CTP Study Notes

Topic 1 · Corporate Liquidity Management

keeping enough cash to pay the bills — today and tomorrow

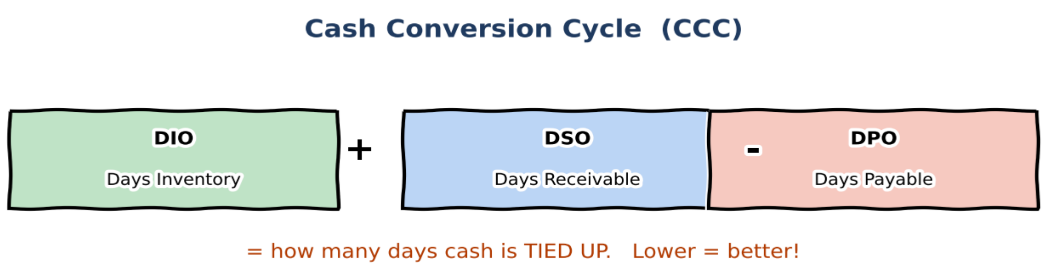
Big idea: Liquidity = can we get our hands on cash **when we need it**? Treasury's #1 job.

A) Cash Flow & Working Capital

→ **Working Capital** = Current Assets − Current Liabilities. Positive = cushion.

→ More cash tied up in inventory/receivables **= less free cash.**

★ Cash Conversion Cycle (CCC)



CCC = DIO + DSO − DPO (days your cash is stuck)

> ✎ **REMEMBER**
>
> **"Sell fast, Collect fast, Pay slow"** → shrinks CCC
>
> Lower CCC = cash comes back quicker = happier treasurer 😊

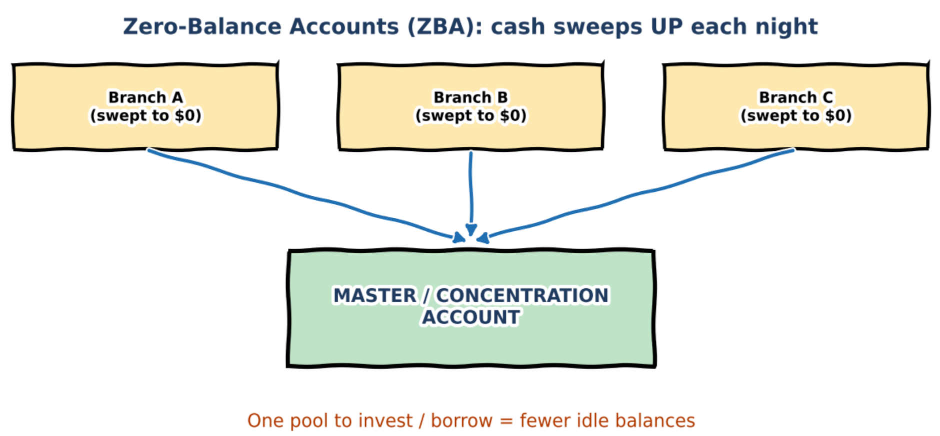
Cash Flow Forecasting

→ **Direct** = list expected receipts − disbursements (short-term, precise).

→ *Indirect* = build from projected income statement / balance sheet (long-term).

→ **Why?** Spot a **surplus** → invest it, or a **shortfall** → arrange borrowing early.

Cash Concentration & Pooling



ZBA: local accounts sweep to one master account each night

> ✎ **3 WAYS TO POOL**
>
> **ZBA** = physically sweep balances to $0 into a master account.
>
> **Notional pooling** = offset +/− balances on paper, NO money moves.
>
> **Physical pooling** = actually transfer funds together.

Liquidity Ratios (the "can we pay?" ladder)

→ **Current** = CA ÷ CL

→ **Quick (acid-test)** = (CA − Inventory) ÷ CL

→ **Cash** = (Cash + Equivalents) ÷ CL (strictest)

> ✎ **TRICK**

> Each step **strips out** the least-liquid item. "Quick strips the STOCK (inventory)."

B) Short-Term Investing, Borrowing & Global Cash

Money-Market Instruments *(safe, short, liquid)*

→ **T-bills**, Commercial Paper (CP), CDs, Repos, Bankers' Acceptances.

> ✎ YIELD TRAP
>
> **Discount yield** uses FACE value & 360 days.
>
> **Bond-Equivalent Yield** uses PRICE paid & 365 days → always a bit higher.

FX Exposure — the 3 types

→ **Transaction** = a specific deal/invoice in foreign currency.

→ **Translation** = converting a foreign subsidiary's statements at reporting.

→ **Economic** = long-run hit to competitiveness from FX moves.

> ✎ REMEMBER
>
> "**T-T-E**" → Transaction · Translation · Economic

Trade Finance

→ **Letter of Credit (LC)** = bank LOCKS in payment (guarantee). Safest for seller.

→ **Documentary collection** = bank passes documents, but NO payment guarantee.

→ **Open account** = ship first, get paid later (riskiest for seller).

Intercompany Cash

→ **Netting** = offset intercompany payables & receivables → fewer, smaller transfers.

→ **In-house bank / leading & lagging** = time internal payments smartly.

★ 30-SECOND RECAP

Liquidity = cash when needed. Watch the **CCC**.

Forecast → invest surplus / cover shortfall. Pool cash (ZBA) to kill idle balances.

Global cash: mind **FX (T-T-E)**, use LCs for safety, net intercompany flows.