



Certified Treasury Markets Professional Sample Material

V-Skills Certifications

**A Government of India
&
Government of NCT Delhi Initiative**

V-Skills



Treasury Market

The Treasury market is where money is raised by issuing debt. A Treasury market is a debt obligation issued by the Treasury. For the purpose of raising funds T-Bills and other financial instruments are offered.

TREASURY MANAGEMENT

Treasury Management refers to the planning, organizing and controlling of cash and borrowings so as to optimize interest and currency flows, and minimize the cost of funds. Treasury Management involves planning and execution of communication programmes to enhance investor's confidence in the firm, it is often called risk management. The management process deals with the corporate handling of all financial matters, the generation of external and internal funds for business, the management of currencies and cash flows, and the complex strategies, policies, and procedures of corporate finance.

Roles/Functions of Treasury Management

Treasury Management is all about the efficient management of liquidity and financial risk. Some of the important functions of treasury management are:-

- *Cash Management:* It involves efficient collection and repayment of cash to both insider and third party.
- *Funding Management:* It helps in planning and sourcing firm's short, medium and long term cash needs. Treasury management assists in capital structuring, forecasting of future interest and foreign exchange rates decision making process i.e., management of foreign exchange rate risks, in accordance with the Company policy.
- *Currency Management:* It helps in managing the foreign currency risk, exchange rate risks and directs towards the currency to be used for overseas billing etc.
- *Corporate Finance:* It involves in merger and acquisition, capital structure, right issue, etc.
- *Banking:* Treasury Management helps in maintaining good relationship with bankers and carryout initial negotiation with them for any short-term loan.
- *Venture Capital Financing:* It involves in new high-risk venture of getting venture capitalist.
- Maintaining good relationship and liaison with financiers, lenders, bankers, and investors (shareholders).
- Advising on various issues of corporate finance like capital structure, buy-back, mergers, acquisitions, disinvestments etc.

Scope of Treasury Management

The scope of treasury management function is quite vast and it continues to expand. A treasury manager should be able to understand and appreciate the link between business strategy, and organization. Treasury management includes the management of cash flows, banking, money-market and capital-market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. This definition is intended to embrace an organizations use of capital and project financings, borrowing, investment, and hedging instruments and techniques.

Objective of Treasury Management

(i) Risk Management

- Constantly ensure minimization of risk and volatility and thereby aiming to achieve the treasury management strategic objectives.
- Ensure the stability of the financial position, by sound risk management techniques.

(ii) Borrowing Objectives

- Accomplish the lowest level of interest paid on the debt as prudently possible while at the same time minimizing the potential volatility of the average rate of interest.
- Manage the debt maturity profile.
- Ensuring stability against future risks from movement in interest rates or variable rate borrowing.
- Ensure that the average maturity period of long-term loans outstanding is greater than 7 years.
- Ensure that exposure to different types of borrowing instruments is at a prudent level relative to outstanding debt.
- Utilizing debt restructuring and debt repayment opportunities that may arise, for future revenue savings by taking into consideration the risks involved.

(iii) Investment Objectives

- Achieve an overall return on total deposits
- Achieve an average rate of interest that falls within the best performing quarter

(iv) Forecasting Objectives

- Establish and continually review forecasts of interest rates to provide a basis for treasury management decisions.

Difference between Treasury Management and Financial Management

<i>Financial Management</i>	<i>Treasury Management</i>
<p>(a) It refers to the planning, directing, monitoring, organizing, and controlling of the monetary resources of an organization.</p> <p>(b) Financial Management describes the overall activity of managing all finances, typically with a bias towards understanding the history of transactions.</p>	<p>(a) It refers to the management of the enterprise's holdings through direct trading of financial products.</p> <p>(b) It describes the management of treasury operations, which includes the actual execution of buying, selling and hedging by typically trading financial products with other counterparties either based on a view of how to manage current and future financing needs with a bias towards looking at future financing needs.</p>

Treasury Risk Management

Asymmetrical risks

Asymmetric risks refers to the investment risk where gains and losses differ widely with the risk an investor faces when the gain realized from the move of an underlying asset in one direction is significantly different from the loss incurred from its move in the opposite direction

Symmetrical risks

Symmetric risks refer to the gain that occurs when the move in the underlying asset in one direction is similar to the loss when the underlying asset moves in the opposite direction.

Market risks

Market risks refer to the day-to-day potential for an investor to experience losses from fluctuations in securities prices. This risk cannot be diversified away.

Treasury Policies and Procedures

Working Capital Policy and Procedure

The Working Capital Policy and Procedure describes methods to properly manage the working capital invested to operate the business in areas such as Accounts Receivable, Accounts Payable, and Inventory. This Procedure minimizes working capital while meeting all operational needs. It applies to Finance, Accounting, Sales, and Operations departments.

Activities performed under Working Capital Policy Procedure

- Planning Working Capital
- Executing Working Capital Plan
- Reviewing the Working Capital Plan
- Improving the Working Capital Plan

Cash Management Policy and Procedure

The Cash Management Policy and Procedure helps plan, track and direct cash accounts to ensure proper utilization and availability of funds. The procedure provides methods for planned and proper use of cash resources, preventing cash shortfalls, and balancing risk, liquidity, return, and cost of cash accounts. It applies to Finance and Accounting departments.

Activities performed under Cash Management Policy Procedure

- Planning Cash Management
- Executing the Cash Management Plan
- Reviewing the Cash Management Plan
- Improving the Cash Management Plan

Inventory Management Policy and Procedure

The Inventory Management Policy and Procedure minimizes inventory and costs of inventory ownership. The Procedure ensures the best inventory practices are employed and align with overall company financial objectives and meet operational needs. It applies to all departments involved in managing inventories including the Finance, Accounting, Purchasing, Sales and Operations.

Activities under Inventory Management Policy Procedure

- Overview and Plan Inventory Management
- Executing Inventory Management Plan
- Reviewing the Inventory Management Plan
- Improving Inventory Management Plan

Related Party Transactions Policy and Procedure

The Related Party Transactions Policy and Procedure ensures that such transactions are in the best interest of the company and in compliance with disclosure requirements. The procedure sets guidelines to avoid potential conflicts of interest and to communicate policies to affected members of the organization. It applies to the Finance Department, Board of Directors, and to all related party transactions.

Activities performed under Related Party Transactions Policy Procedure

- Planning Related Party Transactions
- Executing Related Party Transactions Plan
- Reviewing Related Party Transactions Plan
- Improving Related Party Transactions Plan

Foreign Exchange Management Policy and Procedure

The Foreign Exchange Management Policy and Procedure ensures thoughtful and intelligent decisions are made about foreign currency exchange. The procedure minimizes the associated risk of less than expected returns or higher than expected costs due to fluctuations in exchange rates. The procedure applies to the Finance and Accounting departments.

Activities performed under Foreign Exchange Management Policy Procedure

- Planning Foreign Exchange Management
- Executing Foreign Exchange Management Plan
- Reviewing Foreign Exchange Management Plan
- Improving Foreign Exchange Management Plan

Managing Bank Relationships Policy and Procedure

The Managing Bank Relationships Policy and Procedure ensures the company is maximizing the benefits of its bank-business relationship. The procedure illustrates how to take advantage of useful banking services and accounts and maximize return on bank-held assets while minimizing the cost of banking. This procedure applies to the Finance Department.

Activities performed under Managing Bank Relationships Policy Procedure

- Planning Bank Relationship
- Executing and Managing Bank Relationships Plan
- Reviewing Banking Relationships Plan
- Improving the Management of Bank Relationships Plan

Merchant Accounts Policy and Procedure

The Merchant Accounts Policy and Procedure ensures the selection of a merchant account that meets the company's need to balance best service and lowest cost. This is accomplished through planning, monitoring, and reviewing merchant accounts to guarantee the greatest value for service. This procedure applies to the Finance Department.

Activities performed under Merchant Accounts Policy Procedure

- Planning Merchant Account
- Executing and Managing Merchant Account Comparisons
- Reviewing Merchant Account Comparison
- Improving Merchant Account

Letters of Credit Policy and Procedure

The Letters of Credit Policy and Procedure develops and builds best practices in processing a letter of credit quickly and efficiently. The Procedure allows processing of foreign transactions where a known or unclear level of risk prohibits normal purchasing and sales processes. The procedure applies to Finance, Accounting, Purchasing, and Sales department, or other departments involved in using documentary credit to process transactions.

Activities performed under Letters of Credit Policy Procedure

- Planning Letter of Credit
- Executing and Managing a Letter of Credit as a Buyer
- Executing and Managing a Letter of Credit as a Seller
- Reviewing the Letter of Credit Process
- Improving the Letter of Credit Process