TREASURY

MEANING

Traditionally, the role of the Treasury in Indian banks was limited to ensuring the maintenance of Cash Reserve Ratio (CRR) - which mandates that a minimum proportion of defined liabilities known as net Demand and Time Liabilities (NDTL) be kept as deposit with the central bank and Statutory Liquidity Ratio (SLR) - which obliges banks to invest a specified percentage of their liabilities in notified securities issued by the Government of India and State Governments or guaranteed by them.
The Money Market, therefore, hardly reflected the position of true liquidity in the system.

RBI had initiated various measures to reform the money market and to develop the necessary institutional infrastructure and instruments needed to widen and deepen the money market.

- To start with, Discount and Finance House of India Ltd (DFHI) was set up to provide to the market participants an institutional mechanism (in the form of a market maker) to meet their liquidity requirements by dealing in short term money market instruments like Call and Notice Money, treasury bills, bills rediscounting, etc. Further, steps such as increasing the number of instruments by introducing Commercial Paper (CP) and Certificate of Deposits (CD) greatly contributed to the development of money market.

The sources of profits of treasury are:

- Investments, where the bank strives to earn a higher yield than its cost of funds. **An example is buying a corporate bond yielding 7% and maturing in three years, financed by deposits costing 6%.**
- Spreads between yields on money market assets and money market funding. The bank may, **for instance, borrow short- term for 5% and deploy in commercial paper with returns of 6%.**
- Arbitrage is using the price / interest **rate differential in two markets on similar risk asset class to earn a profit.**
- Proprietary Trading. The aim is to earn **trading profits from movements in security and currency prices during a day** or a few days of trading. These are mostly directional trades.
- Customer Services. Bank treasuries offer their products and services to customers / non-banking customers. **The income of banks from these activities comprises fees for and / or margins on trade execution.**