

Reducing Treasury Risk

Through Active Currency Balance Management

Treasury teams today manage currency balances across dozens of jurisdictions, currencies, and banking relationships. On the surface, many organizations address this by simply holding balances in place or sweeping net surpluses into securities. While these approaches may seem pragmatic, they often introduce unintended risks—credit exposure, liquidity constraints, and operational inefficiencies—that erode treasury’s ability to safeguard corporate cash.

The Limits of Net Balance Investing

A common practice is to net balances and invest the surplus in securities. While this may improve yield, it comes at a cost: exposure to credit and counterparty risk. Corporate cash—intended to remain highly liquid and low risk—is now tied to external issuers whose credit quality and market valuations are outside the company’s control.

Mark-to-market swings, redemption restrictions, or even default risk can undermine treasury’s primary mandate of preserving capital and ensuring liquidity. What appears to be a straightforward strategy can instead compromise resilience.

Case in Point: The Auction-Rate Securities Freeze of 2008

Corporate treasuries—including well-known names such as Aventine Renewable Energy, Ashland Inc., and Best Buy—had parked surplus cash in auction-rate securities (ARS), marketed as cash-equivalent instruments with frequent liquidity via dealer-run auctions. When the ARS market froze in early 2008, these once-liquid holdings suddenly became stranded.

- Aventine Renewable Energy took a \$30 million write-down on its \$127 million ARS portfolio.
- Ashland Inc. placed \$15 million into ARS that locked up within days, disrupting acquisition planning.
- Best Buy held nearly \$400 million in ARS that were transformed overnight from 'near-cash' to illiquid assets.

Lesson: Instruments presented as near-cash can conceal deep liquidity and credit risk—turning routine treasury investments into crisis liabilities.

The Risks of “Doing Nothing”

Conversely, treasuries that avoid optimization altogether expose themselves to inefficiency and hidden funding costs. Idle cash in low-yield or negative-yield currencies quietly erode value, while borrowing

persists elsewhere at higher rates. Liquidity may be stranded in the wrong location or currency, leaving the company reliant on short-term borrowing markets.

Operationally, the lack of systematic oversight means treasurers must rely on manual processes, exposing them to cut-off errors, misallocations, and inconsistent decision-making. Over time, the absence of optimization magnifies risk rather than reducing it.

Case in Point: The Cost of Doing Nothing

A global company holds **\$50 million in idle USD balances earning 0.2%** while simultaneously borrowing **€40 million at 1.5%**. Because the balances are not optimized across currencies, the company is effectively **losing over \$600,000** per year in avoidable funding costs.

Lesson: Even without market crises, 'doing nothing' can quietly drain value. Small mismatches, left unmanaged, accumulate into material costs that weaken both earnings and liquidity flexibility.

Optimization as Risk Control

Currency balance optimization reframes the treasury challenge. Rather than chasing external returns or accepting inefficiency, optimization leverages the company's own multi-currency positions. By reallocating balances within predefined tolerances, treasurers can:

- Reduce reliance on external securities and their inherent credit risks.
- Lower funding costs by matching long and short positions internally.
- Ensure liquidity is available where and when it is needed.
- Transition from reactive, manual decision-making to a disciplined, systematic process.

This approach places control back in the hands of treasury — minimizing risk exposure while still unlocking incremental yield as a by-product of better balance management.

The Role of CPO

Absolute Treasury's **Currency Pool Optimizer (CPO)** was designed to automate this process, embedding risk reduction into daily operations. CPO systematically scans balances across currencies and reallocates only when a clear benefit exists, applying company-defined rules and tolerances.

By doing so, it:

- Reduces reliance on spreadsheets
- Eliminates manual errors
- Ensures optimization happens consistently in real time

For treasuries, CPO is not just a tool for efficiency — it is a framework for lowering operational risk and reinforcing control in an increasingly complex liquidity environment.

Absolute Treasury – an automation technology company building a better treasury for treasurers

Authors: Christopher Dias and Andre Ohanissian

Contact Us at: cjdias@absolutetreasury.com or andre.ohanissian@absolutetreasury.com

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