

# TMExam.com

## Printable Flash Cards Section 1

### Ch 1 to 3 in *Essentials*

*Version 3.2*

**Directions:** 1) This document can be printed on card stock paper and cut into 4 pieces. This should create 4 equally sized flash cards – a print shop, such as Kinko’s, can probably print and cut these for you for a fee. 2) Use the blank pages at the end of each “section” to create your own flash cards from other material – you may want to print multiples of the last page for this purpose.

All information in this document was cross-referenced with or obtained from *Essentials of Treasury Management, 3rd Ed*, which, itself, is a great compilation of publicly available financial management information. All information in this file is segmented into associated chapters in *Essentials of Treasury Management, 3rd Ed*. This is *not* all of the information in the text, *Essentials of Treasury Management, 3rd Ed* and is not meant to take the place of the book.

A special thanks to <http://www.investopedia.com/> which has proven to be a great resource for explanations and descriptions.

NOTE: TMExam.com does not guarantee that this information is accurate or will be on the Certified Treasury Professional (CTP)® exam. *Essentials of Treasury Management, 3rd Ed* is the body of knowledge for the CTP® exam and these flash cards are not meant to take the place of this text but are meant to be used as a GREAT study aid in conjunction with other study material.

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### Operating Cycle

1. Acquire Materials
  2. Convert to finished goods
  3. Sell finished goods
  4. Collect Payment
- Then Back to #1

Acquire → Convert → Sell → Collect

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### Three types of Treasury Structures And explanation of each

**Centralized** – Field offices have little or no control over local treasury decisions. May be able to choose basic bank relationships.

**Decentralized** – Field offices have more control over daily treasury decision.

**Combined** – Creates regional treasury locations to manage treasury functions for a region.

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### Benchmarking And Reengineering

**Benchmarking:** Research other company's that have the same (or similar) processes and identify "best practices".

**Reengineering:** A complete redesign of a process – the term "radical redesign" is used to describe Reengineering.

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### Outsourcing

Finding a third party to perform a task that is more difficult or costly for you to perform in-house.

Many times, the third party saves through economies of scale (i.e. Bank Lockbox)

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**UCC Article 5**

Defines and sets guidelines for Letters of Credit (L/C),  
Documentary Draft and Documentary Demand for Payment.

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**Thriffs**

2 types: Savings and Loans and Mutual Savings Banks  
(savings banks)

Monitored by the Office of Thrift Supervision (OTS).

Deposits held in Thriffs are insured by the FDIC just as with  
commercial banks.

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**Describe DDA's and TDA's**

DDA's = Demand Deposit Account. Also known as a checking  
account.

TDA's = Time Deposit Account.

Types: Savings Accounts, Money Market Deposit Accounts (MMDA),  
CD's and NOW Accounts.

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**Credit Unions**

Nonprofit. Generally only able to offer services to certain types of  
"members": teachers, labor unions, etc.

Deposits are insured by the NCUSIF not the FDIC.

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**Federal Reserve (Fed)**

Controls monetary policy in the US.

Made up of the following:

- 1. Board of Governors
- 2. FOMC (Federal Open Market Committee)
- 3. 12 banks and 24 branches.

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**Four Main roles of the Fed**  
*Essentials of Treasury Management, 3rd Ed.*

- 1. Monetary Policy
- 2. Supervision and Regulation
- 3. Government Services
- 4. Depository Institution Services

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**Office of the Comptroller of the Currency (OCC)**

- Charters, regulates, and supervises all National Banks.
- Approves or denies new charters, branches, capital and other changes in the corporate or banking structure.
- Analyzes bank loan and investment portfolios, fund management, capital, earnings, liquidity, sensitivity to market risk, and compliance with consumer banking laws.

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**Financial Crimes Enforcement Network (FinCEN)**

**FinCEN** –Implements policies to detect and fight money laundering by criminal or terrorist organizations

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**Federal Deposit Insurance Corporation (FDIC)**

Established in 1933 as part of the Glass-Steagall Act.

- Provides insurance on bank deposits
- Offers \$250,000 insurance on consumer and commercial deposits at banks and thrifts.
- Supervises depository institutions
- Becomes trustee in the event of a bank failure.
- Owns the DIF, which is a combination of the BIF & SAIF

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**Securities and Exchange Commission (SEC)**

Primary mission of protecting investors and maintaining the integrity of the securities market

Requires companies to register IPO's and disclose financial information for investors to make sound decisions.

Regulates Mutual Funds, Investment advisors and monitors for insider trading

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**Office of Foreign Asset Control (OFAC)**

An office in the Treasury Department.

Enforces economic trade sanctions against foreign countries, Terrorist sponsoring organizations and international drug traffickers.

Able to freeze foreign assets under US jurisdiction.

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**USA Patriot Act**

- In response to 9/11 attacks.
- Adds more regulation on Financial Institutions in order to detect terrorism financing
- Implemented "know your customer" rules for financial institutions

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**3 phases of money laundering**

**Placement:** Depositing money into a financial institution

**Layering:** Creating financial transactions to hide original origins of deposited money

**Integration:** Creating a legitimate explanation of funds

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**Sarbanes Oxley Act (SOX)**

- Off-Balance Sheet arrangements must be listed in MD&A if they may be important to current or future financial position of company.
- Companies must disclose if the audit committee has a financial expert
- Companies must develop internal controls for financial reporting
- Companies must disclose code of ethics for officers

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**Check 21**

- Allows for check truncation
- Meant to improve the efficiency of the US payment system
- Allows for Image Replacement Documents (IRD) as a legal substitute for paper payment methods (except for foreign checks)

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**Reg J, Reg Q**

**Reg J** Established the check collection and settlement rules through the Fed.

**Reg Q** Says that S and C corporations cannot receive interest on DDA accounts (many provisions were removed as part of Dodd-Frank Act)

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**Gramm-Leach-Bliley Act**

- Allowed the creation of financial holding companies to own and engage in a variety of financial activities.
- Allowed foreign banks to enter the US markets more easily
- Requires banks to maintain a satisfactory CRA rating in order to merge with some other financial companies
- Requires financial organizations to disclose their privacy policy for sharing customer information.

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**Reg D, Reg E**

**Reg D** Created the reserve requirement for depository institutions.

**Reg E** Protects consumers and sets guidelines for Electronic transactions (ACH, Debit and Credit cards – but not Wires)

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**Reg Z**

- Protects customers from increases in credit card interest rates
- Sets age limits on issuance of credit cards (21) without certain qualifying factors being met
- Requires credit card issues to receive permission to charge over balance fees
- Eliminates 2 cycle billing
- Prohibits creditors from crediting minimum payment towards lower interest rates first

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**Reg BB, Reg CC**

**Reg BB** requires banks to meet the credit needs of the communities in which it does business – provisions of the CRA

**Reg CC** All about Checks – meant to speed processing of checks and sets standards for endorsements. Sets rules for PTD

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**Reg BB, Reg CC**

**UCC Article 3**

**Reg BB** requires banks to meet the credit needs of the communities in which it does business – provisions of the CRA

Determines what meets standards of **accord and satisfaction** for **negotiable instruments**

**Reg CC** All about Checks – meant to speed processing of checks and sets standards for endorsements. Sets rules for PTD

Created the rule of “paid in full” satisfying full payment of debt (payee currently has 90 days to return the check before it is considered paid in full)

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**UCC Article 4**

**UCC Article 4A**

Defines the rules in the relationship between the bank and its customers and the customer’s rights to use banking services

Defines the rules surrounding Electronic Transactions (ACH, Wires, CHIPS).

Customers can issue stop payments, bank does not have to pay stale dated checks, customer must report fraudulent signatures (within 30 days of receiving statement)

**Security Procedures** – use of security measures to protect the customer and the funds from fraud (using PIN’s, information verification, etc)  
**Consequential Damages** – Says that Banks are not responsible for losses due to bank error that are in excess of the actual loss (unless it agrees to pay these damages in writing).

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**Political Risk, Nationalization, Expropriation**

**Political Risk** – Change in government policy may have an adverse effect on a company’s position.

**Nationalization** – When a country takes ownership of the assets (land, buildings, equipment) of a public property (or a specific industry such as oil).

**Expropriation** – When a country takes ownership of a specific company’s assets.

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**Shared Service Center, In-House Banking**

**Shared Service Center (SSC)** – A method of consolidated a variety of business functions into one area: accounting, treasury, HR, etc, for use by divisions of a company.

**In-House Banking** – In an In-House Banking arrangement, Treasury becomes the company’s center for banking service. This allows treasury to manage the overall banking relationship and receive discounts by creating a banking “economy of scale”.

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**Blocked Currency, Forced Reinvestment, Required Majority Ownership**

**Blocked Currency** – When exchange controls exist that will not allow conversion to other currencies.

**Forced Reinvestment** – A transfer risk that requires that all profits made in a country be reinvested into the country and not transferred from the country.

**Required Majority Ownership** – Companies must be owned by resident nationals (*Essentials*).

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**AFP Service Codes (*Essentials*)**

**Six Character, alphanumeric codes that help identify, describe, and report banking services and charges.**

(Helps compare prices and services between banks, which is difficult because banks use different explanations for the same services)

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**Reserve Requirement, Earnings Credit Rate**

**Reserve Requirement** – Currently 10%. This is the amount of collected balances that the bank is required to maintain at the Fed. Since the bank cannot use this money, it feels that its business customers should share the expense.

**Earnings Credit Rate** – The rate that the bank uses, along with the available balance, to determine the Earnings Credit. The earnings credit is used to offset bank charges

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**Corporate Governance, Agency Problem**

**Corporate Governance** – the “management” of company managers to make sure that they act in the best interest of the company and its shareholders.

**Agency Problem** – the issue that Management of a company may act in their own best interest instead of acting in the best interest of the shareholders.

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**Rules for Independent Directors**

- Independent Directors must make up a majority of the board.
- Independent directors must not have worked with the company as an auditor (or for the company) in the last 5 years.
- Cannot be an owner (ex. shareholder) or officer of the company.

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**CAMELS**

Rating system that measures financial institutions on the following measures. Banks are not allowed to make this information public.

- **Capital Adequacy**
- **Asset Quality**
- **Management Capability**
- **Earnings**
- **Liquidity**
- **Sensitivity to Market Risk.**

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**Highly Compensated Employees**

An employee who: (1) during the year or the preceding year is (or was) a 5 percent owner or (2) received compensation in excess of \$105,000 (adjusted for cost of living increases) and was a member of the top paid group of employees (generally defined as top 20%).

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**Employee Retirement Income Security Act of 1974 (ERISA)**

Enforced by the DOL and IRS.

5 objectives (abridged):

- 1) Employees and beneficiaries receive adequate information
- 2) Set standards for those who manage plans and funds
- 3) Determine adequate funds are set aside to pay pension benefits
- 4) Ensure employees receive benefits when they've met the criteria
- 5) Protect benefits for workers whose pension plans are terminated

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**Defined Benefit, Defined Contribution**

**Defined Benefit** – Funded by the employer. May not be “portable” if employee leaves. Benefits usually based on employee’s length of employment and earnings.

**Defined Contribution** – Funded by employee Ex. 401k, 403b (employer may match contributions). Benefits usually based on employee contributions to the plan. Usually portable or funds can be withdrawn if employee leaves (within legal and tax limits).

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**Distress and Standard Termination of a Pension Plan**

**Distress** PBGC takes over the plan and uses PBGC assets and any remaining assets in the plan to make sure that current and future retirees of the plan receive their pension benefits, within the legal limits. The employer must meet PBGC requirements for Distress Termination is granted.

**Standard** – In this situation, the plan has enough money to fund the plan. Either the plan purchases an annuity to pay the participants or makes a lump sum payment.

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**401 (k) and 403 (b)**

**401 (k)** – Tax deferred retirement plan offered through employers. Employee can make contributions pretax from pay and employee may match contributions. Contributions can be invested in securities, options, mutual funds, etc.

**403 (b)** – Available only to employees of tax-exempt Organizations (churches, schools, etc.). Also known as Tax-Deferred Annuities.

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**Request for Information (RFI)  
Request for Proposal (RFP)**

**RFI** – A request for information. Used prior to RFP – this is not to get bids but to see who qualifies or to get some ideas of what to do.

**RFP** – Formal bid for services. Gives detail on what you are looking for and asks for companies to explain how they can service you. Also asks for pricing information (although pricing is not always the deciding factor in RFP's).

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**Bank Score Card, Relationship Review**

**Service Report Card** – Used to rate banking services (Lockbox, ACH, Internet Banking, etc.). Gives companies a method of evaluating and comparing bank services and relationships.

**Relationship Review** – These are more formal than Report Cards and allow two way communications between your company and the service provider. Allows your company to rate service as well as discuss future needs and expectations (*Essentials*).

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**Service Agreement, Account Resolution,  
Signature Card**

**Service Agreement** – Detailed agreement between company and service provider specifying and detailing the services to be provided.

**Account Resolution** – A bank required document that enables the management or owners of a company to grant someone the ability to manage the company’s bank accounts and bank services.

**Signature Cards** – A paper or electronic image of the signature of authorized account signers. Banks use this for verification of signature.

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**Required Balance Calculation**

$$\text{Average Required Balance (CB)} = \left( \frac{SC}{\left( ECR \times \frac{D}{365} \right) \times (1 - RR)} \right)$$

- CB = Required Collected Balance (to offset Service Charges)
- SC = Bank Service Charges
- ECR = Earnings Credit Rate
- RR = Reserve Requirement (usually 10%)
- D = Number of Days in Month

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**Account Analysis**

A bank statement detailing banking services, volume, balances, Earnings Credit, etc for the period.

822 is the ANSI transaction format for Account Analysis.

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**Earnings Credit Calculation**

$$\text{Earnings Credit} = AC \times (1 - RR) \times \left( ECR \times \frac{D}{365} \right)$$

- AC = Average Collected Balance (total collected balance ÷ days in cycle)
- RR = Reserve Requirement (usually 10%)
- ECR = Earnings Credit Rate
- D = Number of Days in Month

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### Counterparty Risk

The risk that another party in a transaction or agreement will not fulfill their requirements as promised.

Essentials of Treasury Management, 3<sup>rd</sup> Ed lists multiple methods of reducing counterparty risk: Increase number of counterparties, eliminate high risk counterparties, use third party custodians, adjust liquidity allocations among counterparties, implement balance limits on counterparties.

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### Primary duties of Treasurer (3<sup>rd</sup> Ed)

- Overall financial risk
- External financing
- Bank and FI relationship
- Day to day liquidity and cash management
- ST and LT investments
- Creating treasury policies and procedures

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### Primary Methods to make Treasury Operations most Efficient (3<sup>rd</sup> Ed)

1. Improve internal processes
2. New or improved technology usage
3. New or improved financial services
4. Outsource some functions

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### Agency Problem

The concern that management of a company is more interested in its own self-interest than in the interest of the shareholders of the company.

The goal of a company is to increase the net worth of its shareholders

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**Investor Relations  
Whistle-Blowers**

**Investor Relations:** Responsible for the release of information to stock and bondholders of the company. This is not limited to financial information but could be any time of information that is relevant to the company's current and future shareholders or bondholders.

**Whistle-Blowers:** A person who has knowledge of a company's illegal or unethical activity and makes it public. There are some protections for employees to become whistle-blowers.

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**Financial Stability Board (FSB)**

Based in Basel, Switzerland. Focused on promotion and implementation of international regulatory, supervisory and financial sector policies.

Members of FSB are from G-20 nations, the world bank, IMF, BIS and OECD, among others

Goals include: Maintaining Financial stability, promote transparency, implement international financial standards and conducting peer reviews

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**Five General Areas that Regulation of FI's is  
Concentrated (3<sup>rd</sup> Ed)**

- Monitoring safety and soundness of the banking system
- Setting monetary policy
- Guidelines for bank and FI chartering
- Allocating credit to certain sectors of the economy and consumer protection
- Protect investors who purchase securities through FI's

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**Bank for International Settlement (BIS)**

Based in Basel, Switzerland.

Essentials 3<sup>rd</sup>, Ed lists 4 primary responsibilities: As a forum for discussion and policy analysis among central banks, Acts as a center for economic and monetary research, Acts as a counterparty for the financial transactions of central banks, Acts as an agent or trustee for international financial operations

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**Basel Committee on Banking Supervision (BCBS)  
Committee on Payment & Settlement Systems (CPSS)**

**BCBS:** Standard setting body in the BIS and is a forum for cooperation on banking supervisory issues. The objective is to improve banking supervision and increase understanding of supervisory issues globally.

**CPSS:** Standard setting body for payment and securities settlement systems hosted by the BIS. Is a forum for central banks in domestic payment and clearing systems in addition to international and multicurrency settlement systems

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**International Association of Insurance Supervisors  
(IAIS)**

Standard setting group for insurance regulators globally and is tasked with increasing cooperation of members internationally and domestically. Goal is to ensure efficient, fair, safe and stable insurance markets (3<sup>rd</sup> Ed)

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**Int'l Org of Securities Commissions (IOSCO)  
Financial Action Task Force (FATF)**

**IOSCO:** Sets international standards for securities markets. The members of IOSCO regulate over 95% of global securities markets.

**FATF:** International organization. Develops policies to fight terrorism financial and money laundering both nationally and internationally.

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**Financial Stability Oversight Council (FSOC)**

A committee lead by the US Treasury Secretary that is responsible for monitoring the financial system to identify threats to financial stability. The FSOC cannot take action but can make recommendations.

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**Roles of the Financial Stability Oversight Council (FSOC) (Essentials 3<sup>rd</sup> Ed)**

- 1. Monitor Financial Institution size
- 2. Regulate nonbank financial companies
- 3. Provide technical expertise
- 4. Increase risk transparency
- 5. Monitor large bank holding companies
- 6. Set capital standards
- 7. Supervise payment, clearing and settlement

**Financial Services of the Fed**

- Coin and Currency distribution
- Check Processing
- ACH
- Wire Transfer services
- (from Dodd Frank) greater control/management responsibility of payment, clearing and settlement systems (3<sup>rd</sup> Ed)

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**National Credit Union Administration (NCUA)  
Commodity Futures Trading Commission (CFTC)**

**Consumer Financial Protection Bureau (CFPB)  
Fin Industry Regulatory Authority (FINRA)**

**NCUA:** Government agency that is responsible for chartering and oversight of federal credit unions. It also manages the National Credit Union Share Insurance Fund (NCUSIF), which is similar to the FDIC

**CFPB:** Created by the Dodd Frank Act. Oversees financial products and services that are offered to consumers. Consolidated many of the responsibilities held in the OCC, FDIC, Fed, NCUA, OTS, HUD and FTC.

**CFTC:** Regulates futures and options markets in the US. Dodd Frank Act requires CFTC to work with te SEC to regulate OTC derivatives

**FINRA:** regulates securities firms and registered securities firms that do business in the US.

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**Federal Insurance Office (FIO)  
The Red Flag Rule**

**FIO:** To be housed under the US Dept of Treasury. When created, it will be responsible for monitoring the insurance industry and providing policy recommendations.

**Red Flag Rule:** Requires FI's (any institution that holds a consumer transaction accounts) to protect, prevent and mitigate identity theft risk

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**Sales Tax  
Use Tax**

**Sales Tax:** A tax that is charged to someone for purchasing a good or service. The seller is responsible for charging it and remitting the tax to the government.

**Use Tax:** A tax charged after a sale, where no sales tax was collected. The buyer is responsible for paying the tax to the government.

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**The Dodd Frank Act**

US Legislation that became effective in 2010 in response to the causes of the Great Recession. The Act increases financial oversight of various financial instruments, ends too big to fail, creates multiple agencies that are charged with protecting consumers and monitoring the financial system in multiple ways.

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**UCC Article 9  
Pension Protection Act (PPA)**

**UCC Article 9:** Covers lending transactions where collateral is taken for lending money. The lender must file a UCC-1 form that lists the collateral used to secure the loan.

**PPA:** Legislation that protects consumers from underfunded defined benefit plans and provides additional provisions to companies that offer defined contribution plans

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### Types of Bankruptcy

- Chapter 7: Company liquidation
- Chapter 9: Government bankruptcy
- Chapter 11: Company reorganization
- Chapter 13: Consumer bankruptcy
- Chapter 15: Bankruptcy that includes multiple countries

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### 3 Types of Formal Ch 7 Bankruptcy procedures Informal Bankruptcy

- **Freefall:** Company enters bankruptcy with no plan to come out of it
- **Pre-Arranged:** Some creditors have agreed to bankruptcy plan but it may not be binding
- **Pre-packaged:** A formal plan has been filed with the SEC and all creditors have accepted it.

**Informal Bankruptcy:** Where a company does not file bankruptcy but, instead, comes to an agreement with creditors on reducing debt in order to assist the company in becoming financially viable.

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### Unanimous Consent Cram-Down

These are two methods of formulating a Ch 11 reorganization plan

**Unanimous Consent:** 2/3 of creditors and equity holders must agree on the reorganization plan

**Cram-Down:** When the court forces a reorganization plan that it feels is fair to all parties involved. Used when creditors and equity holders do not agree on a reorganization plan

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### Uniform Bank Performance Report (UBPR) SAS 70 Audit

**UPBR:** Report published by FFIEC that allows you to evaluate the performance of a bank. Three types of data are used: bank data, peer group data, percentile ranking of the bank

**SAS 70 Audit:** An audit that monitors a financial institutions operational risk.

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