

The New Treasury Playbook for 2023



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This document is intended to be a living playbook for current treasury best practices for venture-backed startups. It draws from [FirstMark's](#) collective experience through multiple cycles, as well as our [CFO Guild](#), an invite-only community that brings together 400+ CFOs from the venture-backed ecosystem.

The guidelines presented herein are intended exactly as that; guidelines. We encourage all companies to work in close concert with their Board and Legal counsel to develop the right treasury approach for your business. Comments? Please reach out to dan@firstmarkcap.com.

OVERVIEW

[TREASURY FOR STARTUPS](#)

[FINANCIAL RISK MANAGEMENT FOR STARTUPS](#)

[TREASURY AT SCALE](#)

[SVB DEBT LINES & ADDITIONAL CONSIDERATIONS](#)

[BANKS & RELATIONSHIPS](#)

[SAMPLE INVESTMENT POLICY](#)

TREASURY FOR STARTUPS

For early-stage companies (or those with roughly 1-2 years of cash runway), some basic guiding principles for treasury are as follows:

- ✓ **Operating cash:** maintain 90 days of operating cash in multiple banks including a [money center bank](#) at all times; this is capital used for payroll, vendors, etc.
- ✓ **Near-term cash:** additional near-term operating cash (~1 year) held across one and ideally two incremental banking relationships, at least one of which should be with a second money center bank. This cash should be held in liquid accounts: (interest-bearing) savings/checking, money market, or insured cash sweep (ICS) accounts.
- ✓ **Additional cash:** any cash in excess of the above (i.e., cash not needed in the next ~12+ months) can be invested for yield. In a company's early stages, this will be in similar safe and yield-bearing accounts (money market, ICS, or treasuries). Investments are typically executed through these same money center banks or asset managers like Fidelity, Morgan Stanley, and Schwab.

Note: it is important that you have the most direct access to investments possible; [see below for more](#).

Of course, a company should calibrate its treasury approach based on both its total cash position and staffing. For Seed-stage companies, doing much beyond the first two steps above is unnecessary and a poor use of founders' time. Early stage companies can execute all three principles with 1-2 money center bank relationships, coupled with services offered through the likes of Mercury [Treasury](#), "one-click" services that federate deposits across multiple insured and interest-bearing accounts.

Note that the selection of your primary relationships may be influenced by your credit relationships; i.e., many lenders require companies to meet deposit requirements as a term of their credit lines.

Making it Concrete: A Real-World Example

Let's use the example of a Series A startup that has \$10M of cash, with \$500K of net operating expenses each month:

- ✓ **Operating cash:** \$1.5M in a JPMorgan Chase checking account
- ✓ **Near-term cash:** \$4.5M across two incremental accounts, Wells Fargo and First Republic
- ✓ **Invested cash:** \$4.0M directly invested in laddered treasuries through Fidelity

Definitions for those New to Treasury

Money Center Bank: these are banks that access capital primarily through money markets instead of deposits. The four highest-profile of these are JP Morgan Chase, Bank of America, Wells Fargo, and Citibank.

Insured Cash Sweep: product that federates deposits across multiple FDIC-insured bank accounts, in order to both insure your deposits while also giving you the opportunity to earn yield. Note that the pros of ICS products are to fully insure your deposit; while the risk is that,

should an operating issue affect your primary bank, you may struggle to access the federated cash when you need it the most. [See below for additional detail.](#)

FINANCIAL RISK MANAGEMENT FOR STARTUPS

Fundamentally, financial risk management for startups is as simple as asking “what if” questions about your business: “what happens if I lose access to my primary bank?”, “what happens if our payment processor goes down?”, and so on.

In this vein, one of the top lessons of the 2023 SVB crisis was for companies to **understand where your assets are custodied**. In the context of treasury, a *custodian* refers to an entity that officially holds a company’s cash or securities for safekeeping.

Why does this matter? Because in 2023, many companies discovered that although their capital was invested directly in safe assets, like treasuries, those assets were held by a third-party entity *that companies did not have direct access to*. In practice, this meant that companies could not liquidate or transfer those assets without the explicit approval of SVB—making them useless in the midst of a potential cash crunch. While some were able to resolve issues with calls up and down the custodial chain, this is *not* where to spend time in a crisis.

To get ahead of this, leaders should:

- ✓ **Have co-custody and/or relationships throughout the custody chain.** If your assets are custodied by a third party, make sure you have co-custody (i.e., can access, liquidate, and transfer assets without your investment advisor), or at a minimum, have active contacts at those entities.
- ✓ **Think through timing implications.** Remember that many aspects of money management require time and processes that are out of your control. For example, the sale of assets may take 24 hours to settle; payroll may be debited 48 hours in advance of employees’ getting paid; etc. Understand and plan ahead for the interplay of these timing constraints.
- ✓ **Know the type(s) of risk you’re taking.** In the 2023 SVB crisis, startups experienced the consequences of exposure to Bank Risk; if you were invested in an ICS, you were (generally speaking) fine. In 2008, we saw Market Risk, as even “safe” money market fund traded down. Be thoughtful about where your money is stored, the type(s) of risk you’re taking, and how you’re mitigating that risk.

The second major takeaway of the 2023 SVB crisis is to **plan ahead for the loss of critical financial infrastructure**. Depending on the maturity of your company, it's irrational to think that you can or should have a full backup for every contingency. Even so, leaders should absolutely consider what it means to lose a critical piece of infrastructure. What will be the impact on your business, your customers, and your employees? How difficult or time-consuming will it be to replace that infrastructure? This helps you make an *active* decision about whether to build hard or soft contingency plans.

Finally, a handful of other tactics beneficial to leaders during times of turmoil and uncertainty:

- ✓ **Cultivate multiple debt relationships.** While this adds friction, it also adds resilience
- ✓ **Keep wire templates & controls up to date.** This is not something to revisit mid-crisis
- ✓ **Pre-fund payroll.** Consider funding slightly ahead of payroll timelines to give you space.

TREASURY AT SCALE

Companies that have raised significant capital (typically, those with more than two years of available cash) may seek additional investment options beyond basic treasuries or interest-bearing bank accounts.

Note two important principles: first, no startup has ever “won” because of its treasury practices; the attention of founders and CFOs alike is best directed at the fundamentals of the business. Second, in a certain sense, a more refined investment strategy doesn't make sense until the incremental yield generated by that strategy more than pays for itself, and therefore justifies the full-time attention of a Finance team member.

Typically, the maturity of the treasury function follows this trajectory:

- ✓ **Formal, Board-approved investment policy:** as a company matures, you will need to have a formal, Board-approved investment policy that explicitly states where excess cash is invested; what investment decisions can be made by company executives; and what investment decisions need Board approval. This will typically occur around the time you hire your [first CFO](#).
- ✓ **Non-sweep & treasury investments:** at larger scale, generating additional yield beyond that available through interest-bearing accounts, money market accounts, or treasuries becomes material. These investments typically involve a mix of the same assets already discussed in addition, e.g., corporate or municipal bonds; institutional asset managers like

those at the money center banks (as well as Morgan Stanley, Fidelity et al) have experience developing investment portfolios to balance risk against additional yield.

As a company matures to and beyond the public markets, the treasury function becomes far more sophisticated, with one or more team members dedicated to the practice. The playbook for that evolution is outside of the scope of this document.

SVB DEBT LINES & ADDITIONAL CONSIDERATIONS

One of the most important medium-term issues that many companies will face: *what happens to venture debt lines that companies have established with SVB?* The short answer is that, as of right now, we don't know. But to prepare for all scenarios, companies are encouraged to:

- ✓ **Be vigilant & deliberate about debt covenants:** as of now, it is unclear what entity will ultimately own your venture debt line. Therefore, it is important to be mindful and deliberate about covenants, since *the next holder of the debt may be looking for any reason to call back capital.*

For example, companies that urgently moved cash in the midst of the SVB crisis may have arguably violated their covenants; and some of those companies are relying on a 10-day "cure period" explicitly written into the agreement. *In any case, your imperative is to understand the ins and outs of your specific agreement.*

- ✓ **Plan on a net cash basis:** given near-term uncertainty, it is not prudent for companies to plan as if your venture debt line will be fully available. Therefore, all companies should plan on a net cash basis; i.e., if you hold \$20M in cash and have drawn \$5M of venture debt, plan your business as if you only have \$15M of cash.
- ✓ **Adopt lessons learned in future debt (re)financings.** What startups experience during the 2023 SVB crisis should inform new or refinanced venture loans. The simplest example: pushing for lower deposit requirements to continue to enable your banking diversification. *As of this writing, SVB is open for business—and wants your business—so now may present a window for amending your loan agreement.*

Looking ahead, our intention is to make this a living, breathing guide of best practices—both evergreen best practices for a startup's approach to treasury, as well as important lessons learned from 2023.

BANKS & RELATIONSHIPS

Note: If you reach out directly, please mention your affiliation to FirstMark as an investor or member of our Guilds community. If you have additional banks or contacts to recommend, please contact dan@firstmarkcap.com.

MONEY-CENTER BANK CONTACTS

Bank of America

Shawn M. Hoyer
shawn.m.hoyer@bofa.com
MD | Venture Capital Coverage
347.753.2692

Wells Fargo

Rahul Baig
MD | Venture Capital Coverage
rahul.baig@wellsfargo.com

JPMorgan Chase

See footnote¹ for details
Business Banking
jpmorgan.com/commercial-banking

NON-MONEY CENTER BANKS

BNY Mellon | bnymellon.com

Brex | brex.com

Shai Goldman
sgoldman@brex.com

BridgeBank | bridgebank.com

Greg Dietrick
Sr Dr | Venture Capital
greg.dietrick@bridgebank.com

Capital One | capitalone.com

Charles Schwab | schwab.com

City National Bank | cnb.com

Bill Sweeney
bill.sweeney@cnb.com

Comerica | comerica.com

Kevin Urban
kturban@comerica.com
SVP & Market Manager

Fifth Third Bank | 53.com

First Republic | firstrepublic.com

Gary D. Farro
gfarro@firstrepublic.com
Executive Managing Director

HSBC | hsbc.com

Andrew Oddo
andrew.odd@us.hsbc.com
Managing Director – HSBC Innovation Banking

Mercury | mercury.com

Nick Dellis
nick.dellis@mercury.com
VP Revenue

Morgan Stanley | morganstanley.com

Raj Patnaik
raj.patnaik@morganstanleypwm.com
Managing Director

Silicon Valley [Bridge] Bank

Arianne Perry
arperry@svb.com
MD | VC Relationships

Stifel | bankwithstifel.com

Brad Ellis
bellis@stifelbank.com
MD | VC Banking & Lending

US Bank | usbank.com

¹ Contact paula.s.root@jpmorgan.com and **include the following info:** Current banking partner, Company legal name, Company address, Contact name, Contact phone, Contact email, Website

SAMPLE INVESTMENT POLICY

Important: closely consult with your Board and counsel before adopting a formal investment policy.

PURPOSE

The purpose of this policy is to establish a clear understanding between _____ (the “Company”) and investment manager(s) regarding investment objectives and policies.

OBJECTIVES

The Company's primary objectives when investing excess cash are, in order of importance:

- Preservation of principal
- Maintenance of liquidity that is sufficient to meet cash flow requirements
- Maximize total return - capture market rate of return consistent with the parameters of this policy and market conditions

ROLES AND RESPONSIBILITIES

This policy is approved by the Company’s Board of Directors. The Company will review the investment policy on an as needed basis, ideally at least annually. Any significant changes to the investment policy, as determined by the CEO and/or CFO, are required to be approved by the Company's Board of Directors.

The Company's Chief Executive Officer (CEO) or Chief Financial Officer (CFO) or any individual designated by them ("the Company") will review the Company's cash flow requirements and determine the amount of liquidity required for working capital. Funds not required for working capital can be invested in a managed portfolio of fixed income securities within the guidelines set forth below. The Company may employ the services of a Registered Investment Advisor (RIA), a broker dealer and/or Commercial Bank, to handle a portion or all of the investment activities of the Company consistent with the guidelines set forth in the investment policy.

The CFO will review current investments for compliance with this policy and monitor whether the Company meets the definition of an “investment company” under the Investment Company Act of 1940. If any investments are out of compliance with this policy, or the Company meets the

definition of an investment company, the CFO, working with the CEO, will identify ways to remedy the problem, by liquidating any investments or through other means. The CFO will report on at least an annual basis to the Company's Audit Committee on the condition of the Company's investment portfolio.

INVESTMENT GUIDELINES

1. Approved Instruments

The funds will be invested only in fixed income instruments denominated and payable in U.S. dollars. The following investments are considered appropriate:

- Money market funds registered according to SEC Rule 2a-7 of the Investment Company Act of 1940; fund size must be at least \$5 billion
- U.S. Treasury Securities, specifically U.S. Treasury Bills, U.S. Treasury Notes, and U.S. Treasury Bonds
- U.S. Government Agencies, specifically Federal Home Loan Bank, Fannie Mae, Freddie Mac, and/or Federal Farm Credit Bank
- FDIC-Guaranteed Certificates of Deposit (CD's) and Time Deposits
- [_____]

2. Prohibited Investments

All investments that are not listed as Approved Instruments in section 1. above are prohibited. The following investments are specifically prohibited (not a complete listing):

- Collateralized debt obligations, collateralized loan obligations
- Structured investment vehicles
- Auction rate securities
- Extendable commercial paper
- [_____]

3. Credit Quality

At the time of purchase, investments which bear a *short-term* credit rating must have a minimum rating and be explicitly rated by two of the following rating services: A2 by Standard & Poor's, P2 by Moody's and/or F-2 by Fitch.

At the time of purchase, investments which bear a *long-term* credit rating must have a minimum rating and be explicitly rated by one of the following rating services: A by Standard & Poor's, A3 by Moody's and/or A- by Fitch.

Asset-backed securities with a long-term credit rating must be rated AAA or equivalent by at least one NRSRO. Asset-backed securities with a short-term credit rating must be rated A-1+ or equivalent by at least one NRSRO.

Overnight money market mutual funds must be AAA rated by at least one of the three ratings agencies mentioned above

If securities are downgraded by one of the above rating agencies, the investment manager will be required to send notification of the downgrade to the Company and recommended action within two business days of the downgrade event. If a security's rating drops below the minimum ratings above, the investment manager will recommend the action to be taken in the downgrade notice, and may hold the security, unless specifically instructed to be sold by the Company.

Repurchase agreements will be at least 102 percent collateralized with securities issued by the U.S. government or its agencies.

4. Diversification

Securities of a single issuer valued at cost at the time of purchase should not exceed [5] percent of the market value of the portfolio or [\$X] million, whichever is greater. For purposes of this diversification restriction, securities of a parent company, subsidiaries, entities acquired or merged will be combined. Securities issued by the U.S. Treasury and U.S. government agencies and overnight money market funds are specifically exempted from these restrictions.

5. Marketability/Liquidity/Trading

For accounting purposes, all investments will be designated as "Available for Sale" as defined by FASB Accounting Codification ASC320, "Investments - Debt and Equity Securities." Thus, investments may be sold prior to maturity to preserve capital or to provide required liquidity or for other reasons determined by the Registered Investment Advisor. In addition, trading of securities is permitted by outside investment managers to realize capital gains or losses within the context of maximizing after-tax total return.

6. Maturity/Portfolio Duration

At the time of purchase, the final maturity of each security within the portfolio shall not exceed [24] months. The weighted average maturity of the portfolio will be no greater than [12] months.

In the case of asset-backed securities, the average life of the security shall be used to determine the maximum maturity threshold and the weighted average maturity of the portfolio.

With respect to any eligible instrument that has an interest rate that is reset periodically, the reset date shall be used to determine the maximum maturity limit. The reset date should also be used for the weighted average maturity calculation.

7. Performance Measurement

The investment manager should meet with the Company quarterly and will be available for regular contact. Investment performance for the portfolio will be measured against the agreed upon benchmark.

8. Transparency and Verification

Assets are to be held in a segregated third-party custodial account with separate custody agreement executed between the custodian and the Company. The SSAE 16 report of the custodian will be provided annually.

9. Fiduciary Discretion

The Chief Financial Officer or other individual appointed by the Board and his/her authorized employees are responsible for securing and managing investments and cash for operations.

These individuals have full discretion to invest any excess capital subject to strict adherence to these guidelines.

These guidelines are to be reviewed periodically with the Chief Financial Officer or Chief Executive Officer and revisions made consistent with objectives set forth herein.