### PART I

#### Introduction to the Study of Treasury Management

**CHAPTER 1: THE ROLE OF TREASURY MANAGEMENT**

I. Introduction

II. The Role and Organization of Treasury Management
   - A. Overall Goal and Objectives
   - B. Treasury Operations/Cash Management
   - C. Bank Relationship Management
   - D. Reporting and Information Sharing

III. Finance and Treasury Organization
   - A. Financial Professionals in an Organization
   - B. Treasury Organizational Structure

IV. Corporate Governance
   - A. The Challenges of Corporate Governance
   - B. Role of the Board of Directors in Treasury Management

V. Summary

### PART II

#### The Treasury Management Environment

**CHAPTER 2: REGULATORY AND LEGAL ENVIRONMENT**

I. Introduction

II. General Regulatory Environment
   - A. General Types of Financial Institution (FI) Regulations

III. Primary Regulators and Standard Setters of Global Financial Markets
   - A. Central Banks
   - B. Financial Stability Board (FSB)
   - C. Bank for International Settlements (BIS)
   - D. Basel Committee on Banking Supervision (BCBS)
   - E. European Payments Council (EPC) and SEPA
   - F. European Securities and Markets Authority (ESMA)
   - G. International Organization of Securities Commissions (IOSCO)
   - H. International Association of Deposit Insurers
   - I. Financial Action Task Force (FATF)
   - J. International Association of Insurance Supervisors (IAIS)
   - K. Central Banks
   - L. Financial Stability Board (FSB)
   - M. Financial Stability Board (FSB)
   - N. International Organization of Securities Commissions (IOSCO)
   - O. International Association of Deposit Insurers
   - P. European Payments Council (EPC) and SEPA
   - Q. European Securities and Markets Authority (ESMA)
   - R. International Association of Insurance Supervisors (IAIS)
   - S. Financial Action Task Force (FATF)

IV. U.S. Legal and Regulatory Environment
   - A. Regulatory Agencies
   - B. U.S. Legal Environment

V. Summary
# Table of Contents

V. Tax Considerations  
   A. Unitary Taxes and Foreign Tax Credits  
   B. Capital Tax  
   C. Asset Tax and Turnover Tax  
   D. Withholding Tax  
   E. Sales and Use Tax  
   F. Other Taxes  

VI. Bankruptcy (Insolvency) Laws  
   A. Critical Issues in a Business Bankruptcy Decision  
   B. Bondholders’ Rights  
   C. Shareholders’ Rights  
   D. Types of Bankruptcy in the U.S.  
   E. Formal versus Informal Bankruptcy Procedures  

VII. Summary  

Appendix 2.1: SEPA Member States  

## CHAPTER 3: BANKS AND FINANCIAL INSTITUTIONS  

I. Introduction  

II. Financial Institutions: Functions and Services  
   A. Global FIs  
   B. Commercial Banks  
   C. Investment Banks and Brokerage Firms  
   D. Credit Unions  
   E. Special Purpose Financial Institutions  

III. Summary  

## CHAPTER 4: PAYMENT SYSTEMS  

I. Introduction  

II. Payment Systems Overview  
   A. Basic Payments  
   B. The Payment Process  
   C. Settlement versus Finality  
   D. Types of Payments  

III. Cash Payments  

IV. Check-Based Payments  
   A. On-Us Check Clearing  
   B. Transit Check Clearing  
   C. Foreign Checks  
   D. Endpoints  
   E. Deadlines and Deposit Timing  
   F. Availability Schedules  
   G. Balances and Float  
   H. Other Check-Processing Factors That Influence Availability  
   I. Additional Paper-Based Instruments  

V. Large-Value Electronic Funds Transfer (EFT)/Wire Transfer Systems  
   A. Real-Time Gross Settlement (RTGS) Systems  
   B. Clearing House Interbank Payments System (CHIPS)  
   C. TARGET2 and the Single Euro Payments Area (SEPA)  
   D. Continuous Linked Settlement (CLS)  
   E. Society for Worldwide Interbank Financial Telecommunication (SWIFT)
ESSENTIALS OF
TREASURY MANAGEMENT
FOURTH EDITION

Table of Contents

VI. Small-Value Transfer or Automated Clearinghouse (ACH) Systems

VII. Card-Based Payment Systems
   A. Credit Cards
   B. Debit Cards/EFTPOS
   C. Other Varieties of Payment Cards
   D. Payment Card Industry Data Security Standard (PCI DSS)
   E. Merchant Card Fees

VIII. Summary

CHAPTER 5: MONEY MARKETS
I. Introduction
II. Global Money Markets
   A. Money Market Participants
   B. Investment Risk Considerations
   C. Types of Money Market Instruments and Investments

III. Short-Term Money Markets in the United States
   A. Processing and Clearing of Short-Term Investments in the U.S.
   B. U.S. Money Market Participants
   C. U.S. Federal Agency and Government-Sponsored Enterprise (GSE) Securities
   D. Municipal Notes, Variable Rate Demand Obligations (VRDOs) and Tax-Exempt Commercial Paper (CP)

IV. Summary

CHAPTER 6: CAPITAL MARKETS
I. Introduction
II. Overview of Capital Markets
   A. The Basics
   B. Key Participants
   C. Division of the Capital Markets
   D. Security Exchanges and Over-the-Counter (OTC) Markets

III. Debt Market
   A. Medium- and Long-Term Borrowing
   B. Other Factors in Using Debt as a Source of Capital

IV. Equity (Stock) Securities
   A. Common Stock
   B. Preferred Stock
   C. Hybrid Securities
   D. Depositary Receipts (DRs)

V. Summary
Appendix 6.1: Listing of the World’s Top 10 Stock Exchanges

CHAPTER 7: RELATIONSHIP MANAGEMENT AND VENDOR SELECTION
I. Introduction
II. Relationship Management
   A. Number of Bank Relationships
   B. Documentation
   C. Performance Measurement and Evaluation
### Table of Contents

#### III. Vendor Selection and the Request for Proposal (RFP) Process
   - A. Getting Started
   - B. RFP Design
   - C. RFP Administration

#### IV. Bank Compensation Practices
   - A. Billing for Bank Services
   - B. Value Dating
   - C. Account Analysis in the US Commercial Banking System
   - D. Comparing and Monitoring Costs among Financial Services Providers

#### V. Assessing Service Provider Risk
   - A. Assessing Operational Risk for Service Providers
   - B. Assessing Financial Services Provider (FSP) Risk
   - C. Sovereign and Political Risk
   - D. Managing Confidential Information and Conflicts of Interest
   - E. Legal and Ethical Issues

#### VI. Summary

---

### PART III

#### Working Capital Management

**CHAPTER 8: INTRODUCTION TO WORKING CAPITAL MANAGEMENT**

I. Introduction

II. Overview of Working Capital
   - A. Operating Cash Flows and Timelines
   - B. Float

III. The Working Capital Cash Conversion Cycle (CCC)
   - A. Days’ Inventory or Inventory Conversion Period
   - B. Days’ Receivables or Receivables Conversion Period
   - C. Days’ Payables or Payables Conversion Period
   - D. Calculating the Cash Conversion Cycle (CCC)
   - E. Evaluating the Impact of Changes to the Cash Flow Timeline

IV. How Changes in Current Accounts Impact External Financing
   - A. Changes in Current Assets
   - B. Changes in Current Liabilities
   - C. External Financing Requirements

V. Working Capital Investment and Financing Strategies
   - A. Current Asset Investment Strategies
   - B. Current Asset Financing Strategies
## Table of Contents

### VI. Management of Credit and Accounts Receivable (A/R)
- A. Relationship Between Treasury and Credit Management
- B. Trade Credit Policies
- C. Billing and Collection Methods
- D. Forms of Credit Extension
- E. Cash Application
- F. Considerations Pertaining to Terms of Sale
- G. Financing Accounts Receivable (A/R)

### VII. Management of Inventory
- A. Elements of Basic Inventory Policy
- B. Inventory Financing Alternatives

### VIII. Management of Accounts Payable (A/P)
- A. Disbursement System Considerations
- B. Types of A/P and Disbursement Systems

### IX. Multi-national Working Capital Management Tools
- A. Multicurrency Accounts
- B. Netting
- C. Leading and Lagging
- D. Re-Invoicing
- E. Internal Factoring
- F. In-house Banking
- G. Export Financing

### X. Summary

### CHAPTER 9: WORKING CAPITAL METRICS

#### I. Introduction

#### II. Basic Financial Concepts
- A. Time Value of Money
- B. Opportunity Cost

#### III. Fundamental Working Capital Metrics
- A. Current Ratio
- B. Quick Ratio
- C. Cash Flow to Total Debt Ratio
- D. Total Working Capital

#### IV. Calculation of the Cash Conversion Cycle (CCC)
- A. Days’ Sales in Inventory (DSI)
- B. Days’ Receivables (DR)
- C. Days’ Payables (DP or DPO- Days’ Payables Outstanding)
- D. Cash Conversion Cycle (CCC)
- E. Cash Turnover
- F. Days of Working Capital (DWC)
- G. Cash Conversion Efficiency

#### V. Cash Discount Calculations
- A. Costs to a Buyer of Not Taking the Cash Discount
- B. Financial Impact to a Seller of Offering a Cash Discount

#### VI. Accounts Receivable (A/R) Monitoring and Control
- A. Days’ Sales Outstanding (DSO)
- B. Accounts Receivable (A/R) Aging Schedule
- C. Accounts Receivable (A/R) Balance Pattern

#### VII. Collections and Concentration Calculations
- A. Lockbox Cost/Benefit Analysis
- B. Cash Concentration Break-Even Analysis

#### VIII. Summary
### Table of Contents

**CHAPTER 10: COLLECTIONS, CONCENTRATION, AND DISBURSEMENTS**

I. Introduction

II. Disbursements
   A. Disbursement Management Products
   B. Electronic Disbursement Products
   C. Card Payments
   D. Outsourced Accounts Payable (A/P) Services
   E. Managing Disbursement Information

III. Collections
   A. Collecting Payments
   B. Domestic Collection Products
   C. Cross-Border Collections and Trade Management Products

IV. Concentration of Funds
   A. Domestic Concentration of Funds
   B. Global Concentration of Funds

V. Payments Fraud

VI. Summary

**CHAPTER 11: SHORT-TERM INVESTING AND BORROWING**

I. Introduction

II. Managing Short-Term Investments
   A. In-House vs. Outsourced Management of Short-Term Investment Portfolio
   B. Short-Term Investment Policies
   C. Investment Strategies
   D. Reporting

E. Securities Safekeeping and Custody Services
F. Investment Risk Considerations

III. Pricing and Yields on Short-Term Investments
   A. Factors Influencing Investment Pricing
   B. Yield Calculations for Short-Term Investments

IV. Managing Short-Term Financing
   A. Short-Term Funding Alternatives
   B. Pricing and Costs of Principal Short-Term Financing Sources

V. Debt Financing
   A. Costs of Borrowing
   B. Basic Components of Interest Rates
   C. Base Rates
   D. Short-Term Versus Long-Term Borrowing
   E. Loan Agreements and Covenants
   F. Credit Rating Agencies (CRAs)

V. Summary

Appendix 11A: Listing of Some Major Credit Rating Agencies

**CHAPTER 12: LONG-TERM AND CAPITAL INVESTMENTS**

I. Introduction

II. Managing Capital Market Investments
   A. Objectives of Capital Market Investments
   B. The Asset Allocation Decision
   C. Long-Term, Fixed-Income (Debt) Portfolio Management
   D. Equity (Stock) Portfolio Management
### Chapter 13: Cash Forecasting

<table>
<thead>
<tr>
<th>Section</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Introduction</td>
<td></td>
</tr>
<tr>
<td>II. Purpose of Cash Forecasting</td>
<td></td>
</tr>
<tr>
<td>III. Issues and Opportunities in Forecasting</td>
<td></td>
</tr>
<tr>
<td>A. Simplicity</td>
<td></td>
</tr>
<tr>
<td>B. Collaboration and Communication</td>
<td></td>
</tr>
<tr>
<td>C. Duplication</td>
<td></td>
</tr>
<tr>
<td>IV. Types of Forecasts</td>
<td></td>
</tr>
<tr>
<td>A. Purpose</td>
<td></td>
</tr>
<tr>
<td>B. Forecasting Horizons</td>
<td></td>
</tr>
<tr>
<td>C. Update Frequency</td>
<td></td>
</tr>
<tr>
<td>D. Projected Closing Cash Position</td>
<td></td>
</tr>
<tr>
<td>V. The Forecasting Process</td>
<td></td>
</tr>
<tr>
<td>A. Cash Flow Components</td>
<td></td>
</tr>
<tr>
<td>B. Degree of Certainty</td>
<td></td>
</tr>
<tr>
<td>C. Data Identification and Organization</td>
<td></td>
</tr>
<tr>
<td>D. Selection and Validation of the Forecasting Method</td>
<td></td>
</tr>
<tr>
<td>VI. Forecasting Methods</td>
<td></td>
</tr>
<tr>
<td>A. Short-Term Methods Forecasting Method</td>
<td></td>
</tr>
<tr>
<td>B. Medium- and Long-Term Forecasting Methods</td>
<td></td>
</tr>
<tr>
<td>C. Statistical Methods in Forecasting</td>
<td></td>
</tr>
<tr>
<td>VII. Best Practices of Cash Forecasting</td>
<td></td>
</tr>
<tr>
<td>VIII. Summary</td>
<td></td>
</tr>
</tbody>
</table>
PART IV

Risk Management

CHAPTER 15:
OPERATIONAL AND ENTERPRISE RISK MANAGEMENT

I. Introduction
II. General Risk Management
   A. The Risk Management Process
   B. Techniques Used to Measure Risk
   C. Risk Profile
   D. Risk Management Policy and Governance

III. Enterprise Risk Management (ERM)
   A. Market Risk
   B. Credit Risk
   C. Operational Risk
   D. Liquidity Risk
   E. Legal and Regulatory Compliance Risk
   F. Event Risk
   G. Business Risk
   H. Strategic Risk
   I. Reputation Risk

IV. Operational Risk Management
   A. Internal Operational Risks
   B. External Operational Risks
   C. Fundamental Factors for Operational Risk Management Strategy

V. Disaster Recovery and Business Continuity
   A. Developing an Effective Disaster Recovery (DR) Plan
   B. Creating a Communication Plan
   C. Implementing the Plan
   D. Performing Periodic Testing

VI. Insurance Management
   A. Using Insurance Contracts to Manage Risk
   B. Dealing with Insurance Providers
   C. Insurance Risk Management Services
   D. Risk-Financing Techniques

VII. Summary

CHAPTER 16:
FINANCIAL RISK MANAGEMENT

I. Introduction
II. Overview of Financial Risk Management in Treasury
   A. Interest Rate Risk
   B. Foreign Exchange (FX) Risk
   C. Commodity Price Risk
   D. Managing Financial Risk

III. Derivative Instruments Used as Financial Risk Management Tools
   A. Forwards
   B. Futures
   C. Swaps
   D. Options
   E. Comparison

IV. Foreign Exchange (FX) Risk Management in Treasury
   A. Challenges in International/Global Treasury Management
   B. Foreign Exchange (FX) Rates
   C. Emerging Markets
### Table of Contents

#### V. Currency Derivatives Used to Hedge Foreign Exchange (FX) Exposure
   - A. Currency or Foreign Exchange (FX) Forwards
   - B. Currency Futures
   - C. Currency Swaps
   - D. Currency Options
   - E. Hedging Tools Available for Exotic Currencies

#### VI. Interest Rate Exposure and Risk Management
   - A. Interest Rate Forwards
   - B. Interest Rate Futures
   - C. Interest Rate Swaps
   - D. Interest Rate Options

#### VII. Commodity Price Exposure

#### VIII. Other Issues Related to Financial Risk Management
   - A. Accounting Issues
   - B. Tax Issues Related to Hedging
   - C. Hedging Policy Statement

#### IX. Summary

#### CHAPTER 17: TREASURY POLICIES AND PROCEDURES

#### I. Introduction

#### II. Overview of Treasury Policies and Procedures
   - A. The Role of Treasury Policies and Procedures
   - B. Why Treasury Policies and Procedures Are Needed

#### III. Guidelines for Creating Policies and Procedures
   - A. Key Control Considerations
   - B. Writing the Policy
   - C. Approval of the Policy
   - D. Policy Reviews, Updates, and Revisions
   - E. Procedure Development and Implementation

#### IV. Policy Development Example: Short-Term Investment Policy
   - A. The Importance of Having an Investment Policy
   - B. Setting Investment Objectives
   - C. Developing a List of Permitted Investments
   - D. Investment Requirements
   - E. Other Issues in Developing an Investment Policy

#### V. Overview of Key Treasury Policies
   - A. Bank Account and Financial Services Authority Policies
   - B. Payments Policy
   - C. Collection and Concentration Policy
   - D. Investment Valuation and Impairment Policies
   - E. Payment Card Policies
   - F. Outsourcing Policy
   - G. Financial Risk Management Policies
   - H. Regulatory Compliance Policies
   - I. Funding/Financing Policies
   - J. Treasury Systems Policy

#### VI. Summary
PART IV
Financial Management

CHAPTER 18:
FINANCIAL ACCOUNTING AND REPORTING

I. Introduction
II. Accounting Concepts and Standards
   A. Global Accounting Standards
   B. IFRS Basic Principles
   C. U.S. Accounting Standards
   D. GAAP versus IFRS
III. Financial Reporting Statements
   A. Auditing and Financial Statement Reliability
   B. Types of Financial Statements
IV. Accounting for Derivatives, Hedges and Foreign Exchange (FX) Translation
   A. Derivatives and Hedge Accounting
   B. Foreign Exchange (FX) Translation Accounting
V. Accounting for U.S. Governmental and Not-For-Profit (G/NFP) Organizations
VI. Summary
Appendix 18.1: Listing of Selected ASC Topics

CHAPTER 19:
FINANCIAL PLANNING AND ANALYSIS

I. Introduction
II. Cost Behavior
   A. Cost Types and Behaviors
   B. Operating Leverage
   C. Economies of Scale
   D. Financial Leverage
III. Decision Evaluation
   A. Identifying Relevant Costs and Revenues
   B. Cost/Benefit Analysis
IV. Developing Operating and Financial Budgets
   A. Treasury's Role in Budgeting
   B. Budgets and Financial Plans
   C. The Budgeting Process
   D. Uses of Budgets and Financial Plans
V. Financial Statement Analysis
   A. Common-Size Statements and Ratios
   B. Liquidity or Working Capital Ratios
   C. Efficiency or Asset Management Ratios
   D. Debt Management Ratios
   E. Performance Ratios
   F. Integrated Ratio Analysis
   G. Service Industry Ratios
   H. Strengths and Limitations of Ratio Analysis
VI. Performance Measurement
   A. Return on Investment (ROI)
   B. Residual Income (RI)
   C. Free Cash Flow (FCF)
   D. Economic Value Added (EVA)
## Table of Contents

**VII. Financial Analysis and Rating Agencies**

**VIII. Summary**

### CHAPTER 20: FINANCIAL DECISIONS AND MANAGEMENT

**I. Introduction**

**II. Capital Structure of a Company**
- A. Optimal and Target Capital Structures
- B. Trade-Offs Between Financing with Long-Term Debt and Common Stock
- C. Capital Structure Theory
- D. Business and Financial Risk
- E. Target Capital Structure
- F. Other Considerations in the Capital Structure Decision
- G. Capital Structure in Not-For-Profit Organizations

**III. Raising and Managing Long-Term Capital**
- A. Raising Capital
- B. Managing Outstanding Capital

**IV. Cost of Capital and Firm Value**
- A. Capital Components and Costs
- B. Cost of Debt
- C. Cost of Common Equity
- D. Weighted Average Cost of Capital (WACC)
- E. Firm Value

**V. Lease Financing and Management**
- A. Why Companies Lease
- B. Types of Leases
- C. Estimated Residual Value
- D. Tax Considerations for Leases
- E. Lease Versus Borrow to Buy Decision

**VI. Equity Financing and Management**
- A. Initial Public Offerings (IPOs) and the Decision to List Stock in the United States
- B. Shareholder Rights
- C. Mergers and Acquisitions
- D. At The Market (ATM) Plans

**VII. Other Topics in Financial Decisions**
- A. Tax Strategies
- B. Dividend Policy
- C. Repatriation of Capital for Multinational Companies (MNCs)
- D. Market Analysis and Research Tools

**VIII. Summary**