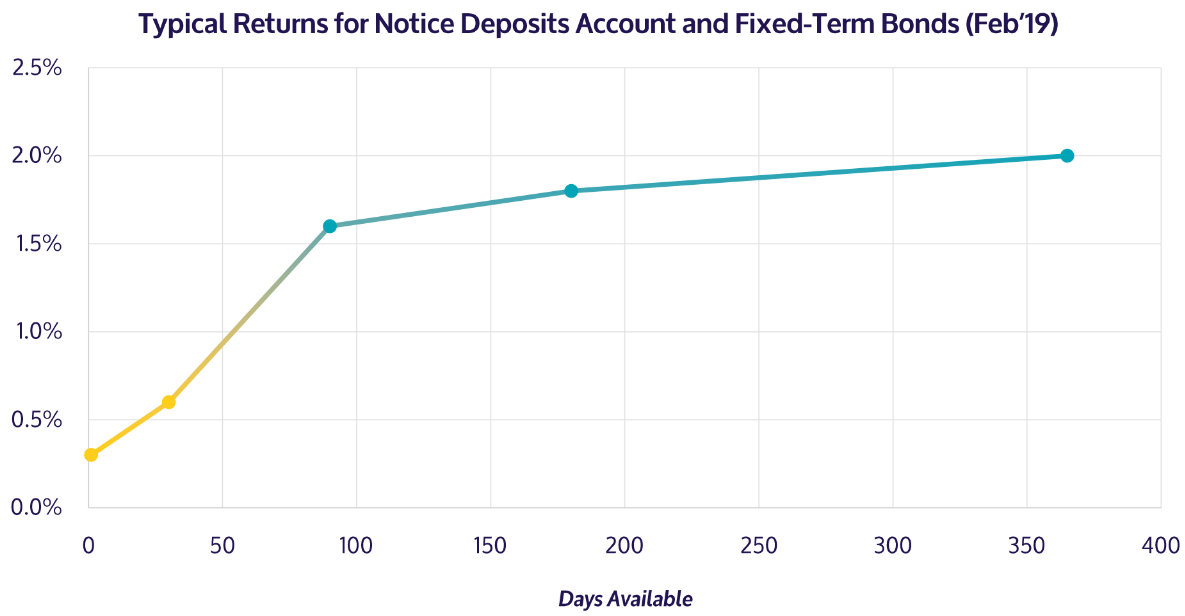


To facilitate your cash pool, a virtual account sits alongside each real account, and an automatic target balance sweeping arrangement transfers monies from the real account to the virtual account to create a "liquidity pool" – from which aggregated monies can be placed in other yield-enhancing accounts. This means that the user can continue using their real bank account as normal, while in the background, Cashfac's reconciliation and control functionality ensures the orchestration of the virtual and real account structure with the new pooled account.

Using Cashfac's analytical and reporting tools to predict likely cash requirements of clients, organisations can determine the percentage of cash to be retained in the existing real bank accounts to ensure client cash calls are met. Our solution delivers a cash pool that is easy to analyse, allocate and invest for higher returns.

Forecasting and Projecting Cash Requirements

The longer you can lock funds away for, the higher the return from the banks or investment managers who hold your clients' cash. If funds are not immediately required, they can be invested in other financial instruments to improve returns and thus drive a portfolio approach to liquidity management.



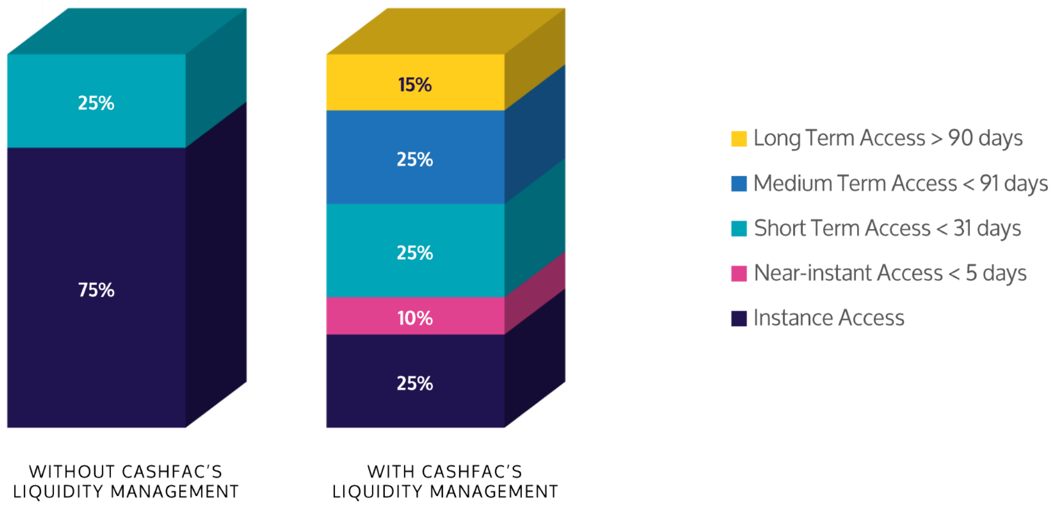
As well as giving you the statements and analysis of current and historical activity on the virtual and real bank accounts under its control, our solution can also store data on expected future transactions such as unsettled trades and accounts receivable, payable transactions and balances. Combining this information with Cashfac's analytical tools, users can forecast the future cash requirements of their clients.

Cashfac's analytics tool can also create projections of future cash balances and requirements using the historic information on the accounts under its control.

Investing Your Pooled Funds

Using both these forecasting tools, Cashfac's clients can get a much more accurate estimate of the short, medium and long-term requirements for their client's money. This allows them to confidently lock more of their client cash pools away for longer, therefore maximising their returns.

CASH ALLOCATION FOR TREASURY MANAGEMENT



Typical Treasury Investment Profile for a Wealth Manager Client Money Cash Pool Before and After Implementing Cashfac's Liquidity Management

Once your organisation has pooled its funds and profiled its cash requirements, it can divide the cash pool into different sub-pools dependent on when the funding in that pool may need to be liquid. it can then match that sub-pool to the best financial instrument offering the highest return for that timeline.

There are several financial instruments to choose from when considering how to invest your cash pool. These include:

A notice account is a savings account, offered by a bank, building society, credit union or other deposit-taking institution. For these accounts, the depositor is required to give a specified number of days' notice before making a withdrawal or else risk penalties and loss of interest. Typically, these deposits can range from 30 days to 180 days' notice. CASS rules (effective as of 22 January 2018) allow a firm, subject to satisfying certain conditions, to deposit an appropriate proportion of client money in unbreakable deposits with a term of 31-95 days. 95-day deposits may not be suitable for client money held in other jurisdictions and for e-money or other monies held in trust for third parties due to their poor liquidity.

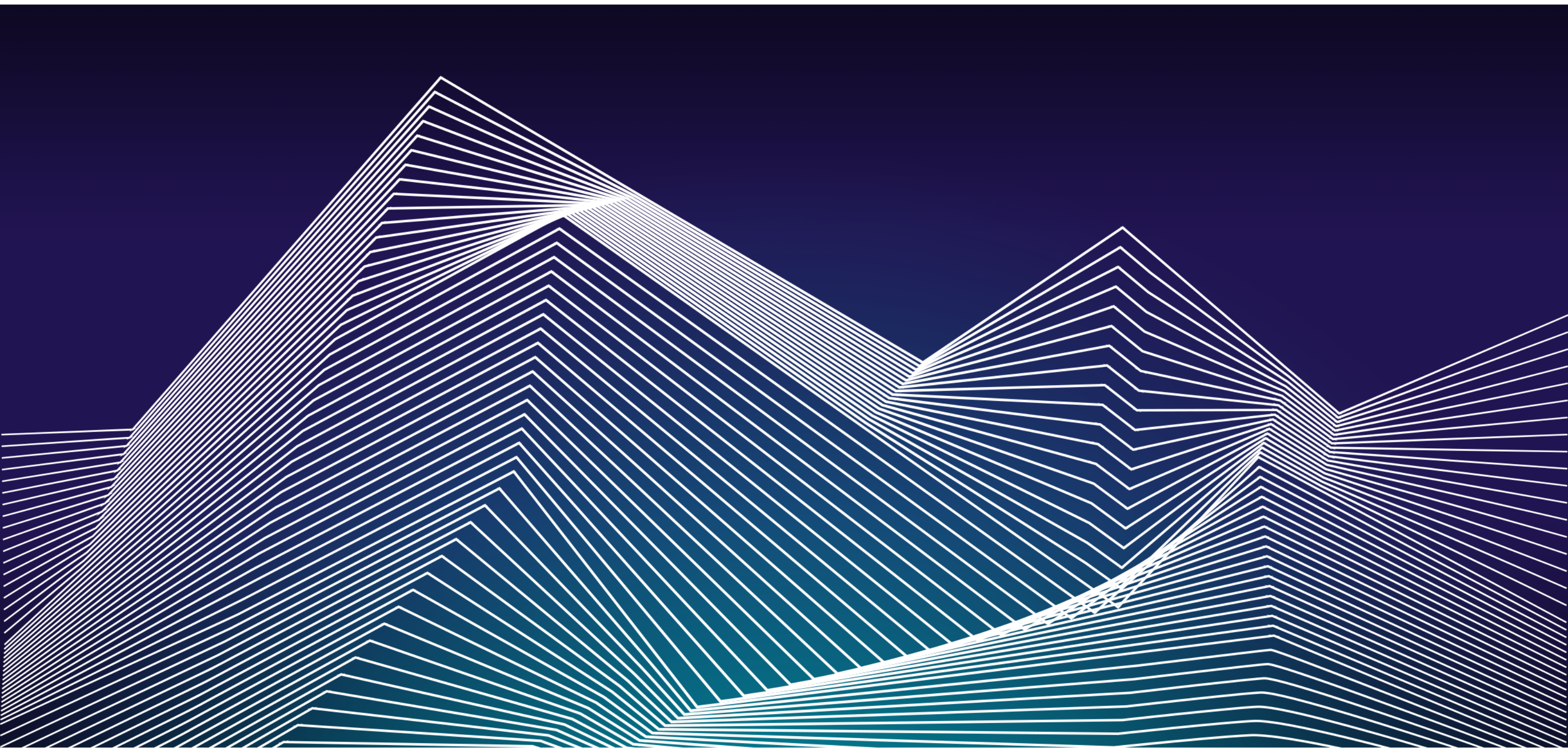
A fixed-term deposit is a cash investment held at a bank, building society, credit union or other deposit-taking institution. The investment pays for an agreed fixed rate of interest over a fixed amount of time, or term. Typically, these deposits can range from 30 days to 5 years. CASS rules allow a firm, subject to satisfying certain conditions, to deposit an appropriate proportion of client money in unbreakable deposits with a term of between 31 and 95 days. 95-day deposits may not be suitable for client monies held in other jurisdictions and for e-money or other monies held in trust for third parties due to their poor liquidity.

A money market fund is a mutual fund that invests only in highly liquid instruments such as cash, cash equivalent securities, and low-risk government and corporate bonds with a high credit rating and a short-term, maturity—less than 13 months. As a result, these funds offer high liquidity with a very low level of risk. This means that the investor can generally get their funds back within 1-2 days to meet liquidity calls. These funds can be a viable option for cash pools as low as £1 million.

Due to the high credit rating of the bond issuers in the money market funds, these funds can be suitable for the investment of Client Money (CASS), e-money or other monies held in trust for third parties.

Bespoke Bond Portfolio is a bespoke investment portfolio of low-risk government and corporate bonds with a high credit rating and a shorter-term, maturity—less than 3 years. As a result, these funds offer high liquidity with a very low level of risk. The fund's constituent investments can be precisely tailored to meet your firm's needs. As they are high liquidity, it means that the investor can generally get their funds back within two to three days to meet liquidity calls. These funds can be a viable option for funds of approximately £100 million and above.

Due to the high credit rating of the bond issuers in the portfolio, it may be suitable for the investment of Client Money (CASS), e-money or other monies held in trust for third parties.



Collecting, Identifying and Allocating Client Money Deposits

As previously stated, Cashfac virtual accounts are fully functional bank accounts. Using our solution, which is fully integrated into the banking network, virtual bank accounts can be given their own IBAN or account number. In a full pooling scenario, this allows customers or counterparties to lodge funds directly to their individual virtual bank account, held with your organisation, through the bank clearing network, either by bank transfer or by direct debit.

Each client of a wealth manager or e-money issuer can deposit their money directly into their individual virtual bank/client money/e-money account. Using this functionality, Cashfac delivers the key compliance requirements of identification, designation and segregation of client monies received and virtually eliminates the ability to make errors by having the highest levels of automatic allocation of receipts. See our Client Money compliance solution for more details. Cashfac accelerates the processing of cash receipts and thus improves the organisation’s liquidity position.

For product information, to request a demonstration or to speak to us about your business needs, please contact us at
www.cashfac.com/contact

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