| 2023 Q2 |

Strategic Treasurer's

Earnings Credit

Program Report

Strategic Treasurer

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SPEND MANAGEMENT SOLUTIONS

Overview

Welcome to the fourth Earnings Credit Report, covering the second quarter of 2023. This report is powered by Feenix, Strategic Treasurer's Fee Management Solution. The purpose of this report is to provide companies with current information on actual earnings credit rates (ECR) applied by banks to their customers. This information and analysis are made possible by the many companies and organizations who submit their account analysis statements (AAS) to Strategic Treasurer. For more information, go to strategictreasurer.com/ecr to participate or learn more.

Historically, most of our account analysis-related data was gathered on an annual basis. In order to provide current information, we increased the frequency of this data gathering and added more companies into our pricing / compensation program. Thank you for your support and for participating in this program. We trust this cache of interesting and useful data provides a worthy ROI for your participation.

Note: The full report is strictly confidential and may only be used by organizations that have submitted their AAS to Strategic Treasurer for the preceding quarter. For others, summary information from this report can be downloaded by clicking on the download icon.

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ecr@strategictreasurer.com | +1 678.466-2211

Executive Summary

In many areas around the globe, inflation has moderated due to the steady increases in interest rates by central banks. Given that inflation hasn't yet moved into the target range, central banks have continued this increase and are being more nuanced in their language about future increases. The increases in central bank rates are impacting other short-term rates, including ECR. This rise in ECR continues to be spotty, varying widely by receiving organization.

As a recap, interest rates began moving off the floor (0%–.25%) at the start of 2022 to combat the inflation that was clearly not 'transitory.' The increases in the interest rates resulted in a 2022 end-of-year rate that sat just under 5%. To get there, the Fed had seven consecutive interest rate increases during 2022, adding 4.5% to the Fed Funds Rate (FFR), which represented the overall fastest increase of rates by the Fed in history. During the 1st quarter, the Fed used two 25 bps increases to bring the rate between 4.75% and 5.00%. During the 2nd quarter (May 3rd), the Fed increased rates by another 25bps. In the beginning of the 3rd quarter, the Fed further raised rates, which now sit in the 5.25-5.5% range.

As we stated in the last report, the ECR earned by companies in changing rate environments tends to follow decreases more closely than rate increases. The rise in ECR has indeed been trailing FFR increases in both size and timeframe. This delay is occurring despite more banks seeking to gather additional assets from their corporate customers. The speed of these rate increases by the central bank is likely causing individual banks to respond with inconsistent changes to their ECR as they try to navigate the potential of two different undesirable outcomes:

Bank Concerns:

1 | Failing to secure adequate deposits at a reasonable cost. Raising rates too slowly or by too small of a margin could result in losing desired balances as clients move to other institutions.

2 | Raising rates too quickly or comprehensively. Paying more interest (or ECR) than is required would unnecessarily reduce interest income.

Corporate Points:

1 | Rates are being raised very unevenly, impacting the overall 'cost' of services. A sizeable minority of companies are paying close attention and are active in having healthy conversations with their banks about ECR.

2 | ECR varies significantly. When looking at the 'rate gap,' we find a spread between the 1st quartile and the 3rd quartile during the 2nd quarter (average) ranging from more than 212bps to 198bps. This difference is found by looking at the top and bottom of the middle 50% of all account analysis statements. The AAS in the upper 25% and the lower 25% are not included in this range.

Companies are well served by understanding the competitive position of interest rates, ECR, and bank fees in times of stability. It is far more urgent in times of rapid change and high volatility that treasury groups monitor this activity more closely and secure competitive rates quickly. We appreciate that those who are participating in this program agree that having more current information and data provides value to your company as you seek to be a good steward over your organization's resources and relationships.

Thank you for sharing AAS information to help provide this broad and deep look at the dynamic ECR changes. Please let us know if you have any suggestions, and we invite you to encourage colleagues from other companies to add their data into the rapidly growing data set.

From the Strategic Treasurer Team

Rates

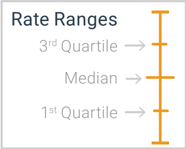
ECR Data

The following sections report ECR data across several different dimensions. These dimensions, or breakouts, include:

- **Overall.** All datasets in aggregate without any dimensional cut. Some comparison will be made within a quarter and from Q4 2022 to Q2 2023.
- **Deposit Level.** Detecting whether companies with larger balances are receiving more competitive rates.
- **Regional.** Pricing for bank services continues to show differences by region, and stratifying ECR by region allows us to see this particular pricing component.
- **Fees Paid.** Analyzing correlations between ECR and fees paid.

ECR Data Explanation. In some of these charts, we show the mean (average of the data set) or the median (middle number from the set) and two quartiles (the 1st and the 3rd). The 1st quartile is the value found by starting from the bottom ECR and moving up through one quarter of the dataset. The 3rd quartile is the rate found by taking the full dataset and moving from the top ECR down through one quarter of the population and selecting that rate.

Overall:



The 1st quartile ECR paid during the 2nd quarter of 2023 increased by 23 bps during the quarter, with a slight dip in May. The median and 3rd quartile rose 10bps and 9bps respectively within the quarter.

Monthly Rates:

MONTH	1ST QUARTILE	MEDIAN ECR (MIDDLE)	3RD QUARTILE
April	0.46%	1.85%	2.58%
May	0.42%	1.95%	2.67%
June	0.69%	1.95%	2.67%
Increase during the period	23 bps	10 bps	9 bps

Chart 1: *1st, 3rd quartiles and median ECR by month (2023 Q2).*

ECR being paid and ECR changes vary significantly between companies. The mean (average) rate of ECR during the 2nd quarter of 2023 sat at 1.71%. The gap between the 1st quartile (0.70%) and the 3rd quartile (2.75%) sat at just over 2% (2.05%), providing additional evidence of the significant and increasing disparity of compensation rates being received. The spread grew by 25bps over the last quarter (Q1 2023) which had a 1.80% gap. The 1st quartile rate increased 47 bps from the previous quarter (from Q1 2023 to Q2 2023). The 3rd quartile rate rose 72 bps during that same timeframe.

Quarterly Rates:

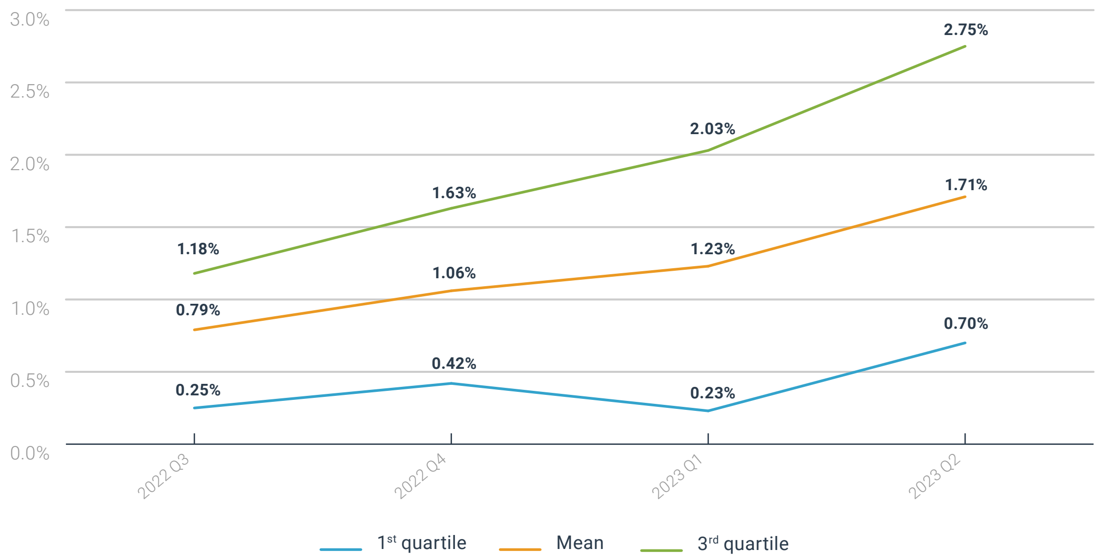
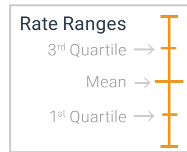


Chart 2: *1st quartile to 3rd quartile spread grows on a quarter over quarter basis: 0.73% – 1.21% – 1.80% – 2.05% (2023 Q2).*



**2022–2023 data shown.*

By Deposit Level:

A correlation continues to exist between companies maintaining a higher collected balance and those earning a higher ECR. It is reasonable to assume that treasury groups would both expect and require higher rates from their banks as they hold larger balances. As you can observe from the nearby chart (Chart 3), companies with higher collected balances have a higher rate for both the 1st quartile and median balance levels. This consistency holds quite well as the balances scale up, with one exception.

As the level of collected balances grows, 3rd quartile rates show consistently higher levels, with a continued exception in the $500K–$5M average collected balance cohort.

Additional information: Our analytical model excludes values that fall outside a certain percentage of the median, 1st quartile, and 3rd quartile and treats them as anomalies.

COLLECTED BALANCES	1ST QUARTILE	MEDIAN	3RD QUARTILE
<$500K	0.52%	0.85%	2.05%
$500K-$5M	0.53%	1.00%	1.95%
$5M-$25M	0.85%	2.10%	3.50%
>$25M	1.98%	2.52%	4.11%

Chart 3: *Larger balances correlate with higher ECR (except for balance between $500K–$5M).*

**2023 Q2.*

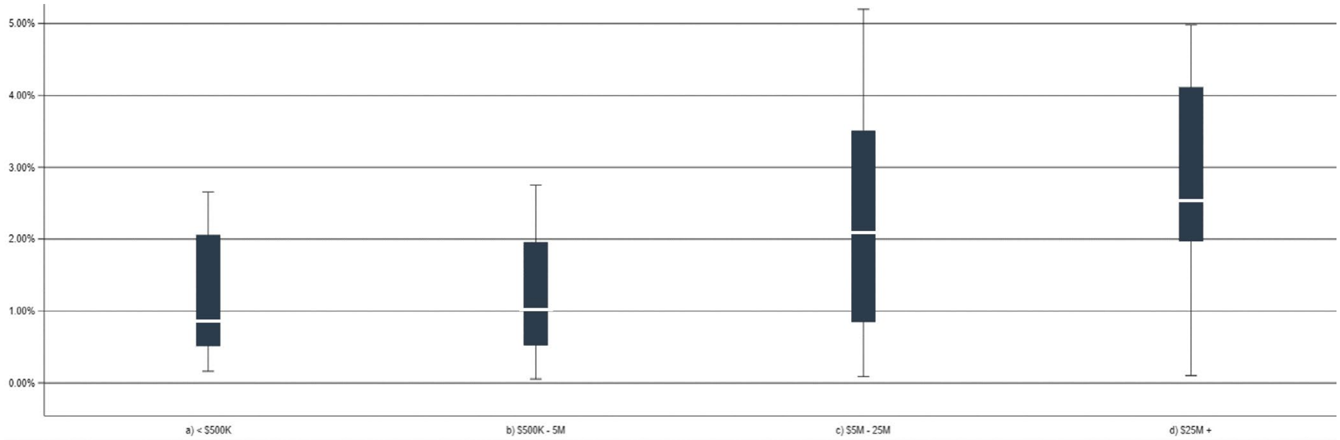


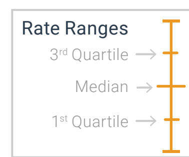
Chart 4: *Chart of collected balances and ECR. This graph does not include statements that reflect an average collected balance of zero.*

**2023 Q2.*

By Fees Paid:

Companies that pay more in bank fees are highly correlated with those receiving a higher ECR. The nearby table and graph show this correlation. The ECR earned on largest balances varies by 100% (2.53% vs. 4.98%). Moving from 1st quartile to 3rd quartile would result in a doubling of ECR.

EST. ANNUAL FEES PAID	1ST QUARTILE	MEDIAN	3RD QUARTILE
<$250K	0.37%	0.85%	2.00%
$250K–1M	0.76%	2.15%	2.98%
>$1M+	2.53%	4.85%	4.98%



**2023 Q2.*

Chart 5: *Chart of account analysis fees paid and ECR. This graph does not include statements that reflect an average collected balance of zero.*

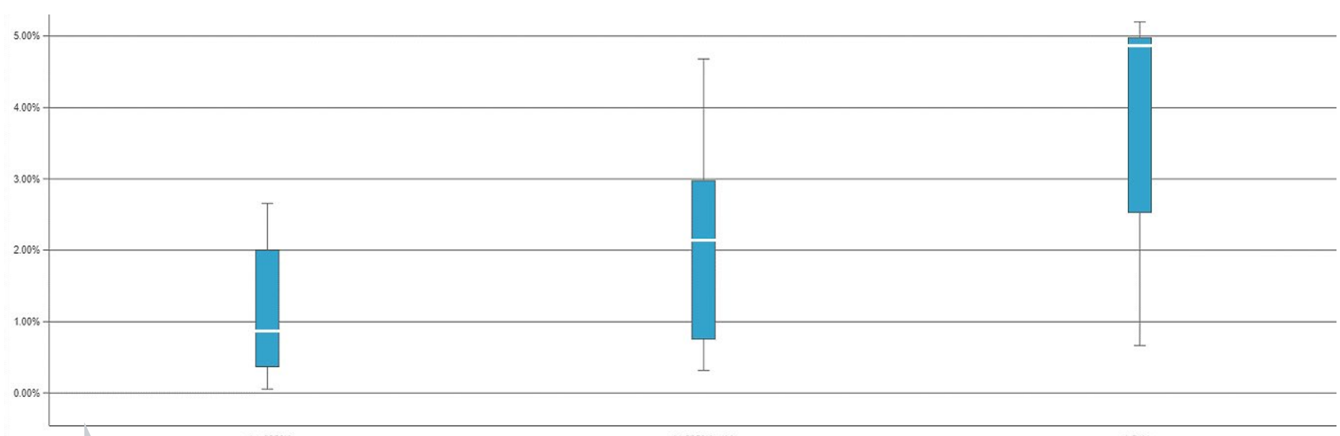


Chart 6: *Graph of fees paid and ECR ranges based upon a subset of the account analysis fees paid categories. This graph does not include statements that reflect an average collected balance of zero.*

Central Bank Rates

Central banks continue to increase their rates to tamp down inflation. The Fed (US) increased rates by 0.25% over the 2nd quarter of 2023 through one 25 bps bump in May (shown in Chart 7). These increases are part of a continued effort to slow the rise of inflation, and inflation has fallen from the peak. The Fed has been more aggressive in its tightening than fellow central bankers from the Bank of England (BoE), the European Central Bank (ECB), and the Bank of Japan (BoJ) (Chart 8).

FED: Rate Increases and Ranges

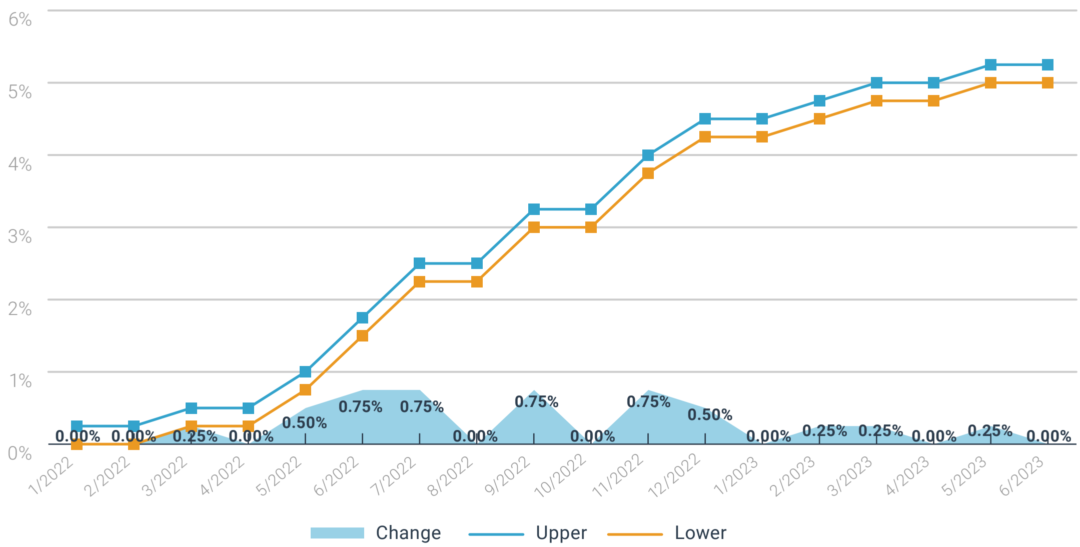
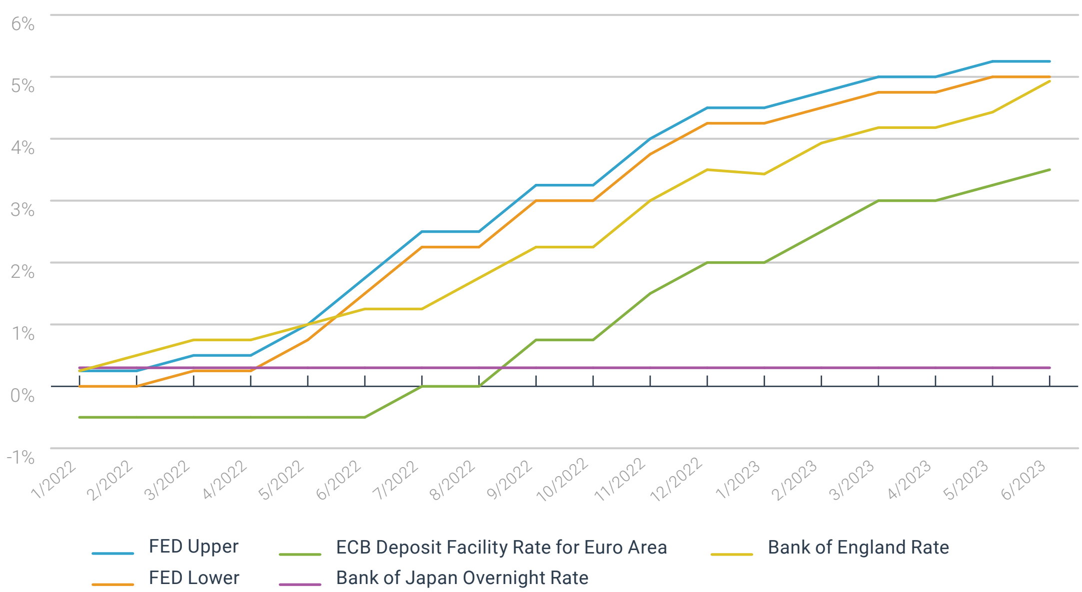


Chart 7: *Interest rate changes (shaded blue) and Fed Funds Rates from 2022 to current.*

**2022–2023 data shown.*

Central Bank Interest Rates:



**2022–2023 data shown.*

Chart 8: *UK increases rates to match lower end of US rate after having a notable gap for over a year.*

Chart 8: *Interest rates of the following central banks: FED (US); BoE (UK); ECB (EU); BoJ (Japan).*

Rate Comparison:

Average composite rate for short-term funds continues to increase the gap, providing banks more interest compensation.

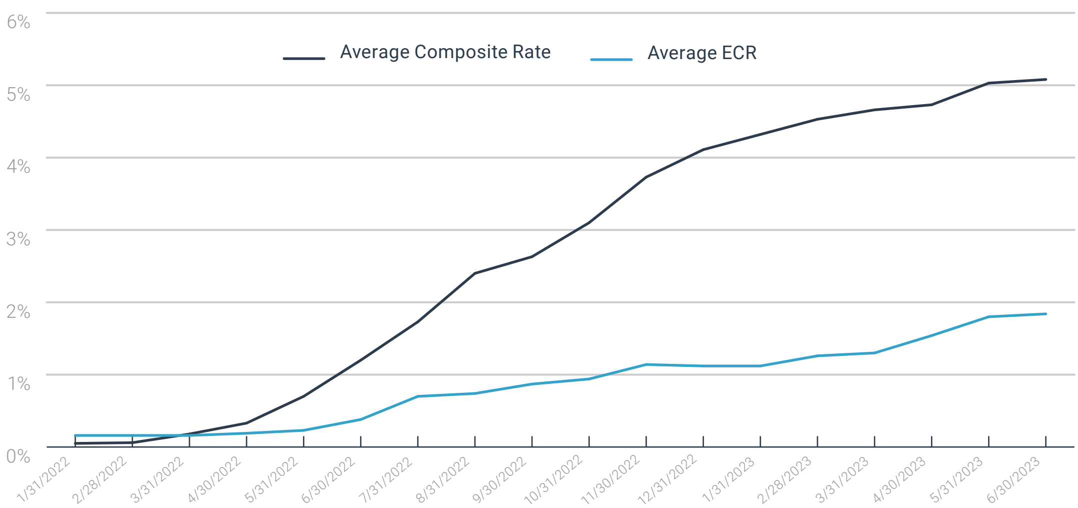


Chart 9: *Average Composite Rate uses eight different short-term investments and rates.*

**2022–2023 data shown.*

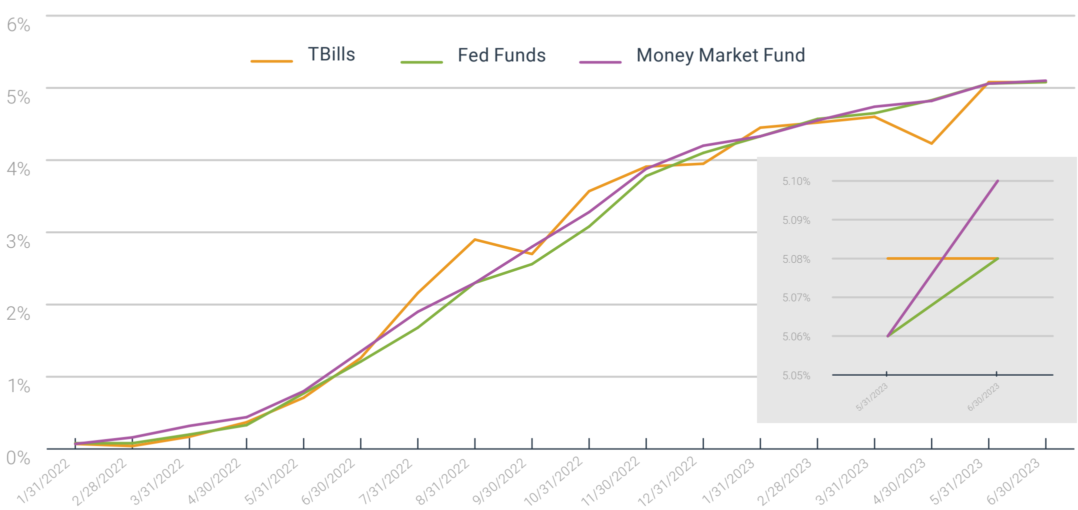


Chart 10: *Money Market Fund/ Fed Funds/ TBills, short-term rates and instruments.*

**2022–2023 data shown.*

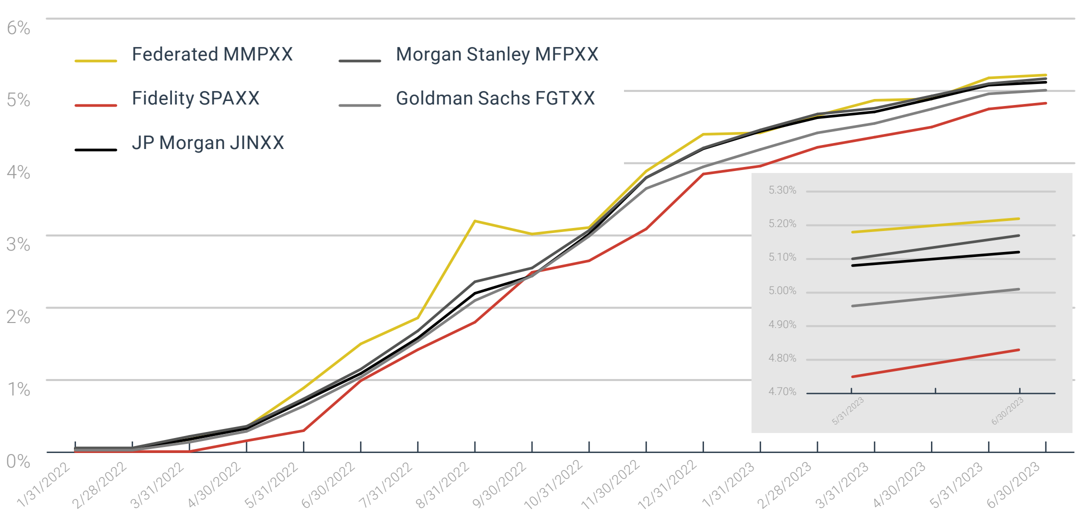


Chart 11: *Rates for various money and short-term funds.*

**2022–2023 data shown.*

Next Steps...

Being armed with data allows you to have a reasonable and fact-based discussion with your banker about your ECR and the overall compensation you are providing. Relationships with your bankers include optimizing multiple important factors that extend beyond ECR. Key factors include the level of credit extended; advice and guidance provided; services and service level delivered; commitment to the relationship; and fees, rates, and overall compensation.

- **Loading Your AAS for Continued Program Participation.** Please load your recent monthly analysis statements. Click on the upload icon to submit 3rd quarter 2023 AAS to receive the next ECR report for Q3 2023.

ANALYSIS STATEMENTS UPLOAD

- **Sharing the ECR Report Information with Peers and Associates.**
  - **Within Your Organization.** Sharing this report within your organization is both allowed and encouraged. Feel free to forward this document along to them.
  - **Outside Your Organization.** If a colleague in another company or with your bank is interested in seeing this report, it will benefit everyone if they join this program. Since this report is confidential, it may not be shared with them. However, there are two options that you can share with them.
    - **Summary Report.** Here is the *link* for the free summary report. This very limited report is available to those who have not submitted analysis information (banks and corporations).
    - **Program Link.** For ease of sharing the program information, you can pass along this *link* in case they wish to join the program. The value proposition is simple: share some information and get more data and insight.

- **Informed Conversations.** If you are talking with your banker, know the data and understand the overall relationship value to your organization and to the bank.

- **Assistance Needed.** If you want to see how we can help by reviewing your bank services, fees, or compensation or by streamlining the services you are using, please contact Jill Selgrad via email at *ecr@strategictreasurer.com* or phone at +1 678.466-2211 to see if getting some professional support here makes sense. For more information on our Feenix services, please go to *strategictreasurer.com/feenix*.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