



CAFRAL

CENTRE FOR ADVANCED FINANCIAL
RESEARCH AND LEARNING

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Transfer Pricing and Balance Sheet Management

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Balance Sheet structure and duration

- Analysis of current balance sheet structure.
Support ALCO in deciding the desired balance sheet structure
- Recommend target duration based on interest rate outlook
- Undertake appropriate derivative transactions to achieve desired balance sheet structure

FTP management and implementation

- Building reference yield curves
- Monitoring existing benchmark curves and evaluating new options
- Setting FTP rates and communicating rates to BU's
- Review of FTP methodology and updation required, if any
- Periodic reconciliation, analysis and reporting

Liquidity management

- Manage liquidity risk of the Bank and ensure liquidity for all business / support segments at on-going basis
- Minimise funding cost through appropriate mix of different instruments of market borrowings
- Optimise yield on deployment of surplus funds through appropriate choice of trade-off between liquidity and return
- Assess liquidity position & Recommend Balance Sheet Management Plan (Funding, Lending and Investment)
- Monitor liquidity stress signals and ensure timely management /monitoring of stress situation in a structured manner, if the need arises
- Ensure CRR maintenance and SLR build-up for compliance

Grey Areas

- Conflict with existing treasury functions
- Banking book-whose responsibility?
- Domestic/foreign borrowings
- Basel III capital optimization
- Treatment of historical portfolio

Taking it forward

- Cost collection, allocation
- Branch/Customer/Product profitability
- Allocating Capital
- RAROC
- Segment Reporting

Should Funding center be a Profit Center or Cost center?

Profit Centre-pros

- Legacy assets/liabilities usually housed in Funding center
- Funding center carries interest rate risk
- Cost of derivative transactions carried by funding unit

Cost Centre-pros

- Branches are not responsible for legacy
- Branches have to deal with credit risk
- Based on HO strategy, where branch has no role to play

- Deciding on methodology for deriving FTP yield curves
- Deciding on pricing of `interactions' between business segments
- Setting target duration for assets and liabilities
- Approving strategy for use of derivatives
- Determining extent and timing of `incentives' for achieving corporate goals
- Reviewing FTP reports

Thank you

