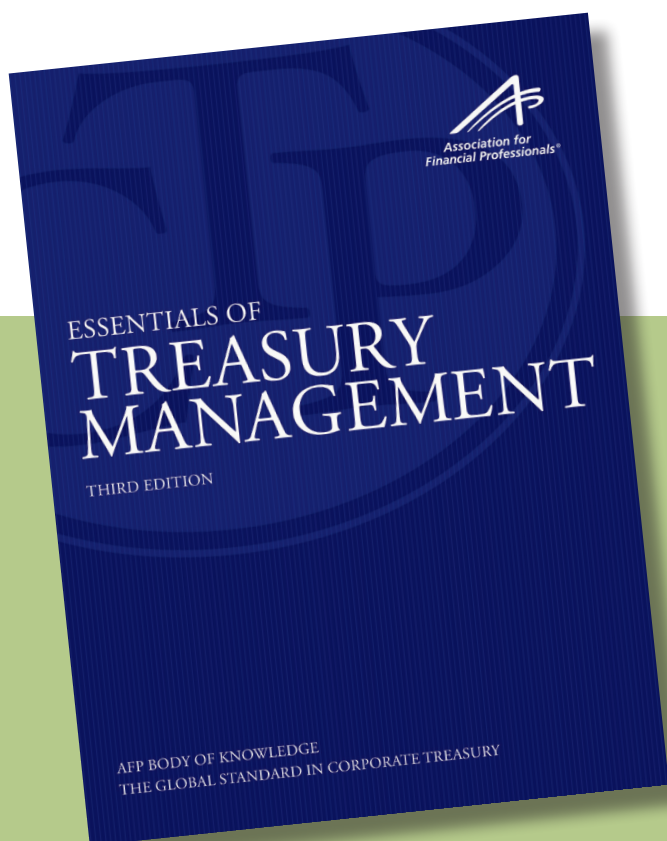




ESSENTIALS OF TREASURY MANAGEMENT

THIRD EDITION

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- C. Long-term Fixed-income (Debt) Portfolio Management
 - 1. The Concept of Duration
 - 2. Interest Rate Risk
 - 3. Fixed /Floating Ratio
 - 4. Foreign Currency Denominated Investments
 - 5. Using Derivatives in a Long-term Debt Portfolio
 - 6. Asset-Liability Management
- D. Equity (Stock) Portfolio Management
 - 1. Defining and Measuring Investment Risk
 - 2. The Benefits of Diversification
 - 3. Capital Asset Pricing Model (CAPM)
 - 4. Determining Portfolio Risk and Return

VI. Valuation of Long-Term Securities

- A. Bond or Fixed Income Valuation
- B. Preferred Stock Valuation
- C. Common Stock Valuation

Appendix 12-1: Listing of the World's Top 15 Stock Exchanges

CHAPTER 13: FINANCIAL DECISIONS AND MANAGEMENT

- I. Introduction
- II. Importance of the Finance and Treasury Functions in an Organization
 - A. Financial Objectives for Treasury Professionals
 - B. Financial Objectives of Different Types of Organizations
 - 1. For-Profit Corporations
 - 2. Not-for-Profit Organizations
 - 3. Government Entities
 - C. The Finance Function
 - D. Key Finance Decisions
 - 1. Financing Decisions
 - 2. Capital Structure Decisions
 - 3. Asset Investment Decisions
 - 4. Dividend Decisions

III. Raising and Managing Long-term Capital

- A. Raising Capital
- B. Managing Outstanding Capital
- C. Cost of 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. Debt Financing and Management

- A. Costs of Borrowing
- B. Basic Components in Interest Rates
- C. Base Rates
- D. Short-Term versus Long-Term Borrowing
 - 1. Operational Advantages of Short-Term Credit
 - 2. Operational Disadvantages of Short-Term Credit
- E. Loan Agreements and Financial Covenants
- F. Credit Rating Agencies
 - 1. Classes of Ratings
 - 2. The Ratings Process
 - 3. Reviews of Ratings
 - 4. Credit Rating Scales

VI. Lease Financing and Management

- A. Why Companies Lease
- B. Types of Leases
 - 1. Sale and Leaseback
 - 2. Operating or Service Leases
 - 3. Capital or Financial Leases
- C. Estimated Residual Value
- D. Tax Considerations For U.S. Corporations
- E. Lease versus Borrow-and-Buy Decision

VII. Equity Financing and Management

- A. Initial Public Offering (IPO) and the Decision to List Stock in the United States.
 - 1. The Initial Public Offering (IPO)
 - 2. Advantages of Going Public
 - 4. Disadvantages of Going Public
 - 5. The Decision to List Stock
 - 6. Delisting of Stock
 - 7. Choice of Exchanges
- B. Shareholder Rights
- C. Financing Mergers and Acquisitions

VIII. Other Topics in Financial Decisions

- A. Tax Strategies
- B. Impact of a Financial and Credit Crisis
 - 1. Impact of Financial Crisis on Financial Institutions
 - 2. Tightening of Credit Markets
 - 3. Increased Awareness of Financial Risk
- C. Market Analysis and Research Tools

Appendix 13.1: Listing of Major Credit Rating Agencies

CHAPTER 14: CAPITAL STRUCTURE AND DIVIDEND POLICY

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
 - 1. Operating Risk and Operating Leverage
 - 2. Financial Risk and Financial Leverage
- E. Target Capital Structure
 - 1. Impact of Financial Leverage
 - 2. Impact of Asset Structure
 - 3. Impact of Overall Business Risk
 - 4. Impact of Shareholder Control
 - 5. Impact of Profitability
 - 6. Impact of Market Conditions
 - 7. Determination of Target Capital Structure
- F. Other Considerations in the Capital Structure Decision
 - 1. Rating Agency and Lender Considerations
 - 2. The Issue of Control
 - 3. Regulatory Restrictions and Minimum Capital Requirements
- G. Capital Structure in U.S. Not-For-Profit Organizations

III. Use of Private Equity

- A. Definition of Private Equity
- B. Advantages of Private Equity
 - 1. Simplicity
 - 2. Better Alignment of Ownership and Management
 - 3. Capital Structure
 - 4. Tax Advantages
 - 5. Reduced Reporting Requirements
- C. Disadvantages of Private Equity
 - 1. Increased Debt Load in Leveraged Buyouts (LBOs)
 - 2. Loss of Control for Existing Owners
 - 3. Required Exit Strategy
- D. Role of Sovereign Wealth Funds (SWF) in Private Equity

IV. Dividend Policy

- A. Setting Dividend Policy
- B. Constraints on Dividend Policy
- C. Dividend Policy and the Cost of Capital
- D. Information Content of Dividends
- E. Clientele Effect
- F. Stability of Dividends

V. Dividend Considerations

- A. Dividend Payment Procedures
- B. Dividend Reinvestment Plans (DRIPs)
- C. Types of Dividends
 - 1. Cash Dividends
 - 2. Stock Dividends
 - 3. Special Dividends
 - 4. Liquidating Dividends
 - 5. Stock Splits
- D. Stock Repurchases
 - 1. Advantages of Stock Repurchases
 - 2. Disadvantages of Stock Repurchase
 - 3. Steps in Managing a Repurchase Operation
- E. Intracompany Dividends
- F. Taxes on Dividends

VI. Repatriation of Capital for Multinational Companies (MNCs)

- A. Multinational Company Dividends
- B. Management Fees
- C. Transfer Pricing
- D. Intracompany Loans
- E. Deemed Dividends
- F. Restrictions on Dividends

CHAPTER 15: OPERATIONAL AND ENTERPRISE RISK MANAGEMENT

I. Introduction

II. General Risk Management

- A. Risk Management Process
 - 1. Determining Risk Tolerance
 - 2. Identifying Exposure
 - 3. Measuring Exposure
 - 4. Implementing an Appropriate Risk Management Strategy
 - 5. Monitoring the Exposure and Evaluating the Strategy
- B. The Risk Profile

III. Operational Risk Management

A. Internal Operational Risks

1. Employee Risk
2. Process Risk
3. Technology Risk

B. External Operational Risks

1. Financial Institution Risk
2. Counterparty Risk
3. Legal and Regulatory/Compliance Risk
4. Supplier Risk
5. External Theft/Fraud Risk
6. Physical and Electronic Security Risk
7. Natural Disaster Risk
8. Terrorism Risk

C. Fundamental Factors for Operational Risk Management Strategy

1. Importance of Organizational Culture
2. Importance of Technology
3. Importance of Guidelines for Board of Directors

IV. Payment System Risk (PSR)

A. Systemic Risk

B. Settlement Risk

1. Wire Transfer Credit Risk
2. ACH Origination Credit Risk
3. Return Item Risk

C. Fraud Risk Related to Payments

1. Check Fraud
2. Kiting
3. Electronic Debit Risk
4. Payment Card Risk

V. Enterprise Risk Management (ERM)

A. Market Risk

1. Equity Price Risk
2. Interest Rate Risk
3. Foreign Exchange (FX) Risk
4. Commodity Price Risk

B. Credit Risk

C. Other Risks

1. Liquidity Risk
2. Operational Risk
3. Legal and Regulatory Risk
4. Business Risk
5. Strategic Risk
6. Reputation Risk

VI. Disaster Recovery and Business Continuity

VII. Insurance Risk Management

- A. Using Insurance Contracts to Manage Risk
 - 1. Types of Losses
 - 2. Types of Insurance
 - 3. Why Organizations Use Insurance
- B. Dealing with Insurance Providers
 - 1. Selecting Insurance – The Financial Perspective
 - 2. Selecting a Deductible
 - 3. Selecting a Liability Limit
 - 4. Claims Payment
- C. Insurance Risk Management Services
- D. Risk Financing Techniques
 - 1. Risk Retention
 - 2. Risk Transfer

CHAPTER 16: TREASURY POLICIES AND PROCEDURES

I. Introduction

- A. The Role Treasury Policies and Procedures
- B. Why Treasury Policies and Procedures are Needed
- C. Key Areas for Treasury Policies and Procedures

II. Process for Developing Policy Guidelines and Procedures

- A. Control Issues
 - 1. Structure of Control
 - 2. Delegation of Authority
 - 3. Segregation of Duties
 - 4. Roles and Responsibilities
 - 5. Records Retention Policies
 - 6. Moving from Controls to Policies
- B. The Policy Development Process
 - 1. Pre-Development Stage
 - 2. Identify Issues and Conduct Analysis
 - 3. Drafting the Policy
 - 4. Basic Elements of a Policy
- C. Approval of the Policy
- D. Policy Updates, Revisions, Reviews and Implementation
- E. The Procedure Development Process

III. Payments Policy Guide

- A. Purpose and Scope of the Guidelines for Payments Risk Policy Development
- B. Factors Impacting Payments Risk Exposure
 - 1. Participants in the Payment Process
 - 2. Bank Account Structuring
 - 3. Payment Laws and Regulations
- C. Payment Methods

IV. Collection and Concentration Policy Guide

A. Objectives

1. Liquidity
2. Cost Efficiency
3. Control
4. Customer Satisfaction

B. Specific Guidelines

1. Payment Alternatives
2. Approved Cash Collection Practices
3. Approved Cash Concentration Practices and Strategies
4. Performance Measurement
5. Regulatory and Legal Considerations
6. International Considerations
7. Exception Management

C. Roles and Responsibilities

D. Dealing with External Service Providers

V. Investment Policy Guidelines

A. Importance of Having an Investment Policy

B. Setting Investment Objectives

1. Safety
2. Liquidity
3. Risk/Return Trade-off

C. Investment Selection and Approved List

D. Investment Requirements

1. Diversification
2. Exposure Horizon
3. Other Requirements
4. Performance Measurement and Reporting
5. Policy Compliance
6. Internal and External Controls
7. External Restrictions

VII. Card Policy Guidelines

A. Cards Issued to Employees

1. Purchasing Cards
2. Travel and Entertainment (T&E) Cards

B. Cards Accepted from Customers

VIII. Bank Account and Financial Service Authority Policies

A. Objective

B. Bank Relationship Policies

C. Account Reconciliation Policy

IX. Additional Areas to Consider in Treasury Policies and Procedures

- A. Policies and Procedures Related to Money Laundering
- B. Policies Related to Funding/Financing
- C. Policies Related to Performance Measurement
- D. Policy and Procedures Topics Covered in Other Chapters
 - 1. Ethics and Code of Conduct Policies
 - 2. Counterparty/Credit Risk
 - 3. Financial Risk Management

X. Outsourcing Policy and Control Issues

Appendix 16.1 Key Controls and Control Activities within a Treasury Department

CHAPTER 17: INFORMATION TECHNOLOGY IN TREASURY

I. Introduction

II. Basics of Electronic Commerce (E-Commerce)

- A. Benefits of E-Commerce
- B. Internet, Intranet and Extranet
- C. Using the Internet for E-Commerce
- D. The Languages of E-Commerce
 - 1. Electronic Data Interchange (EDI)
 - 2. Hypertext Markup Language (HTML)
 - 3. eXtensible Markup Language (XML)
 - 4. eXtensible Business Reporting Language (XBRL)
- E. E-Commerce Security Issues
 - 1. Basics of E-Commerce Security
 - 2. Secure Sockets Layer (SSL)
 - 3. Shared-Secret Key System
 - 4. Public Key Infrastructure (PKI) System
 - 5. Digital Signatures
 - 6. Digital Certificates
 - 7. Authentication Devices
 - 8. Layered Authentication
 - 9. Verification of Transmission

III. Electronic Data Interchange (EDI) Infrastructure

- A. Electronic Data Interchange (EDI) Standard Formats
 - 1. The Role of Acknowledgements
 - 2. ASC X12 Standards
 - 3. ASC X12 Financial Transaction Sets
 - 4. United Nations/Electronic Data Interchange for Administration, Commerce and Transport (UN/EDIFACT) Standards
 - 5. International Organization for Standards (ISO) 20022 Global Standards
 - 6. Changing Standards and Recent Developments

B. Business-to-Business (B2B) Banking Services (B2B Electronic Banking)

1. Business-to-Business (B2B) Banking Payment Services
2. Business-to-Business (B2B) Banking Collection Services
3. The Bank Administration Institute's(BAI) Format

IV. Treasury Management Systems (TMSes)

A. Information Management and Technology

1. Enterprise Resource Planning (ERP) Systems
2. Daily Information Management
3. Treasury Management System (TMS)Attributes

B. The Role of Information Management in Treasury

1. Treasury Management System (TMS) Benefits
2. Treasury Management System (TMS) Costs
3. Cash Management Processing Tasks and Responsibilities
4. Cash Management Processing Timeframes
5. Cash Management Internal Data
6. Cash Management External Data and Formats

C. Information Exchange Between Financial Services Providers (FSPs) and Treasury

1. Linking Treasury to an Financial Services Provider (FSP)
2. Transaction Initiation
3. Multibank Reporting

D. Selecting and Implementing Treasury Management Systems (TMSes) and Related Software

1. Basic Treasury Management System (TMS) Choices
2. Selecting a Treasury Management System (TMS)
3. Treasury Management System (TMS) Security
4. Integrating Treasury management Systems (TMSes) in Merged Companies

E. Future Treasury Management System (TMS) Trends

V. Other Issues in Treasury Technology

- A. Transaction Workflow Innovation Standards Team (TWIST)
- C. External Investment Portals
- D. Mobile Banking
- E. Dashboard Reporting

Appendix 17.1 – Electronic Data Interchange (EDI) Financial Transaction Sets



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