The Role of the Cash Coordination Committee

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The Context

PEMPAL countries are moving towards managing cash more actively

It becomes essential, to consider:

- The basis on which decisions are made and executed
- Whether those responsible have the right information and policy perspectives

Which implies:

- More systematic Coordination Structures
- Related to this, an understanding of associated risks

Resource team published paper

- The Role of the Cash Coordination Committee
- Informed by TCOP discussions and survey of members

Today's Discussion

Cash Coordination Committee

- Coordination Requirements
- Governance Structures
- Purposes and Membership
- Some PEMPAL Examples

Addressing the Risks of more active cash management

- Identifying the Risks
- Managing the Risks

Note: in this context: Cash Coordination Committees, Cash Management Committees, Liquidity Committees are the SAME

Coordination

Efficient cash management needs the right tools

Managing cash actively requires drawing on a range of financial instruments

Implies different functions need to coordinate – especially when they are organizationally separate

Certainly the case for cash & debt management (next slide)

- Also for treasury/budget dept depending on budget execution responsibilities
- Some countries have cash forecasting unit (CFU) within budget dept – particularly if require control over pace of spend

Debt and Cash Management Coordination

Coordination requirements independent of Active Cash Management	Instrument choices made in context of Debt Management Strategy & Annual Financing Plan, taking account of market appetite, market volatility, interest rate prospects
	From supply perspective, the financing choices must be made with a good understanding of the profile of the financing requirement
	Treasury bills are the key instrument – of both debt management & cash management [and sometimes monetary policy]
	Day to day coordination requirements (linking Issuance and maturity dates to cash flow; handling large maturities with LMOs, etc)
Integrated Debt Management Office (DMO)	Internalizes many decisions (still need a formal process)
	A CCC is really needed where there is organizational separation
	Process should be structured – for reasons of audit, accountability & clarity – and ensuring relevant functions are properly consulted and have the necessary data

Governance Structures

Integrated DMO

- As in many European countries (and a few PEMPAL countries)

High-level Public Debt Committee (PDC) or similar

- With strategic debt management responsibilities, extending to financing decisions, including cash management policy framework
- But tends not to focus on daily operational decisions – may meet only 2* maybe 4* a year – a PDC on its own is usually insufficient

CCC reviewing cash forecasts, deciding on policy responses

- Potentially supported by technical committee; may report directly to PDC (or be a sub-committee of the higher-level committee (as in Brazil)

Note that, in practice

- These roles may be elided, or overlaid
- The Committees may be legally or operationally established – depending on local requirements

What does a CCC do?

In its simplest form

- Reviews recent market developments and forecast performance
- Reviews the cash flow forecasts for the period ahead
- Decides on action necessary to ensure cash availability or meet the cash buffer target
  - Tbills, Tbonds, investment of cash surplus, FX swaps or draw down, borrowing from SOEs…

In practice

- ToR may be general or specific
- Budget execution often main role in cash constrained countries

Membership

Chair

- Depends whether advisory or decision-making
- Examples: Minister; senior official (State Secretary); DG/ Treasury; DG/Debt Management
  - Other examples (budget director, chief economist, central bank)
- May be joint

Members

- Core
  - Treasury
  - Debt
  - Budget and/or Macro-fiscal
  - Tax authorities
- Other
  - Wealth funds where relevant (Oman, Indonesia)
  - Large spending Depts (Türkiye)
  - IFMIS team (Mozambique)

Central bank?

- On CCC as Observer
  - May have relevant input on market developments
  - Esp. if fiscal agent
- CB should also receive forecasts

Other Issues

- Degree of delegated authority
- Cash Forecasting Unit (CFU) usually Secretariat
  - Presenting both forecasts and recommendations
- Meets monthly or weekly
  - Technical cttee meets before CCC – may meet more frequently

PEMPAL Countries

Some examples of CCCs

- But not as many as expected in view of separation between Treasury and Debt functions in many countries

8 examples in response to survey (out of 16 replies)

- 4 of those have also integrated many cash and debt management functions – in a debt office (**Hungary**) or in a wider MoF/treasury function (**Romania, Türkiye, Croatia**). But still chosen to have a CCC to ensure policy interests are aligned
- **Albania** – debt and cash in separate DGs => recognised need for a CCC at Dep.Minister/ State Secretary level; supported by Treasury chaired working group to develop forecasts
- **Georgia & Serbia.** Working level committees acting as a CCC. In Georgia, with focus on identifying surplus cash for investment; in Serbia, treasury and debt functions monitoring budget and financing flows
- **Moldova** – two working groups with the central bank, one strategic, one operational

Example of Albania at Annex - hear later from Hungary and Croatia

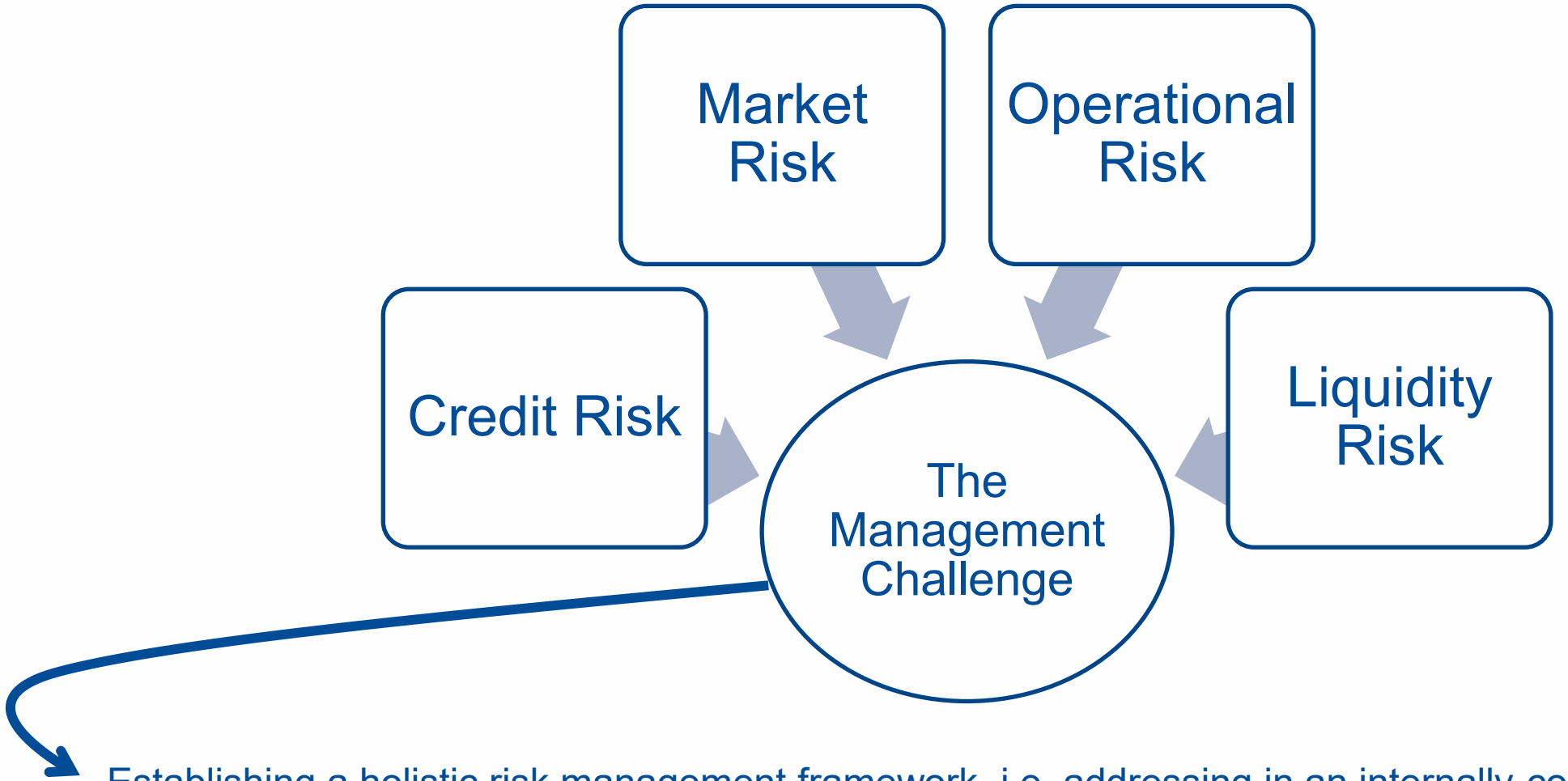
Some Characteristics

Two tier structures

In Hungary, Romania, Türkiye, Albania, Croatia a high-level Committee (Minister or very senior official), legally established • Focus on cash/debt decision varies, but important part of their role	Lower-level committee – often not formally established (allows greatly flexibility) – stronger focus on the forecast and making sure it is complete and understood	Lower-level committee may not be directly guided by a higher committee, as in Serbia & Georgia (also a high-level macro committee in Georgia, but agenda is much wider than other examples)

Internationally, CCCs when there is an integrated office less frequent (UK example) – may still be a PDC or high-level macro committee (eg Switzerland) but not making operational decisions

Cash Management Risks



Establishing a holistic risk management framework, i.e. addressing in an internally-consistent way the full range of risks to which cash management activities are exposed, and responding accordingly

Liquidity Risk and Market Risk

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Liquidity risk: access to cash consequent on e.g. a revenue shortfall, issuance failure or unanticipated emergency

- In practice managed through the cash buffer – which should ensure that cash is always available in the short-term (giving time for longer-term mitigation measures)
- Links also to decisions about investment of surplus cash (maturities and instruments)
- Regular use of T-bills would potentially reduce risk of access to securities market at a time of financial shocks

Market risk: exposure to interest or exchange rate movements

- Unlikely to be significant in relation to (short-term) investment of temporary surplus cash
- Market risk addressed more thoroughly in context of debt management strategy

Proposition: neither liquidity nor market risk likely to be a major exposure specifically for cash management

Credit Risk

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Risk flows from exposure to borrowers

- Greatly reduced if collateralised (especially if reverse repo) but not zero

Often requires building a new capability: Options:

- **Relying on external assessment**. Difficult to put weight on identified default probabilities – small for high-quality banks but variable from year to year and affected by events elsewhere
- **Building an internal assessment process**. Similar to the rating agencies, but resource cost
- **Drawing on the assessment methodology** used by local prudential regulators

A cautious approach

- Confine investment to higher-quality banks in the local market – identifying enough of them to provide sufficient competition and adequate aggregate demand for the deposits or other investments likely to be on offer

Maximum exposure limit to any one bank

- No single way to set individual risk limits – have to trade off size against need to minimize idle cash. Simplicity and flexibility are important.
- Set initial limits somewhat arbitrarily; and adjust if it becomes apparent that low-risk investment opportunities are being missed

Operational risk is: “The risk of loss (financial or nonfinancial) resulting from inadequate or failed internal processes, people and systems, or from external events that impact a company’s ability to operate its on-going business processes.” *Basel II*

Operational Risk is problematical…

OR is least understood of the risk categories:

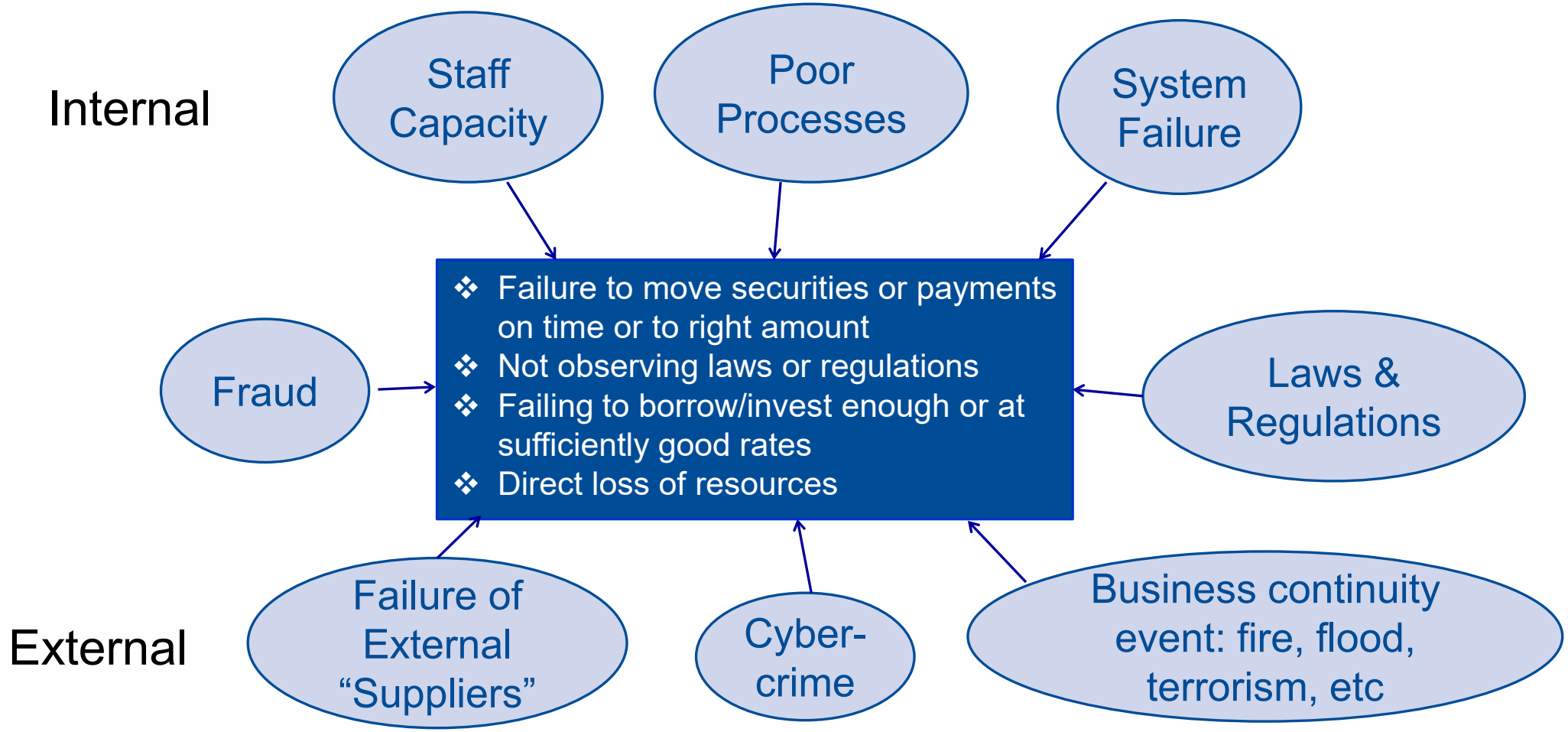
- OR is endogenous to the institution
  - It cannot be captured and measured as easily as credit and market risk
- The management processes are complicated
  - OR is linked to nature and complexity of the activities, to processes and systems in place, and to quality of management and information flows

OR has many sources

- e.g. a lack of discipline, unstable or poorly designed procedures, inertia, change, greed, lack of memory or knowledge, overconfidence, etc
- all factors which cannot be easily quantified, monitored, and reported upon
- Made worse in public sector by added concerns associated with political and reputational risk

…and greatly increases as number of transactions increases

The Main Risk Drivers in a Cash (or Debt) Management Unit?



OR - The Management Framework

- Different techniques (COSO, ISO 3100 etc) – but they have the same underlying approach
- A dynamic process – repeatable with continuous incremental improvement
- Identify lead responsibility for developing process (risk management unit?)
- Integrate with development of the risk management function in wider Treasury/MoF and embed in wider control framework (governance and decision-making, three lines of defence, internal audit)

Action might include…

Risk Responses

- Accept the (residual) risk
- Avoid the risk (e.g. stop a certain service or choose a totally different technological solution)
- Transfer the risk (e.g., insure against losses, outsource to specialists)
- Mitigate (control) the risk, taking measures to reduce the probability of it materialising, and/or reduce the impact of the loss event.

Develop-ment of controls

- Aimed at prevention, detection or mitigation
- Important to separate operations and processing, 4-eyes principle
- Ensure consistent application, monitored by risk unit / internal audit
- Process manuals incorporating controls – keep them simple, as working documents

Supporting Techniques

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Identify key risk drivers, summarizing exposures

Develop key risk indicators

- Activity or volume-based measures that serve as early warning signals for management

Report regularly to senior management

- Changes in the risk profile
- Incidences/exceptions/errors and responses

Risk Management Committee

- Define risk policies & risk appetite, across all risks
- Consider reports from risk unit, and action
- [Türkiye example]

Conclusions

Active cash management implies day to day operational decisions and interactions between debt & cash managers

Organizational separation requires a systematic coordination structure, for accountability and clarity. There is no one template. CCCs internationally operate at different levels, different degrees of formality, different executive powers

Some core characteristics
- CCC brings together debt and cash functions (and others, potentially also CB)
- Main purpose is to consider the cash forecasts and how to respond
- Must also meet regularly, >= once a month, to have operational salience

Some PEMPAL countries have a CCC; range of examples provides guidance for those moving to manage cash more actively

Consider also management of risks arising

Annex: The Example of Albania

Debt and Cash Management Committee

- Established by Ministerial Order 2017
- Chaired by the Deputy Minister (co-chaired by Secretary General of MoF)
- Members: heads of departments of: budget, debt, treasury, fiscal and macroeconomic issues, also heads of borrowing and treasury operations; head of cash management unit is Secretariat. Representative of central bank also attends
- Meetings every month; main issues for discussion are
  - Flows & liquidity for current month and forecast for next period;
  - Borrowing progress in domestic market and expectations for borrowing in the coming periods;
  - Other issues related to liquidity & debt management (eg cash buffer).
  - The decisions taken mainly relate to the approval of the issuance calendars of government securities in the internal market.

Cash Flow Forecasting Working Group

- [Current plans]
- Objective to support efficient decision making by compiling information on the cash flow forecasts of general government units
- Chaired by DG/Treasury and includes representatives of line ministries (together covering ~80 percent of expenditure), of DG/Taxation, DG/Customs, and Municipality of Tirana.
- Group will meet, at the notice of the chair whenever necessary, to compare aggregate cash flow forecasts, assessing also risks and identifying possible policy responses, reporting its conclusions to the DCMC.
- Draft regulation also specifies materials to be submitted before committee meetings

THANK YOU!

“The Role of the Cash Coordination Committee” is available at:
https://www.pempal.org/role-cash-coordination-committee