

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