

# Index

## **Bank activities**

generally, 155

## **Bank of Canada, 165-166**

bankers' bank, as, 173

## **Banking relationship**

commercial, 105

corporate, 106-107

general, 104

small business, 104-105

## **Bankruptcy**

administration of bankrupt estate, 379

assignment, 378

defined, 378

formal proceedings under *Bankruptcy and Insolvency Act*, 377

insolvency, distinguished from, 378

petition for receiving order, 378-379

## **Banks**

Financial Institutions Supervisory Committee (FISC)

*Bank Act*, 136, 166

## CANADIAN CASH AND TREASURY MANAGEMENT

### Banks – *continued*

Bank for International Settlements (BIS) capital guidelines, 166

*CDIC Act*, 166

*Competition Act*, 168

*Interest Act*, 166

*Proceeds of Crime and Terrorist Financing Act*, 137, 167

provincial securities acts, 167

regulations of other countries, 167

government oversight, 172-174

regulation

AML departments, 137-138

*Bank Act*, 136

Bank of Canada, 165-166

Canada Deposit Insurance Corporation (CDIC), 164-165

Financial Institutions Supervisory Committee (FISC), 166-168

*Foreign Account Tax Compliance Act (FATCA)*, 138

future regulatory considerations, 138-139

international operations, 139-140

Office of Superintendent of Financial Institutions (OSFI),  
136, 163-164

*Proceeds of Crime and Terrorist Financing Act*, 137

**Budgeting**, *See also* **Cash forecasting**

cash, 70, 73, 74-87

**Canadian Bankers' Association (CBA)**, 174

**Canadian Deposit Insurance Corporation (CDIC)**, 164-165, 175-179

**Canadian financial system**

comparison with United States system, 155

economic perspective, 141-142

financial markets, history, 142-145

functions

medium of exchange, 145, 146

payments, 145

portfolio diversification, 149

## INDEX

- Canadian financial system – *continued*
  - providing information, 148-149
  - risks, 149
  - savers and borrowers, matching, 148
  - objectives, 439-440
- Canadian Investor Protection Fund (CIPF), 179-182**
- Canadian money market, 324-325**
- Canadian Payments Association (CPA), 174**
- Cash**
  - budgeting, 70, 73, 74-87
  - cash on hand, 63-65
  - central role in business activity, 63
  - defined, 65-66
  - disbursements, 72
  - excess, 84
  - flow cycle, 66-67
  - flow equivalents, 96-97
  - inflows, 68-69
  - information systems, 69
  - management
    - corporate cash, 67-68
    - objectives, 64
    - operations, 70-71
    - traditional, 63
  - working capital, 71-72
- Cash forecasting**
  - accuracy, 87-88
  - “best guess”, 74
  - budget preparation, 86-87
  - cash management checklist, 89-92
  - compiling, 86
  - defined, 73
  - example, 92-102

## CANADIAN CASH AND TREASURY MANAGEMENT

### Cash forecasting – *continued*

#### expenses

cost-revenue relationships, 79-80

foreign operations, 81

future tax rates, 81

regression analysis, 80

schedules, 81

selling/marketing, 80

financing activities, planning, 84-85

importance, 74-76

investing cash flows, 83-84

preparation, 76

revision, 86

role, 72-74

sales forecast

approaches, 77

assumptions used, 78

cash flow equivalents, 81-83

information, 79

month-by-month, 79

“what if” scenario, 78

sources, 83

### **Cash management relationship**

general, 107-109

**Cheques**, 112-114, 119, 128

**Collection agencies**, 203-204

### **Collections**

banking services, 110-111

bill payment receiver service, 118

branch deposits, 114-115

cash, 111-112

cheque settlement, 112-114

commencing, 199-200

## INDEX

### Collections – *continued*

- court actions
  - generally, 204
  - small claims courts, 204
- credit cards, 119
- debit cards, 119
- discussions with debtor, 200
- EDI payment receiver service, 119
- electronic collections, 116-117
- electronic funds transfer, 117-118
- lockbox, 115-116
- paper collections, 111
- past due charges, 199-200
- recovery, 203-204
- reminders, 200-201
- remote deposit capture, 116
- wire transfers, 117

### **Commercial paper**, 331-332

### ***Companies' Creditors Arrangement Act***

- formal proceedings, 377

### **Convertible debt**, 351-352

### **Court actions**

- collections, 204

### **Credit**

- agencies, 195-196
- application forms, 205
- extending
  - information requirements, 193-194
- Five 'C's, 185-186
- information
  - assessment without information, 197-198
  - banks, 194-195
  - credit agencies, 195

## CANADIAN CASH AND TREASURY MANAGEMENT

### Credit – *continued*

- credit department records, 196-197
- customers, direct dealings, 196
- financial statement, analysis, 197-198
- management history, 196
- public records, 195-196
- working capital analysis, 197-198

internal procedures checklist, 206-207

limits, setting, 198-199

opening accounts

- applications, 192-193
- sales, representative, role, 192-193
- updating, 193

policy

- communicating, 188
- creating, 186-187
- developing, 188
- example, 189-192

strategic tool, as, 186

**Credit agencies**, 195

**Creditors**

- secured, 373
- unsecured, 345-346

**Currency**, *See also* **Foreign exchange**

- cross currency interest rate swaps, 319-320
- futures, 318
- options, 322
- swaps, 319

**Derivatives**, 306-307, 315

**Disbursements**

- automated clearing house (ACH) payments, 126
- bill payments (via on-line channels), 129
- cheque fraud protection, 121-122

## INDEX

### Disbursements – *continued*

- credit cards, 128
- electronic data interchange (EDI), 125
- electronic disbursements, 122-123
- electronic funds transfers, 124-125
- general, 120
- paper disbursement cheques, 120-121
- payment disbursement services, 127-128
- SWIFT-MT101, 126-127
- tax payments, 129
- wires, 123-124

### Disclosure, *See* **Legal issues**

### Euro-currency investments, 335-337

### Financial institutions

- banks, 155, *See also* **Bank activities; Banks**
- characteristics/features, 152-155
- credit unions, 160
- function, 151-152
- insurance companies, *See* **Insurance companies**
- investment funds, 161
- loan companies, 159-160
- mortgage investment corporations and REITs, 162
- pension funds, 160-161
- securities firms, 157-159
- trust and mortgage companies, 156
- venture capital companies, 161-162

### Financial statement analysis

- current ratio, 265-266
- defined, 209
- Generally Accepted Accounting Principles (GAAP), 211-212
- illustrations, 241-242

## CANADIAN CASH AND TREASURY MANAGEMENT

### Financial statement analysis – *continued*

- investment quality, measuring
  - book value per share, 236-237
  - dividend yield, 235-236
  - price/earnings ratio, 235
- limitations upon, 211-212
- long-term debts, ability to pay
  - cash flow to total debt ratio, 220
  - debt ratio, 217-218
  - debt-to-equity ratio, 218-219
  - interest coverage, 220-221
  - net tangible assets to total debt ratio, 219
  - preferred dividend coverage, 221-222
- objectives, 209
- operating efficiency, measuring
  - accounts receivable turnover ratio, 224-225
  - average days payable ratio, 226-227
  - days-in-inventory, 223-224
  - days-sales-in-receivables, 225-226
  - inventory turnover ratio, 222-223
  - working capital turnover ratio, 227
- process, 238-239
- profitability, measuring
  - earnings per common share, 234
  - financial leverage ratio, 233-234
  - gross margin ratio, 228
  - return on assets ratio, 229-230
  - return on common equity ratio, 232-233
  - return on invested capital ratio, 230-231
  - return on sales ratio, 228
  - return on total equity ratio, 231-232
- sources of information, 240
- standards of comparison, 238-240

## INDEX

### Financial statement analysis – *continued*

#### types

horizontal analysis, 212-213

ratio analysis, 215

vertical analysis, 213-214

### **Foreign exchange**

brokers, role, 299

central banks, role, 298-299

clients/customers, 299

cross currency interest rate swaps, 319-320

currency futures, 318

currency options, 322

currency swaps, 319

derivatives, 306-307, 319

exposure models

accounting exposure, 307-308

cash flow exposure, 308

corporate objectives and systems, 309

equity exposure, market value, 308-309

generally, 307

identifying, 309-311

strategic exposure, 308

forward transactions

contracts, 316-318

defined, 299-300

geographic regions, 298

global web of banks, as, 298

hedging, 311-312

interest rate differential, 300-301

management products

certainty, 315

custom or generic, 313-314

insurance, 315

## CANADIAN CASH AND TREASURY MANAGEMENT

### Foreign exchange – *continued*

primary currencies, 298

risk

defined, 301

foreign currency denominated assets, 301

three categories of, 302

economic or strategic exposure, 304-306

transaction or trading exposure, 302-303

translation or balance sheet exposure, 303-304

spot transactions

defined, 299

description of, 315-316

strategies and policies, 313

volumes, 298

**Forward transactions, See Foreign exchange**

**Futures, See Foreign exchange**

### **Generally Accepted Accounting Principles (GAAP)**

financial statement analysis, use in, 211-212

**Glossary, 383-424**

### **Government of Canada**

as participant in banking system, 172-174

Bank of Canada, 172, *See also* **Bank of Canada**

Department of Finance, 172

**Hedging, 311-312**

**Horizontal analysis, 212-213**

### **Information and control systems**

account activity via paper statements, 130

account activity via transmissions, 131-132

billing for cash management, 133

communication security protocols, 133

general, 129-130

on-line web-based account activity, 130-131

## INDEX

Information and control systems – *continued*

treasury workstations, 134

### **Insurance companies**

fire insurance, 157

general, 156

life insurance, 157

regulation, 165

### **Interest**

managing rate risk

balance sheet mismatches, 280

examples, 279-281

floating rates, 286

generally, 281-282

money market investment, 324-325

products

custom or generic, 284-285

forward rate agreements, 289-290

insurance, 285-286

long-term, 287-288

rate futures, 288

short-term, 287-288

rate exposure, 282-284

rate options, 290-291

rate risk, defined, 279

rate swaps, 290, 291

strategies, 284

rate options

rate caps, 290

rate collars, 290-291

rate floors, 290

rate swaps

asset swaps, 295

delayed start swaps, 295

## CANADIAN CASH AND TREASURY MANAGEMENT

Interest – *continued*

example, 292-295

vanilla, 291-292

### **Internal control**

budget process, 57-60

defined, 57

fundamental guidelines, 58-60

checklist, 60-62

communication, 56

control activities

classifying, 52-53

list of, 53

corporate governance and, 49

defined, 46-47

environment, 48-49

good control practices

recommendations of *Group of Thirty*, 54-56

information, 56

means to an end, 46

monitoring, 56-57

risk assessment

compliance objectives, 50-51

events, 52

examples, 52

financial reporting objectives, 50

operational objectives, 50

risk management and, 48

speculative activity, 55-56

### **Investing, See also Long-term investments; Short-term investments**

management controls, 251-252

objectives, 243-246

parameters, 243

policy checklist, 252-253

## INDEX

- Investing – *continued*
  - reporting, 251-252
  - strategic framework, 243-244
- Investor and depositor protection**
  - Canadian Investor Protection Fund (CIPF), 179-182
  - deposit insurance, 175-179
  - life insurance, 182-183
  - mutual fund dealers, 182
  - Registered Education Savings Plans (RESPs), 181
  - Registered Retirement Savings Plans (RRSPs), 181
  - securities, 179-182
- Legal issues**
  - bankruptcy, *See* **Bankruptcy**
  - convertible debt, 351-352
  - creditors
    - secured
      - appointment of receiver, 374-375
      - bankruptcy, 376
      - enforcement of security, 373-374
      - foreclosure, 375-376
      - sale of property, 374-375
    - unsecured, 372-373
  - customers
    - billing, 367
    - corporate authority, 366-367
    - identifying, 365-366
    - purchase money security interest, 368-369
    - securing receivables, 367-369
  - debtors
    - rights, 376-377
  - lenders
    - bank accounts, 369
    - borrowing, 369

## CANADIAN CASH AND TREASURY MANAGEMENT

### Legal issues – *continued*

- commitment letters, 370
- loan agreements, 370-371
- reorganization and restructuring
  - informal proceedings, 377

### **Lending**

- bank accounts, 369
- banking activity, as, 173-174
- banking service, as, 155
- borrowing, 369
- commitment letters, 370
  - loan agreements, 370-371
- loan companies, 156

### **Liquidity management**

- daylight facilities, 135
- general, 134
- operating facilities, 135-136
- overdraft, 134-136
- revolving facility, 136
- sweeping 134
- term facility, 136

### **Long-term debts, 217-222**

#### **Long-term investments**

- accrued interest, 356-357
- bond yields, 359-360
- Canadian bond market
  - generally, 344-345
  - instruments, 345-348
  - secured debt
    - mortgage-backed securities, 347
    - mortgage bonds, 346-347
  - subordinated debt, 348
  - unsecured debt, 345-346

## INDEX

### Long-term investments – *continued*

- debt instruments, 348
  - analysis, 351-357
  - callable debt, 349-350
  - convertible debt, 351-352
  - exchangeable debentures, 354
  - extendable debt, 350-351
  - floating interest rates, 352
  - income debentures, 354
  - negative pledge debt, 354
  - retractable debt, 351
  - sinking funds, 348-349
  - zero-coupon bonds, 352-354
- fixed rate debt, 357-358
- floating rate debt, 360-362
- foreign currency, 354-355
- foreign entity bond, 354-355
- money market instruments
  - chartered bank paper, 343-344
  - Euro-currency deposits/certificates, 343
  - government bonds, 342-343
- preferred shares, 362-364
- risk, 341-342

**Operating efficiency, See Financial statement analysis**

**Pension funds, 160-161, 171**

**Portfolio, See Securities analysis and portfolio management**

### **Profitability**

- measuring, *see* **Financial statement analysis**

**Ratio analysis, 215**

**Registered Education Savings Plans (RESPs), 181**

**Registered Retirement Savings Plans (RRSPs), 181**

## CANADIAN CASH AND TREASURY MANAGEMENT

### **Risk management**

- assessment of risk, 49-51
- assumptions, financial modelling
  - deterministic and complex models, 31
  - fundamental assumptions change, 31
  - logical behaviour, 31
  - normal distribution, 31
- classification of risks
  - accounting risk, 44-45
  - business risk, 27, 40-42
  - credit risk, 27, 36-40
  - financial market risk, 27, 28-35
  - generally, 26-28
  - management risk, 43
  - operational risk, 27, 42-44
  - procedural risk, 42-43
  - settlement risk, 36
  - systemic risk, 45
  - systems risk, 43
  - tax risk, 44
- corporate policies and, 22
- decisions regarding, 26
- different levels of aggregation, 25
- enterprise risk management
  - eight components of, 23-25
- foreign currency, 301-302
- framework for managing risk
  - analysis, key principles, 20
  - risk and reward model, 20
  - risk management systems, 22
  - strategic objectives, 21
- objectives, 21, 26
- quantifying risk, 45-46

## INDEX

### Risk management – *continued*

- risk and reward, 19, 20, 27
- risk defined, 302
- risk management products, 34-35
- steps to manage risk, 28, 32-33
  - assess risk, 30-33
  - effect of exposure on strategies, 33-34
  - identify risk, 31-33
  - quantify exposure, 33
- three categories, 302

### **Securities analysis and portfolio management**

- generally, 255
- monitoring portfolio
  - calculating return
    - expected return, 276-277
    - foreign securities, 275-276
    - periodic total return, 271-273
    - real rate of return, 273-274
    - risk-adjusted performance measures, 274-275
  - evaluating performance, 269-270
- selecting portfolio, 255, 262-268
  - alternatives, 261-262
  - considerations
    - duration, 263-264
    - income tax, 265-266
    - sources of information, 266
    - valuation, 266-268
  - diversification, 260
  - objectives, 255
  - return, 261
  - risk, 256-261

### **Securities and investment dealers**

- regulation, 166-167

## CANADIAN CASH AND TREASURY MANAGEMENT

**Securities firms, 157-159**

### **Short-term investments**

bankers' acceptances, 331

Canadian money market

bearer deposit notes, 327

certificates of deposit, 327-328

chartered bank paper, 327

commercial paper, 331-332

finance and consumer loan paper, 329

generally, 324

guaranteed investment certificates, 327-328

instruments, 324-325

investment savings accounts, 328

mutual funds, 328

other financial institutions, 330

pooled funds, 328

provincial/municipal paper, 326

term notes, 327-328

treasury bills, 325-326

trust and mortgage receipts, 329-330

virtual savings accounts, 329

criteria

liquidity, 248-249

rate of return, 249-250

safety and quality, 248

taxation, 250-251

Euro-currency investments, 335-337

foreign currency, 333

generally, 323-324

price and yield, calculating, 337-339

repurchases, 330-331

strategy checklist, 246-247

swap deposits, 333

United States money markets, 334-335

## INDEX

**Spot transactions, See Foreign exchange**

**Swaps, See Currency; Foreign exchange**

### **Treasury**

accountability, areas of, 4-7

broadening ambit, 2

derivatives, 2

objectives, 4-7

organizational structure, 4

responsibilities, 1-2, 4-7

role

generally, 1, 4-7

traditional, 4

### **Treasury management**

defined, 1

factors affecting change in, 3-4

measuring and evaluating performance, 7-9

benchmarking, 9

characteristics of fair measurement system, 8

objectives, 1-2

operations checklist, 9-12

### **Treasury professionals**

consulting with other areas of company, 4

### **Trust and loan companies**

regulation

federal and provincial trustee acts, 168

*Federal Trust and Loans Companies Act*, 168

provincial companies acts, 168

regulations, 168

trust companies, 156

**United States money markets, 334-335**

**Vanilla interest rate swap, 291-295**

**Venture capital companies, 161-162**

CANADIAN CASH AND TREASURY MANAGEMENT

Vertical analysis, 213-214

Wire transfers, 117

Working capital, 71-72