Betriebswirtschaftliches
Institut & Seminar Basel

FINANCING

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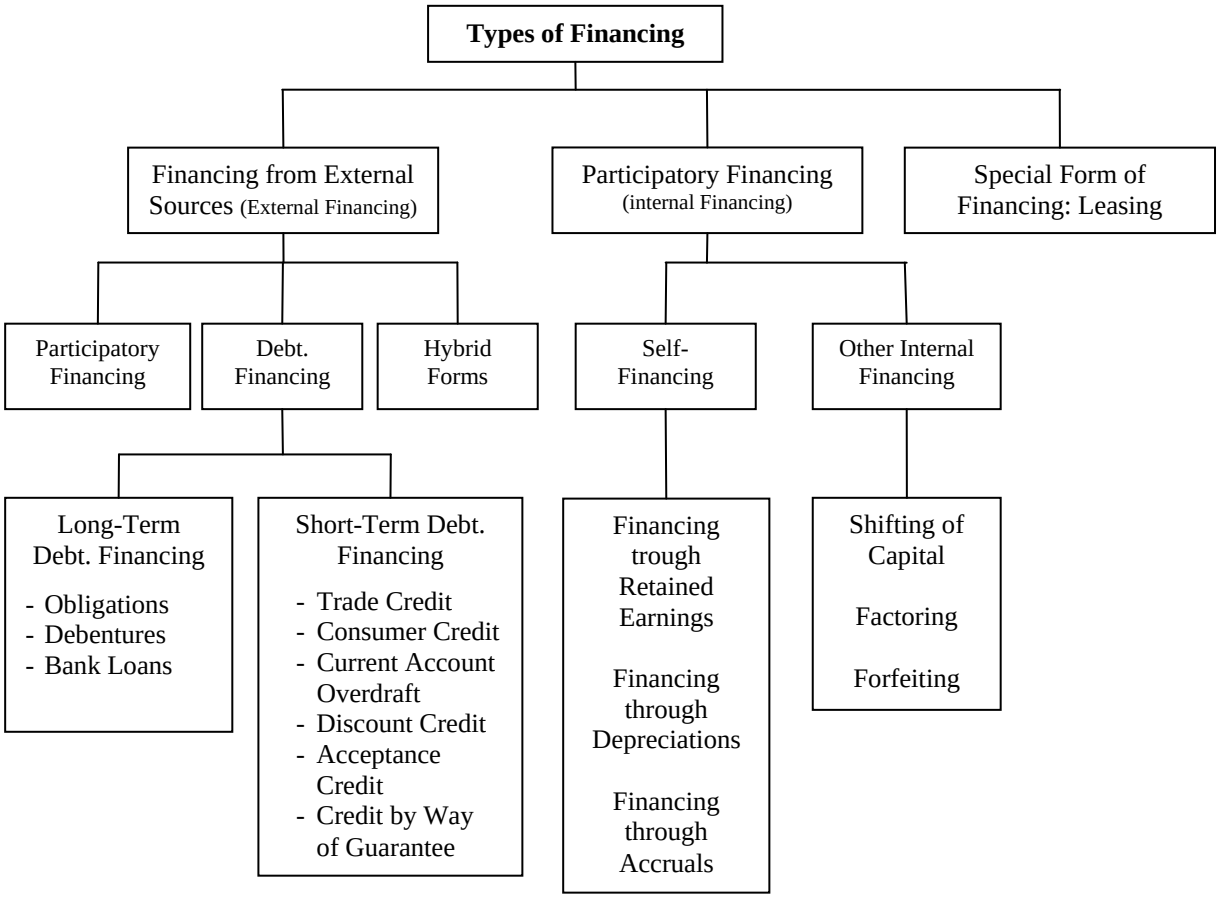
3. FINANCING RESOURCES AND TOOLS

3.1 An Overview of the Forms of Financing

In expert literature, you will find different systems of categorising the various options of procuring financial means. The main distinction is made by *External* and *Internal Financing* or, respectively, by *Financing from External Sources* and *Internal Financing.* The decisive criterion here is, whether the company is provided with funds from resources outside its production and sales divisions (external financing) or whether funds are procured via its own production and sales divisions (internal financing).

As financing shall be used in the broadest sense of the term in the context of this discussion, the term leasing will be added to the system as a special form of financing.

Accordingly, the following illustration depicts the systematisation of different forms of financing:



3.2 External Financing

External financing is characterised by an influx of funds or equivalent goods from an outside source. External financing is subdivided into participatory financing and debt financing as well as hybrid forms.

3.2.1 Participatory Financing

If a company is provided with equity capital from an external source by its lenders of equity, this is called a participatory financing measure. Equity is also referred to as the company's foundation of financing as creditors are only likely to be interested in making an investment with external funds if a sufficient amount of equity capital is already available to the company.

In addition to this fundamental task, equity is also closely related to the following in a participatory function:

(1) Start-up Function
On company formation, owners must provide start-up capital in the form of shareholder's equity.

(2) Profit Distribution Function
In compliance with the law or deed of partnership, the distribution of profits is fundamentally based on the amount of shareholder's equity which individual partners have invested in the company.

(3) Financing Function
The appropriation of start-up capital by owners and the future increase of shareholder's equity generally coincides with an influx of tender.

(4) Guarantee or Liability Function
Owners are liable to creditors up to and including the amount of their investment.

(5) Representative Function
Companies which have a solid equity base generally have a good credit-standing and debt margin.

3.2.1.1 Shares as Tools of Participatory Financing

The participatory financing process in companies which are not capable of issue is generally closed to the public and varies according to the legal company form and other individual aspects. We shall not discuss this group of companies any further but draw your attention to participatory financing in joint-stock corporations instead, as these are capable of issuing shares.

Shares represent securities for the shareholders of joint-stock corporations. They secure a number of rights in respect of membership by means of a document. These securities are type-based as bearer shares or nominative shares and may be transferred by agreement or handover. This fungibility of shares enables a joint-stock corporation to mobilise financial means for investments which are worth millions by issuing shares and by placing them with a great number of investors.

One of the main benefits of this legal company form is the fact that a joint-stock corporation is in a position to buy and, more importantly, sell shares almost at any time at all without letting these changes in the circle of shareholders affect its financial domain.

Shares are issued

- on company formation
- in case of an increase of capital and
- in case of conversions.

According to the type of chartered rights, one can distinguish common shares and preference shares. Common shares endow shareholders with the following rights in respect of membership:

(1) Right to a share of the profits
(2) Right to participation in liquidation proceeds
(3) Right to accountability and information
(4) Right to vote
(5) Stock-purchase option

Preference shares are characterised by the fact that the owner *forfeits* at least one of the five aforementioned rights. In return, he will be compensated with a benefit pertaining to another right; i.e., owners of preference shares will be granted higher dividend payouts compared with those paid out to common shareholders.

1) Right to a Share of the Profits

A shareholder has various options of yielding income. One is the prospect of capital gains, the other is the right to sharing in the corporation's dividend payouts according to the amount of his holding. First, this claim is a residual claim; i.e., the shareholder may assert his right to a share of the dividend payout (share of the profits) after other investors (e.g., creditors and preference shareholders) have satisfied their claims. Second, this claim is limited to profits as reported on the balance sheet; i.e., it depends on the calculation of the net income for the year according to the profit and loss account and in compliance with legal regulations and on which specific modifications are made to the net income for the year due to applicable statutory provisions.

2) Right to Participation in Liquidation Proceeds

By law, owners of common shares are entitled to a participation in the liquidation proceeds obtained by the entrepreneur in proportion to the amount of their holding. Again, this claim is a residual claim, common shareholders may only claim their share after the lenders of debt capital have satisfied their claims in total and after preference shareholders have satisfied their claims according to the type of preferences granted to them. The status of common shareholders is unfavourable inasmuch as they have no guarantee of being able to retrieve the price they have paid for their shares in case of compulsory liquidation of the company.

3) Right to Accountability and Information

Shareholders are endowed with the right to participation in the General Meeting, the right to submit a petition, the right to demand information on corporate matters and the right of avoidance. The right of participation in the General Meeting and therefore the rights of individual shareholders are limited. The General Meeting decides the appointment of the members of the board of directors, the employment of profits according to the balance sheet, measures concerning the procurement and reduction of capital as well as the liquidation of the corporation. Decisions made by company management can only be put to the vote at the General Meeting if the executive board makes a demand to that effect.

4) Right to Vote

Each common shareholder has the right to vote at the General Meeting according to the number of shares he holds. This allows him to safeguard his proprietary interest. If shareholders possess shares which do not endow them with the right to vote, they must be compensated for this disadvantage by granting them other rights; i.e., concerning the distribution of profits and/or liquidation proceeds.

In reality, financing practices have developed different manifestations of granting compensatory benefits:

- *Priority Right to a Dividend:*
  Owners of preference shares are endowed with an advance right to a dividend which eventually results in the payment of identical dividend rates for common shareholders and preference shareholders if the company is in a position to pay a dividend to common shareholders ín addition to paying interim dividends.

- *Priority Right to a Dividend und Surplus Dividend:*
  In addition to being granted an advance right to a dividend, preference shareholders generally receive higher dividend rates than common shareholders.

- *Limited Maximum Dividend:*
  The company firmly promises to pay a fixed dividend to preference shareholders without granting them an additional share of the profits.

In case preference shares are issued because the right to vote is waived, preference shares always have the same qualities as cumulative preference shares; i.e., the company is obliged to make payments in arrears and to grant the right to vote under certain circumstances. Preference shareholders are entitled to the right to vote if:

- the company is in arrears with payments due to the shareholder in a financial year and
- if no payment is made in arrears in the subsequent year.

5) Stock-Purchase Option

If a company intends to meet an excess capital requirement through the increase of capital, senior shareholders run the risk of having their amount of holding reduced and of losing asset value due to a price collapse of shares after the increase of capital. An increase of capital results in a higher number of shares in circulation. For this reason, a stock-purchase option has been introduced according to corporate law. It fulfils the following two functions:

(1) Protection of senior shareholders from losses;
(“junior” shareholders do not receive a benefit)

(2) Option of maintaining one's right to vote.

3.2.1.2 Participatory Financing by Means of Increasing Capital

- **Ordinary Increase of Capital**

The most common type of participatory financing is procurement of capital via an ordinary increase of capital during current business operations. In this process, shareholders decide to issue new shares against payment or (rarely) against capital paid in property. The necessary vote held at the General Meeting requires a minimum majority of three-quarters. There is no limit to the new issue volume. The subscription price of new shares must at least correspond to the par value, as issue below par is not authorised. However, companies are keen on fixing the issue par as high as possible to reduce the costs of the procurement of equity. The upper limit of the issue par is the company's relevant current stock quote as no shareholder would be willing to buy shares if the issue par is above the stock quote.

Senior shareholders may exert their stock-purchase option or sell it to junior shareholders which require the stock-purchase option to acquire fresh shares. Thus, there is a value attached to the stock-purchase. In order to ascertain this value, one must know the issue par of the new shares (K_{em}), the market rate of the old shares prior to the increase of capital (K_a) and their reference relation (RefR). The reference relation states the number of shares which can be bought for a certain number of old shares.

The so-called calculatory *Value of Stock-Purchase Options* (PO) is calculated according to the traditional stock-purchase option formula:

$$PO = (K_a - K_{em}) / (RefR + 1)$$

Explanation of abbreviations: RefR = number of old shares / number of new shares

The price after the increase of capital (K_n) is calculated as follows:

$$K_n = K_a - PO$$

Example:

Let us assume that the share price before the increase of capital is 400 €; the issue par of new share 100 €; the reference relation amount is 5:1; i.e., the owner of five old shares may purchase one new share. According to the above formula, the calculation would be as follows:

$$PO = (400\text{-}100) / (5/1 + 1) = 50$$

If a person wanted to buy a new share but does not hold any old shares, he would have to purchase 5 stock-purchase options at a price of 50 € each and pay a price of 100 €. So, the total price for the new share is 350 €.

A shareholder who possesses an old share at a market value of 400 € and does not want to exert his stock-purchase option will make a profit of 50 € for the sale of the stock-purchase option. This deposit compensates him for the price collapse of his share.

The interpretation of the traditional reference relation formula is based on the assumption that in case of an increase of capital a mixed price will be established as an arithmetic mean average $K_a - PO = K_n$. Applied to the above example, the calculation would be as follows:

$$400 - 50 = 350 €.$$

If the price drops down to 350 € after the increase of capital the shareholder selling his stock-purchase option would be well compensated for this price collapse.

The calculatory value of the stock-purchase options according to the applied formulas is an equilibrium price: If the price of a stock-purchase option is higher than the calculatory value, the senior shareholder would be better of to sell his stock-purchase options and to purchase old shares at the stock exchange. If it were lower, it would be advisable to buy stock-purchase options and new shares from the corporation. The price of a stock-purchase option at the stock exchange must settle at a certain level so that it does not make a difference whether someone purchases or exerts stock-purchase options or whether he buys shares at the stock exchange.

With the aid of the derived stock-purchase option formula, one can also demonstrate that within the framework of an increase of capital the shareholder's asset position remains unaffected no matter

(1) how the terms of purchase are organised or

(2) whether or not he takes advantage of his call option.

In the following example, we shall examine the asset position of a shareholder who owns (at least) 10 shares and 200 € in the light of two possible procedures and two different terms of purchase. We shall base our examination on the above example and one variation thereof:

(1) The increase of capital takes place at issue par 100 (200) € and a reference relation of 5:1 (10:1). The shareholder sells his stock-purchase option at a price of 50 (18,18) € and possesses:

Variant 1 (K_n=100 €, RefR=5:1):

10 shares at a price of 350	=	3500,00 €
+ 10 stock-purchase option proceeds at 50	=	500,00 €
+ 200 cash	=	200,00 €
Total	=	4200,00 €

Variant 2 (K_n=200 €, RefR=10:1):

10 shares at a price of 381,82	=	3818,20 €
+ 10 stock-purchase option proceeds at 18,18	=	181,80 €
+ 200 cash	=	200,00 €
Total	=	4200,00 €

(2) The increase of capital is executed an the shareholder exerts his stock-purchase option. He will possess:
Variant 1: 12 shares at a price of 350,00 = 4200 €.
Variant 2: 11 shares at a price of 381,82 = 4200 €.

Due to the stock-purchase option and a dealing of stock-purchase options at the stock-exchange at a price which is close to the calculatory value of the stock-purchase option, it does not matter to a shareholder if new shares are issued at a high price or at a low price. This fact is referred to as *Irrelevance of the Terms of Issue*.

- **Authorised Increase of Capital Stock**

If a joint-stock corporation intends to raise its capital stock by procuring authorised capital, the procedure is as follows: by way of a three-quarters majority, the General Meeting authorises the executive board to raise the subscribed capital stock up to a certain par value by issuing new shares in return for capital contributions. This authorisation can be granted for a maximum period of five years. The par value of the new issues must not exceed 50% of the former subscribed capital.

- **Conditional Increase of Capital Stock**

A conditional increase of capital stock is dependent on the fulfilment of a condition which must be determined in the context of an *Increase of Capital Stock Bill* passed by the *General Meeting.* In parallel, the new shares issued as part of a conditional increase of capital are generally offered to non-shareholders. This means that the preemptive right or purchase option of new shares is not granted to senior shareholders. There are three case scenarios which may lead to a conditional increase of capital stock:

- Granting of exchange or stock-purchase options to creditors of convertible debentures,
- Preparation of a company merger
- Granting of stock-purchase options to employees (employee shares).

- **Increase of Capital Stock from Corporate Funds**

An increase of capital which does not result in an influx of funds into the company is called an increase of capital stock from corporate funds. The General Meeting may authorise an increase of the subscribed capital by converting disclosed reserves to subscribed capital. Shareholders are entitled to these new shares as part of the increase of capital in proportion to their current amount of holding.

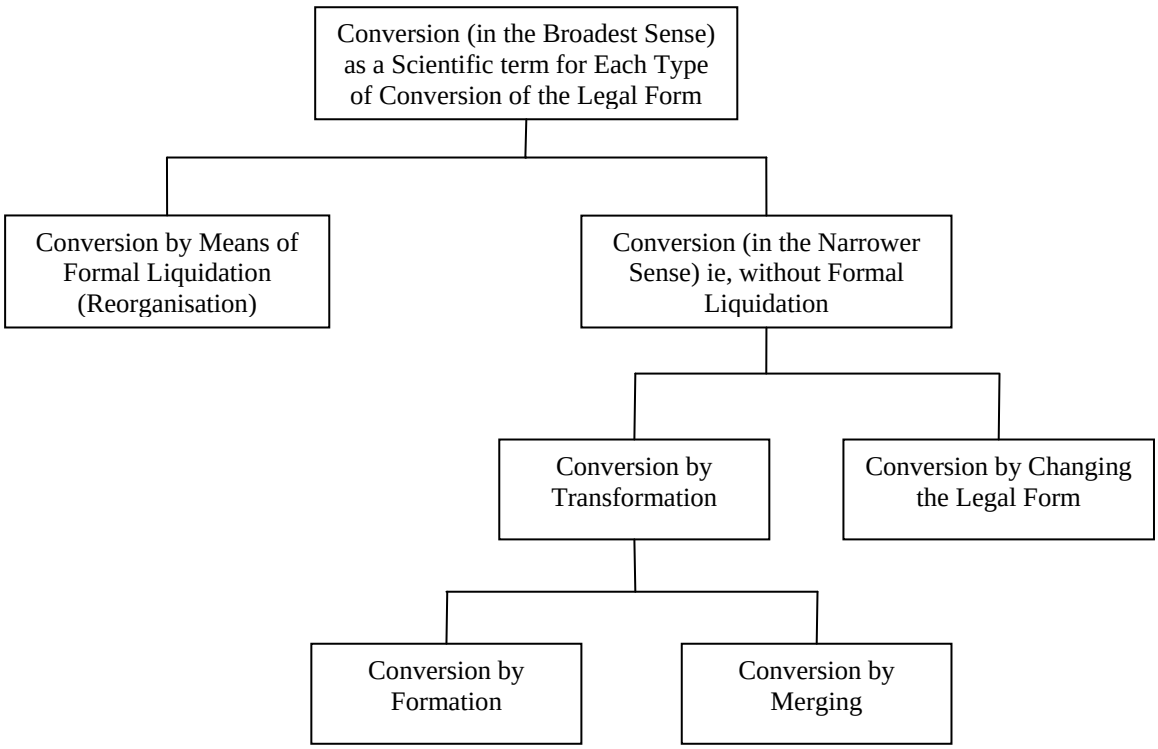
The new issues are referred to as *Bonus Shares* or *Free Shares.* The latter term may evoke the impression that shareholders are given a present; this is not the case at all. An increase of capital from corporate funds means that shareholders are given something that they already own, only the packaging is different. Disclosed reserves; i.e., the reported net income for the year of past periods according to the balance sheet which were not issued but retained are now being transformed into subscribed capital and attested by means of so-called free shares. If the corporate investment and dividend policy remains unchanged, the shareholders' assets do not change either.

3.2.1.3 Conversion

The option of procuring financial means largely depends on the chosen legal company form. The legal form which was decided upon company formation generally has far-reaching future effects. Notwithstanding it is no inalterable variable. It must therefore remain under careful observation the more the business develops. The main focus is on those criteria which were in support of a certain legal form. Accordingly, should any of the external or internal circumstances (e.g., increase of the sales potential resulting in the necessity of capacity expansion) under which the company operates change, a change of the legal form might also be required.

The broader the scope of interpretation of the deed of partnership the longer the original legal form may be maintained. A conversion of the legal form is unavoidable in cases where the existing scope does not allow for an adjustment to the changed circumstances. If, for example, the company requires fresh capital for further expansion but the legal form imposes certain restrictions, such as limiting the option of procuring equity by accepting new partners, etc..

We can make a fundamental distinction between conversion and reorganisation. *Reorganisation* comprises the formal liquidation of the existing company and the individual transfer of all its assets and liabilities to the newly formed company. Conversion comprises a change of the legal form without formally liquidating the existing company. The following illustration depicts various conversion alternatives:



1) Conversion by Changing the Legal Form

With the conversion by changing the legal form, asset rights are not transferred, but merely a modification of articles of association is carried out. The company's legal personality is maintained. Hence it is possible to convert a corporation (e.g., a joint-stock corporation) into another corporation (e.g., a limited liability company) or a partnership (e.g., a general partnership) into another partnership (e.g., a limited partnership). Please note that this type of conversion by changing the legal form can only be exercised within the same legal form category. Otherwise, conversion must take place by transformation.

2) Conversion by Transformation
Conversion by transformation comprises a transfer of assets by way of total legal succession. In this process, chattels and rights pass without formal agreement or handover, and claims pass without assignment from the transforming corporation to the corporation which takes over. Conversion by transformation is reserved for corporations with no legal personality which are transformed into corporations with legal personality (and vice versa). Depending on the whether the corporation which takes over already exists or whether it is yet to be formed, conversion takes place by merging or by formation.

2a) Conversion by Merging
Transfer if assets to an existing company which has a different legal form.

2b) Conversion by Formation
Transfer of assets to a corporation which is formed in parallel and takes a different legal form.

3.2.2 Debt Financing

In contrast to participatory financing, debt or loan financing comprises the procurement of loan capital from external sources instead of equity capital. In this case, investors can be regarded as creditors and are thus entitled to repayments and interest on their investment according to the agreed amount and at an agreed point in time. The term of repayment is generally limited and investors do not usually have a right to a say in the company. Compared with lenders of equity, the particular payment terms in the contract endow investors with greater security.

In general, loans are not granted without relevant loan protection measures. We can differentiate between loan insurance policies and debt securities. Loan insurance policies serve the protection against damage to property in case of outstanding financial obligations on the debtor's side. There are different forms of loan insurance, such as the insurance policy against bad debt expenses as a trade credit or instalment insurance policy or export insurance policy which takes the form of export deeds of suretyship or export guarantees. There are many different forms of debt securities, such as a deed of suretyship, liabilities upon bills, guarantee, encumbrance or lien and transfer of ownership as security on a debt.

In the context of international payment securing, there are three basic types of debt securities applicable to trade credits: with the "*Cash in Return for a Document*" method, the documents securing the ownership of goods are only handed over after the importer has deposited the relevant amount due with a national bank. The *Letter of Credit* comprises a guarantee of payment by the importer's bank provided the goods have arrived at their destination in perfect condition and together with the relevant ownership documents. It is the task of the bank to

draw the outstanding amount. The *Reimbursement Credit* or *Documentary Loan* offers the greatest possible security of payment. In addition, it has a financing effect. This form of granting a credit loan is secured by the acceptance of a bank resident in the country of the importer which has previously assessed the importer's credit status. The financing aspect is effective at the time of discounting the change of ownership.

Subsequently, the various debt forms of financing are distinguished according to the terms of the loan. *Short-Term Loans* are for up to three months, or, in some cases, even for up to a year. *Long-Term Loans* are for a term of at least four or five years (according to company law definition). *Medium-Term Loans* are placed somewhere in the middle.

3.2.2.1 Long-Term Debt Financing

Long-term debt financing is loan financing; i.e., it is characterised by a fixed interest-bearing loan which must be repaid by a certain date (or certain dates) as per contract. In contrast to the arrangements with shares, interest rate payments are also due in years where the company incurs a loss. However, interest on long-term loans is deductable when evaluating profits and thus reduces the taxable profit. These are the most important forms of long-term debt financing:

- Industrial loans
- Debentures
- Convertible bonds
- Option bonds
- Zero bonds
- Floating-Rate-Notes
- Double-currency loans
- Income bonds
- Certificates of participation
- Long-term bank loans

- **Industrial loans**

Industrial loans (also referred to as industrial bonds or industrial debentures) are documented long-term loans which a large-scale company takes out via the stock exchange. Industrial bonds are attested debentures which are subdivided into single debentures of an even amount. These securities which represent creditor's rights are fairly easy to sell and buy via the stock exchange. This fungibility attracts investors who have different preferences as regards the term of investment and encourages them to make an investment into debentures.

Industrial bonds are documents which secure the creditor's claim on payment of a fixed, previously arranged interest rate at a predefined date (or dates). Repayment of the amount stated in the document must take place at a certain point in time or within a certain period of time during which the redeemable portions of the loan are cleared. Creditors' claims on interest and redemption payments must be satisfied before satisfying the claims of shareholders or other owners. Any issue of debentures must be authorised by the government. This increases security for the buyers of debentures. This authorisation is granted only if the debtor's credit status seems sufficient enough.

The success of an issue of bonds or debentures as well as the procurement costs of the necessary means incurred by the issuing company depends on the characteristic features of these bonds and debentures. These include:

1. Interest Rate

The interest rate represents a claim of a fixed amount which must be paid to the investor by the loan debtor as a result of the transfer of capital and corresponding agreements. There are two types of interest rate: the nominal interest rate and the effective interest rate, the latter being definitive on the company's interest burden. It is calculated in consideration of the terms of the industrial bonds and by including a disagio (debt discount) which is formed from the difference between the issue par and redemption value.

The effective rate is an internal interest rate resulting from the financing pay row of industrial bonds. It is easily calculated by applying the binomial formula to a current pay row stretching over two periods.

The assessment of more than two periods requires more complicated, mostly computer-aided calculation procedures. Alternatively, an approximation formula can be applied to arrive at a simplified result.

2. Term and Redemption

Industrial bonds are usually issued for a period of 10 to 25 years. The following forms of redemption are possible:

- Redemption is paid in one amount at the end of the term,
- Free-hand redemption at the stock exchange and
- Redemption in instalments by drawing certain series and rows.

3. Cancellation

While creditors do not have the option of cancelling the agreement early, loan debtors may take advantage of the following options: cancellation, increased or anticipated redemption after expiry of a certain term and at regular intervals.

4. Securities

In contrast to government bonds, industrial bonds are subject to protection by the economy. These are the most common forms of protection:

- Material securities (liens, particularly encumbrances, mortgages),
- Deeds of suretyship,
- Safeguard clauses (e.g., negative clauses or compliance with certain balance sheet structure ratios).

- **Debentures**

A debenture is a direct loan arrangement between investors und borrowers without the involvement of the stock exchange. As the minimum amount is € 50.000,- debentures are available to a much larger circle of companies than bonds which do not usually fall below a declared value of € 5 million. Debentures are long-term, individual loans with the following main features:

- The debenture interest rate generally lies slightly above the rate for a comparable industrial bond;
- They are granted for a term of about 10 years;
- Redemption is mainly in instalments after expiry of a few redemption-free years;
- Cancellation is only possible in exceptional cases;
- Protection is mainly in accordance with the position of 1st grade liens.

To investors, debentures are relatively well-secured, income-generating, investments with no price risk attached to them. The higher interest rate costs of debentures payable by the borrowers are partly compensated by the fact that their cost of issue is substantially lower than that of industrial bonds and current costs, such as coupon redemption charges and drawing fees and price update fees are not due at all.

- **Convertible Bonds**

Convertible bonds endow the owner with the right to exchange these bonds for shares after expiry of a certain period of suspension. This right is granted in addition to the rights pertaining to debentures. However, in contrast to normal debentures, the owner has the option of converting his creditor's interest into a participating interest. Preemptive shares may only

be issued in return for convertible debentures if the difference between the amount spent for the debentures, which are to be exchanged, and the higher par value of the preemptive shares, which must be paid in return, is covered by extra payments made by bondholders or by another profit reserve which may be used for this purpose. Possible extra payments and the basis of exchange of convertible bonds and preemptive shares are fixed a priori in the terms of issue.

The bondholder's stock-purchase right is secured by a conditional increase of capital stock; i.e., the increase of capital corresponds to the utilisation of the exchange or stock-purchase option which is granted by the corporation for these new preemptive shares.

The conversion period usually lasts several years. The company can influence the point in time at which debentures are to be converted into shares by making provisions for a timed graduation of extra payments. If an acceleration of the exchange process is required, the amount due will increase over time and vice versa. Please note that the interest on loan capital paid to meet the liabilities arising from debentures can be declared as operating expenses and therefore reduces the taxable profit, while the dividends which are due to shareholders must be drawn from the taxed profit. In this respect, companies will always be keen on exchanging debentures for shares as late as possible. The exact amount of extra payments is calculated as a percentage of the par value or as a percentage of the dividend.

- **Option Bonds**

Owners of option bonds are endowed with an exchange or purchase right on shares (option right). This right is granted in addition to the rights pertaining to debentures. Thanks to this option, the bondholder may purchase company shares within a certain period of time at a fixed reference relation and at a fixed subscription price.

Similar to convertible bonds, the issue of option bonds requires a conditional increase of capital. However, in contrast to convertible bonds, option bonds are redeemed at the end of the term which is subject to the agreement, no matter whether or not the bondholder exercises an option at the end of this term. Another difference is that option bonds are not traded against shares but remain valid in parallel. Therefore, the option bond may be quoted with or without option warrant as it is also traded at the stock exchange independent of the debenture. In contrast to convertible bonds where at the point of possible exchange loan capital is converted into equity and the creditors become partners, extra equity is added to the existing loan capital at the point of exercising a possible option within the framework of option bonds. Thus, bondholders are both creditors and partners after exercising their stock-purchase option.

- **Zero Bonds**

Zero bonds represent a new innovative form of bonds. They are characterised by the fact that no interest payments are due during the entire term. Interest and compound interest are payable at the end of the term together with the amount of capital loaned originally. Under this aspect, interest rates are calculated according to the difference between the higher redemption value and the issue par. Zero bonds are traded at the stock exchange and are generally granted for a term of 10-20 years, in some cases even for a term of more than 30 years.

There are two different forms of zero bonds. *Incremental Bonds* are issued at a price of 100%. The redemption value is much higher than that. *Real Zero Bonds* are repaid at 100% and issued at a lower issue par which corresponds to the discounted cash value.

As no interest payments are due during the term of zero bonds, the borrower's (entity issuing zero bonds) liquidity position is not burdened. However, he bears the reinvestment risk which is increased by the fact that both the repayment of interest and compound interest must be secured. In turn, the investor (entity buying zero bonds) profits from the fact that he does not have to deal with the reinvestment of interest. Interest rates remain unaffected by interest rate fluctuations if the bond is kept until its final maturity date as compound interest on any interest yielded in the meantime is also based on the rate that was fixed originally. In this respect, it is advisable to invest into zero bonds particularly at times when interest rates are high as this high interest rate is then secured for the entire loan period. From the borrowers' perspective, however, the issue of such bonds is more favourable at times when interest rates are low.

Let us finally point out to the fact that zero bonds may decline in value more extremely than other bonds in case of increasing market interest rates and vice versa as in addition to exploiting the capital amount, the early sales option pertaining to these securities allows for an exploitation of interest rate developments. However, please note that due to the long term of zero bonds, their protection depends largely on the loan debtor's permanent credit status

- **Floating Rate Notes**

FRNs are innovative, variable interest-bearing bonds. The interest rate is not fixed for the entire term. It is reassessed and fixed anew at regular intervals, or at least every three or six months, in accordance with the development of a certain reference interest rate plus a risk surcharge which depends on the issuer's credit status – the top class rate being approx. 1/8% . LIBOR (London Interbank Offered Rate) generally is the reference interest rate at which top companies may procure capital at the London EURO market. FIBOR (Frankfurt Interbank Offered Rate) is another reference rate which has been applied to Euro-bonds in recent years

FRNs are particularly sought after by institutional investors due to their high fungibility and closeness to the monetary market. Furthermore, debtors of these bonds usually have an excellent credit status.

Due to regular adjustments to the interest rate, the risk of price fluctuations is low, a fact which might be advantageous in case of a possible short-term sale of securities. On the days when adjustments are being carried out securities are traded at par value.
Please note that FRNs are an interest rate risk-bearing corporate financing procedure. In principle, the interest rate risk can be limited in three different ways.

The first option is to limit the interest rate risk early within the framework of FRNs. A distinction is made between *Drop-Lock Floating Rate Notes* for which the investor receives a certain minimum interest as soon as interest rates fall below a predefined level, *Convertible Floating Rate Notes* where the investor has the option of swapping a variable rate for a fixed rate, *Mini Max Floating Rate Notes* which are endowed with minimum and maximum interest rates and the *Eternal FRNs* which have an unlimited term. However, this term can be limited if the investor is willing to risk a loss of interest. Naturally, risk limitation goes hand in hand with an increase in the company's cost of financing.

The second option is interest rate management of pure interest risk-bearing FRNs. In this context, we should point out to the fact that long-term financing tools, such as bank loans or industrial loans or debentures at long-term fixed interest rates attract rates which are 2-2,5% higher than the rates which apply on the financial market; i.e., compared with normal interest rate situations, this form of financing is substantially more expensive than financing with flexible interest rates. However, the costs of financing can only be reduced by accepting interest rate risks (FRNs). To facilitate the management of such risks financial derivatives, such as *Interest Rate Futures* (bund futures), *Interest Rate Forwards* (forward rate agreements), *Interest Rate Options* or *Interest Rate Swaps* (= interest rate swap contracts) can be applied. With bund futures and forward rate agreements, there is a problem concerning the time scale of interest rate management. Bund future contracts are de facto only available up to the following three-months-maturity. Forward rate agreements are not tradeable beyond a term of two years. Furthermore, neither financial derivatives possess sufficient market volume. Interest rate options, however, are relatively expensive in comparison. Within the framework of interest rate swaps, there is an option of swapping the funds procured by two companies which have a different credit status and which therefore are subject to different terms. The costs of financing saved by the company which has a lower credit status will then be shared equally between these two companies. Such an interest rate swap may be advantageous to either sides provided that the financing options of one company are more favourable than those of the other company.

Futures commit both buyers and sellers to accept or deliver a certain good at a definite point in time in the future and at predefined terms and conditions. *Options*, on the other hand, endow buyers with the right of purchasing (purchasing option = call option) or selling (sales option = put option) a certain amount or volume of a good within a certain period of time (= American option) or at a certain point in time (= European option) at a price which is fixed at the time of signing the contract. While the buyer is not obliged to exercise his option, the party selling the option (= standstill debitor) is obliged to sell or purchase the appropriate good provided the buyer exercises his option right.

- **Double-Currency Loans**

Double-currency loans can be distinguished by the fact that different currencies apply to loan capital, interest rate payments as well as repayments. With regards to interest rate payments, one can agree on either the currency in which the loan was issued or the currency in which repayments are made. The exact amount of interest due as well as the amount to be repaid are fixed at the time of negotiating the bonds. The underwriting profit of a double-currency bond is subject to both the differences in interest rate and price developments in either currencies. The underwriting profit lies somewhere between the return obtained on a bond in the currency in which the deposit is made and the return obtained on a bond in the currency in which the repayment is made.

- **Certificates of Participation**

Certificates of participation are effects which secure by a document asset rights but no rights in respect of membership. To companies, the benefit of issuing certificates of participation lies in the fact that financial means can be procured at the capital market without adjusting any existing participating interest as, contrary to shares, certificates of participation do not endow the buyer with a right to vote.

Certificates of participation are issued as bearer shares or inscribed shares bearing in mind that the participating interest can be terminated by cancellation, repayment or the expiry of an arranged term. The issue of certificates of participation requires a three-quarters majority at the General Meeting. Shareholders are granted a stock-purchase option. In principle, the issue of certificates of participation is not dependent on a certain legal company form.

Whether certificates of participation are allocated to equity or loan capital depends on the chartered rights granted in the context of issue. Certificates of participation are equity by their nature if they are granted for an unlimited term, cannot be cancelled by their owners and make provisions for a participation in the company's profits or losses as well as in liquidation proceeds and, thus, in hidden accruals. Accordingly, certificates of participation must be

allocated to loan capital if they are issued for a limited term, can be cancelled on either side and no provisions are made for a participation in liquidation proceeds.

Participation receipts are a special type of certificates of participation and are characterised by the fact that they secure by a document the same asset rights as shares but do not grant a right to vote.

- **Loans with Credit Institutes/Long-Term Bank Loans**

To smaller and medium-sized companies which have no access to the capital market, debentures and long-term bank loans probably represent the most important resources of the procurement of capital. Loans granted by credit institutes are distinguished mainly by the modalities of redemption payments. The three most important groups are:

1) Interest Rate Loans

Interest rate loans are characterised by the fact that only interest is payable during the entire term and a redemption payment is made in total at the end of the term. In general, interest rate loan is connected with a life insurance policy. After expiry of the insurance policy the interest rate loan is redeemed with the policy. The terms of both the loan and the policy usually are congruent.

2) Instalment Credits

Instalment credits attract a redemption quote which always remains the same over the year. As interest rate expenditure decreases annually, the debtor's total loan liabilities decrease, i.e., annuities decrease. Consequently, the annually decreasing interest payment is not applied for redemption payments in addition (excluding special redemption) so that redemption takes longer than with loans with fixed annuities.

3) Annuity Loans

Annuity loans are characterised by the fact that borrowers are burdened with constant annual interest and redemption obligations. Over the course of the term, the amounts applied to debt redemption become larger whereas interest on annuity loans becomes smaller.

3.2.2.2 Short-Term Debt Financing

Short-term liquidity planning form part of daily business-financial decisions. Short-term financial means can be procured either by down-payments received from customers, by supplier loans and finally by taking out short-term bank loans. The following illustration depicts financing tools according to their availability within the financial market segments and categorised by type of loan:

Business Loans	
Commodity Credits	**Money Credits**
Down-Payment	Industrial clearing (no operative relation)
Trade credit	
Industrial clearing (with operative relations)	
Consumer credit	

Bank's Credit Markets	
Money Credits	**Credit Lending**
Current account overdraft	Acceptance credit
Lombard loan	Credit by way of guarantee
Discount credit	Redraft

- **Down-Payment**

When making a down-payment, buyers provide financial means before the delivery of goods. In this respect, a down-payment represents a trade credit taken out at the trade credit market. Fundamentally, down-payments do not attract interest and so that the company's liquidity position is improved. As a result, no or only little financial means are required to pre-finance the order. This method is particularly common in certain industries, such as the ship-building industry, residential building industry and major plant constructions. In these sectors, down-payments serve the purpose of financing as well as providing the company with greater security that customers will actually accept their orders upon completion.

When agreeing to down-payments, the party placing the order accepts the risk that the supplier might not meet its liabilities or that he might not be in a position to do so. Therefore, the customer will ask the producer for a bank guarantee, e.g., credit by way of guarantee, particularly if down-payments amount to a substantial sum. Depending on the habits common to the trade, and particularly the seller's market power, fees and charges might be declared as indirect supplier's costs or whether interest is payable in individual cases.

- **Trade Credit**

Trade credits are a result of granting payment objectives; i.e., a delay in the payment due to the supplier, and not a result of issuing liquid funds. The buyer has two options as per contract: the first option is to pay an amount of € 980,- for an object within a period of 10 days. The second option is to pay an amount of € 1.000,- within a period of 30 days. The differential amount of € 20,- over 20 days represents the portion of interest due for the offer of the supplier's loan. Provided that the target is utilised in full; i.e., the payment is made no earlier than 30 days after the invoice date, the calculatory annual interest rate is 24%. Despite this high interest rate burden trade credits are popular, particularly with smaller companies.

- **Industrial Clearing**

In addition to down-payments and trade credits, there are other forms of procuring financial means on the industrial credit market. These types of loans are in direct competition with bank loans and lead to substitution processes at the bank's expense. This form of borrowing is referred to as procurement of financial means within the framework of industrial clearing. There are classical and modern variants of clearing systems.

With the *Classic Form of Industrial Clearing,* two companies which entertain operative relations agree on a variation of payment dates; i.e., a supplier who has a temporary need of financial means negotiates with one of his buyers who currently possesses a financial surplus an early payment for the products that are being traded between the two companies. The supplier will thus receive the amounts owed to him anyway at an earlier point in time than originally anticipated so that the money transformation process is accelerated. This early payment, which can also be interpreted as a trade credit, thus substitutes potential loans taken out at the bank's credit market. With this method, the supplier (party procuring financial means) is intent on paying a lower amount of interest for the down-payment received from the industrial credit market than the interest he would have to pay if he procured financial means from current account, bill discount or fixed amount markets. The buyer (party providing the financial means), on the other hand, wants to obtain a higher profit yield on the basis of the terms applicable to the financial markets in return for a down-payment as an industrial clearing investment than he would be able to obtain in the context of a short-term investment on the bank's market. Between the two sides of the market, there is an agreement of considerable scope with regards to reference interest rates. However, the exact rates are not disclosed to the opposing side. The agreement is usually not negotiated via interest rates but via price modifications relating to the traded products so that interest charged on the provision of financial means is converted into price modifications. As a result, the supplier procuring the financial means will obtain a lower revenue on the sold products and the buyer providing the funds will have to pay less for the products he purchases. Thus, banks miss out on a credit deal with the supplier and on an investment deal with the buyer. The bank's margin between the two reference interest rates is apportioned according to the negotiating skills and market power of the two business partners involved. Although de facto this deal consists in a slight variation of the terms of payment and does not result in any transactions that go beyond the amounts that are traded anyway, we must stress the fact that industrial clearing actually comprises the trading of fixed loan amounts which adhere to the framework of the agreed terms and are not flexible.

The New *Variant of Industrial Clearing* is also a market where the major industrial enterprises provide each other with large amounts of financial means without entertaining operative relations. These short-term to medium-term loans are based on the terms applicable on the financial markets. In this respect, this form of industrial clearing within the framework of the aforementioned systematisation of short-term debt financing must be regarded as a money loan as there are no operational relations entertained by the parties involved. The minimum amount traded is usually very high, in some individual cases, transactions are worth several million Euros (€). Maturity can be anything from one day up to a year so that there is a lower degree of standardisation than with bank's credit markets. Competitors agree the terms directly via interest rates. The resulting contractual scope between the bid and asked quotation (higher offer rate) and the bank's bid and bid quotation (lower demand rate) is quite substantial so that the difference is shared equally between the companies. The interest rates, which the agreement is based on, are Interbank Trade interest rates. Industrial clearing substitutes relevant banking transactions. In reality, a grey zone has developed in disregard of the resulting consequences, a fact which makes bank's credit markets dispensable for top industrial enterprises in periods where demand is regular. The maturity of short-term loans is coordinated between competitors and adjusted according to the required term. Prolongation of maturity is unproblematic thanks to the enormous market volume. In this respect, a loan taken out in the context of industrial clearing is very cheap and highly flexible as regards the terms.

- **Customer Credit**

With customer credits, the buyer makes a payment before being supplied with the goods. Thus, performance and return performance do not take place in sucession. The down-payment made by the buyer therefore represents a loan granted to the supplier.

- **Current Account Overdraft**

The current account overdraft is the most common form of short-term money loan. Bank loans comprise a credit line facility (overdraft limit) and, if applicable, the option of debiting the current account in excess of its actual balance to meet any outstanding financial obligations and therefore, to go into overdraft. Fundamentally, the granting of a credit line is free of charge so that a fee is payable only when using the loan. Higher credit lines attract an appropriation fee. Banks will usually tolerate a moderate excess of the credit line of up to 25%, however, they will charge a higher interest rate on unarranged borrowing.

The costs of a current account overdraft taken out at the bank’s credit markets vary according to the market situation between approx. 9% until 17% p.a., for medium-sized companies, Interest is only charged for the period during which the loan has actually been used.

Exceeding the credit line attracts an additional overdraft fee of 3% to 4% p.a. so that the costs of financing can amount to approx. 20% in high-interest rate phases. In this respect, the current account overdraft is the most expensive loan available on the bank's credit markets of all monetary market situations compared to the nominal interest rate. To debtors who have a bad credit standing but are still regarded as credit-worthy to some extent, the negotiable annual interest rate is approx. 4% to 6% above the monetary market rate of a one-year investment, while top companies who may require a loan of tens of millions as a result of an error in financial planning, sometimes even only for a single day, are only charged an interest rate of 1% to 2% above the monetary market rate. The current account overdraft is extremely flexible as it can be taken out for any desired, often very short periods of time. By making a deposit to the current account, the overdraft is in fact cancelled or reduced so that no interest is due or only small amounts. Thus, the current account overdraft is characterised by both high flexibility and high costs of financing. In this respect, the utilisation of current account overdrafts should be limited to the financing of rare peak capital requirements.

To conclude, let us point out that the company is subject to an interest rate risk during the utilisation of a current account overdraft as all changes in market interest rates result in short-term interest rate adjustments. Any interest rate increases are passed on to the customer within a few days in the framework of the usual pricing policies pursued by banks. Decreases in the market interest rate, on the other hand, only take effect in banking conditions weeks later.

- **Lombard Loan (Collateral Loan)**

A lombard loan (collateral loan) comprises the granting of a short-term loan in return for a hypothecation of chattels and other market-based assets owned by the debtor. Assets which are eligible to serve as a collateral comprise more particularly *Effects* (so-called collateral effects), *Bills* (so-called collateral bills) and *Noble Metals and Commodities* or, respectively, the disposition securities (so-called collateral commodities) which represent them. As hypothecation is based on the legal institution of hypothecation, securities must be handed over to the bank issuing the loan.

- **Discount Credit**

With the discount credit, receivables documented in the form of a bill which are not yet due are sold (change of ownership) to a credit institute in consideration of bills discounting to accelerate the money transformation process. This financing option via the bill discount rate is a shifting on the asset side the balance sheet (accounting exchange on the assets side). With this procedure, suppliers grant their customers a loan secured in the form of a bill and receive the option of transforming their receivables into money before their maturity date by selling the bills to the bank. In the context of discount credits, the loan is generally not repaid by the

loan debtor but by the bill debtor from whom the bank eventually draws the amount of bill at maturity. In this respect, this transaction is no loan as such under commercial aspects but a factoring with a related change of creditor. The party remitting the bill, however, is a contingent debtor as far as the bank is concerned. They may be held liable by the bank if the debtor fails to meet his financial obligations.

The costs of a discount credit are based on the discount rate plus a negotiable risk surcharge The discount rate usually lies somewhere in the region of monetary market interest rates.; ie., between 2,5% and 8,25%. in the most extreme case. In normal times of the trade, a discount rate of between 4% and 5% applies.

Thus, the discount credit can be described as the most cost-efficient loan available on the bank's credit markets provided rediscounting options apply. However, in view of its lack of flexibility it is less favourable as a discounting with a bank is fundamentally not reversible. In this respect, the discounting of a three-months-bills is similar to a loan attracting a fixed interest rate. Any liquid surpluses obtained in the meantime will then have to be invested at an interest rate which often lies below the bill discount rate. Hence, the discount credit is characterised by low financing costs and low flexibility.

- **Acceptance Credit**

An acceptance credit is a *Bill Credit.* The bank honours a customer bill drawn on it and thus assumes liability for repayment of the credit amount to the bearer of the bill at maturity.

An acceptance credit represents no loan of money but a credit lending as the bill becomes marketable through acceptance by the bank. It is no independent resource of financial means but facilitates the utilisation of a trade credit and is applied, contrary to the credit by way of guarantee, in cases where the supplier cannot assess the buyer's credit status. The acceptance credit is a special form of bill credit. The bank accepts a bill drawn on it by a customer and assumes liability for repayment of the credit amount to the bearer of the bill at maturity. In this respect, the buyer may ask the credit institute assessing his credit status to act as bill debtor in return for an appropriate fee and thus accept the debt arising from the operating transaction. To the bank, this deal is generally not liquidity-effective as the buyer usually provides the bank with the credit or invoice amount before bill maturity. Either the bank will discount the bill on its own authority or the company will use the bill drawn on the bank for some other purpose. In the latter case, the bill gains in quality and becomes marketable, a fact which opens up new options of procuring capital.

- **Credit by Way of Guarantee**

A credit by way of guarantee is a *Deed of Suretyship or a Guarantee* issued by the bank that the loan debtor will meet his liabilities due to a third party. Accordingly, a credit by way of guarantee is a form of credit lending similar to the acceptance credit. It does not represent an independent resource of financial means but facilitates the utilisation of loans on the industrial credit market which would otherwise not be available.

The term *Credit Lending* describes the transfer of credit-worthiness. In case the company which deposits a down-payment cannot assess the supplier's credit status properly, the supplier would ask a credit institute, usually the company's bank, for a guarantee which takes the form of a directly enforceable deed of suretyship. The bank thus assumes the risk of having to make payments within the framework of the deeds of suretyship. This is a contingent liability. The credit institute charges a guarantee commission on this warranty service between 1% to 2,5% p.a. For small-scale businesses, this charge is often due every quarter during the term of guarantee. The exact amount of the guarantee commission is negotiable and large-scale businesses will only have to pay a fraction of the aforementioned percentage. The guarantee commission must be added to the calculation of costs for an industrial loan when comparing the costs incurred for a bank loan and an industrial loan.

- **Redraft (Counterbill)**

Financing by means of a *Redraft* or counterbill is a combination of discount credit and credit lending. With this type of loan, which is very common in business practices, the buyer pays the invoice amount minus discount either in cash or by cheque. In parallel, the buyer has a bill accepted by him signed by the supplier as drawer. Then the discountable bill is presented to the bank for liquidation. As a result, the buyer has the option of utilising the discount deduction and of utilising a reasonable discount credit for the purpose of financing the purchase price.

We must stress the fact that the supplier will only accept such a procedure if the buyer's credit status seems reasonable enough as the supplier, as drawer of the bill, bears the risk of having to pay the bill amount to the credit institute in case the buyer will become insolvent.

3.2.3 Hybrid Forms of Participatory and Debt Financing

- **Certificates of Participation**

Certificates of participation are effects which secure asset rights but no voting rights. They usually comprise a claim on participation in net profits and/or liquidation proceeds. Certificates of participation can take the form of owner shares or inscribed shares and have a limited life which ends by cancellation, repayment or by expiry of the term. The issue of certificates of participation requires at least a three-quarters majority at the General Meeting. In addition, shareholders are entitled to a stock-purchase option.

- **Income bonds**

The situation on the capital market might suggest the issue of debentures which represent hybrids between debentures which only secure creditor's rights and the rights which are embodied by shares. A profit debenture is such a hybrid. In addition to granting the contractual fixed nominal interest rate they also authorise a share in the company's profits. This profit-sharing often depends on the dividend amount to be distributed to common shareholders. Bondholders are thus provided with additional options of obtaining revenue. However, the nominal interest rate is generally lower than that of standard debentures.

- **Convertible Debentures**

The owner of convertible debentures is granted an option bond or the option of converting bonds into shares in addition to the usual rights pertaining to bonds or option bonds. We can make the following distinction:

(1) Convertible debentures *with the Option of Conversion into Shares* (convertible bonds). This type of debenture endows the creditor to convert debentures into shares within a certain period of time and at a fixed exchange rate (and, if applicable, by paying an extra amount). After conversion, convertible debentures cease to exist.

(2) Convertible debenture *with Option Bonds*. The creditor acquires the right to purchase shares within a certain period of time at a fixed subscription price. Option bonds remain valid even after the purchase of shares.

The prerequisites for the issue of convertible debentures are:

- a three-quarters majority vote at the General Meeting
- a conditional increase of capital amounting to the value of the share capital to be claimed by the owners of convertible debentures,
- the granting of a stock-purchase option for shareholders,
- authorisation by the Federal Ministry of Economy.

6. TEST QUESTIONS AND ANSWERS

1. What are the main tasks of financing?
   - Procurement of capital
   - Liquidity securing

2. Immediately after the formation of a company, the following transactions are registered during the initial stages. Classify these business transactions according to the following scheme:
   a) Capital-binding
   b) Capital-decreasing
   c) Capital-liberating
   d) Capital-increasing

- Taking out bank loans	Capital-increasing
- Cash deposits by partners	Capital-increasing
- Cash acquisition of materials	Capital-binding
- Granting of a loan to a company which one is on friendly terms with	Capital-binding
- Income from the sales of products	Capital-liberating
- Profit	Capital-increasing
- Payment of wages	Capital-binding
- Payment of loan capital interest rate	Capital-decreasing
- Repayment of bank loans	Capital-decreasing
- Interest gained from the granting of a loan	Capital-increasing
- Taking out a loan	Capital-increasing
- Cash sale of materials at prime costs	Capital-liberating

3. How do you calculate the capital requirement?

Capital requirement =
capital-binding expenditure - capital-liberating income

4. Classify the following according to:
   - Equity financing
   - Debt financing
   - Self-financing

a) Capital brought in by an additional partner	Equity financing
b) Capital brought in by a limited partner	Equity financing
c) Extension of a current account overdraft	Debt financing
d) Issue of industrial bonds	Debt financing
e) Retained earnings (retaining operating profits)	Self-financing
f) Issue of new shares (increase of capital)	Equity financing
g) Acceptance of a bill	Debt financing
h) Taking out a mortgage loan	Debt financing

5.

A limited partnership wants to procure the financial means for the purpose of financing. Equity financing instead of taking out another loan, the company intends to procure the necessary capital Debt financing by means of the contribution made by a new limited partner admitted to the partnership. Debt financing which of the following reasons is in favour of the decision?

a) The limited partner also represents another free labour force.
b) The interest on loans is not tax-deductible.
c) The equity-loan capital relation will be more favourable

Answer c)

6. Which cash flow categories are there? Give an example for each category!

- Capital-binding expenditure (operating costs)
- Capital-liberating income (loan repayments)
- Capital-increasing income (interest received)
- Capital-decreasing expenditure (interest paid)

7. Which types of liquidity do you know?

- 1st degree liquidity (cash ratio)
- 2nd degree liquidity (quick (acid test) ratio)
- 3rd degree liquidity (current ratio)

8. What do cash requirement, financial requirement and capital requirement comprise?

Cash requirement:
Expenditure incurred at a certain point in time and the amount of income which must be obtained in parallel

Financial requirement:
Sum of the changes in capital requirements

Capital requirement:
At any time, this is the result of the differential values between the prime cost variables:
capital-binding expenditure - capital-liberating income.

9. What is the difference between equity financing and debt financing?

see table p. 7

10. Give a brief explanation of the following terms:

a) External financing — a) Financial means are procured from sources outside the company.

b) Internal financing — b) Financial means come from within the company

c) Self-financing — c) E.g., retained earning

11. What is the difference between the primary market and the secondary market?

Primary market: newly created finance papers, few companies act as debtors of financial means
Secondary market: securities that have already been issued

12. Which is decisive determinant of financing costs?

Interest

13. What is the meaning of participatory financing?

A company is provided with equity from external sources by its lenders of equity capital

14. Which forms of capital increase can be distinguished?

- Ordinary increase of capital
- Conditional increase of capital
- Increase of capital from authorised capital
- Increase of capital from corporate funds

15. What are industrial loans?

Long-term loans secured by a document

16.	What is the difference between industrial loans and convertible bonds?	Convertible bonds are documents which endow the owner with the additional right to exchange these bonds for shares after expiry of a certain period of suspension.
17.	Name an option of borrowing which is also available to small and medium-sized companies?	Debentures and long-term bank loans
18.	Which is a special form of financing and what is meant by it?	Leasing is the letting of fixed assets by financial institutes and other companies which operate a commercial leasing business. We can make a distinction between operating leasing and financial leasing
19.	Explain the meaning of internal financing?	Procurement of financial means from sales operations
20.	What is self-financing?	Financing through retained earnings
21.	Which forms of self-financing are there?	Open, hidden and temporary self-financing
22.	How are the classic rules of financing subdivided?	Into horizontal and vertical capital structure rules
23.	What is a substantial difference between loan capital financing and equity financing?	Equity financing is generally more expensive than loan capital financing
24.	Which determinants are decisive for the business-financial risk?	- Capital structure - Cost structure - The structure of the rate of return
25.	What is the basic message of the leverage effect?	By taking up additional loan capital the profitability of equity can be enhanced provided that the costs of procuring additional loan capital are lower than the profit which will be obtained through the capital's earning power

26.	What is the meaning of unprofitable surplus liquidity?	Accumulation of too many liquid means
27.	What are the most important tasks of liquidity management?	The avoidance of liquid surpluses and illiquidity. To arrange cash flows in view of the aforementioned taxes
28.	What types of deficits are there?	- Open, temporary deficits - Hidden financial deficits - Structural financial deficits
29.	What do free liquidity reserves comprise?	- Payment ability reserves - Short-term property reserves - Financing reserves
30.	How can liquid capital be procured at relatively short notice?	By means of: - Free liquidity reserves - Reduction of working capital - Reduction of overheads - Reduction of investments into fixed assets - Reduction of dividends - Liquidation of fixed assets
31.	Which options of short-term investment are there in case of liquid surpluses?	- Current accounts with banks - Investment in the form of a fixed or time deposit - Investment in monetary market funds - Purchase of certificates of deposit - Investment into annuities - Investment into foreign currency and shares - Substitution of loans