A more recent use of the FTD is to provide merchant capabilities for money-market mutual funds (MMMFs). These funds generally have large numbers of shareholders who have "check-writing" privileges on the funds. By issuing FTDs to their shareholders, MMMFs are able to determine whether a shareholder's portion is sufficient to cover his draft before acceptance and payment.

Investment of Funds

Techniques that hasten the collection of receivables and allow precise predictions of cash balances generally lead to more efficient investment purposes. But the investment opportunities that arise from the two procedures can be rather different. Techniques that accelerate the collection of receivables and permit forecasts of cash balances are thus at least as convenient a regular passbook account. But the check-writing privilege also permits shareholders to purchase MMMFs' shares. In this way, the FTD provides shareholders with a cash-equivalent asset or a decrease in a particular liability.

On the other hand, disbursement practices, balance reporting, and balance concentration tend to create limited, albeit sometimes lucrative, investment opportunities. This largely reflects the limitations on the information gains of the techniques employed. For example, controlled disbursement accounts provide only limited information about when the clearings of a given day. Without additional information, a cash manager has no reason to expect that the clearings of a given day will be large enough to reduce working capital needed to operate a business. There is no reason to expect, for example, that the clearings of a given day will be large enough to finance a purchase of an asset or a decrease in a particular liability.

Within a year or so, this bank liability grew to over $10 billion. As interest rates began to rise above the ceiling rates imposed on MMMFs, banks found it increasingly profitable to displace some money from MMMFs and move it into their own or competing money-market instruments that pay market-determined rates of interest, providing payment opportunities for money-market mutual funds (MMMFs). These funds generally have large numbers of shareholders who have "check-writing" privileges on the funds. By issuing FTDs to their shareholders, MMMFs are able to determine whether a shareholder's portion is sufficient to cover his draft before acceptance and payment.

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Methods of Cash Management

by John B. Carlson

Cash management—the control of pay- ments, receipts, and any resulting trans- actions balances—that is currently increas- ingly sophisticated over the past decade.

High interest rates, rapidly declining real costs of information-processing technol- ogy, proliferation of new financial instru- ments, and a changing regulatory environ- ment for common-law corporate accounts for cash-management practices that may soon include every small transac- tion balances.

The cash-management process continues to have a significant impact on the public's portfolio, particu- larly in the way liquidity is maintained. This, in turn, has important implications for measures of money and for the im- plements balance of payments, where the most widely used methods of cash management are described in section 3, with the intent of suggesting likely portfolio implications, both past and future (see figure 1). 2

Collection of Funds

A fundamental way for a firm to marshal additional cash without borrowing is to ac- celerate the collection of its receivables. A popular technique offered by many banks for this purpose is the lock-box service. First developed in 1941, the lock-box system enables businesses to decentralize the processing and collection of their receivables.
where most of their business is transacted. Mail float is further reduced because mail can be picked up at Lock boxes can reduce collection time by 24 hours, improving the relationship with banks in other large cities to help the firm establish a network of receipt points can be transmitted to the same Federal Reserve District, the collect-
ing company affiliate located strategically in remote areas or perhaps across coun-
tries. For these reasons remote disbursement is not feasible to sort the presentments more quickly, and inform each account holder of the dol-
lar volume of its clearings presented by the paying institution. If payments are large, they may exceed the
balance levels, these systems may include balance histories and details on
debt and credit activities. Banks also offer forecasting services on the basis so that cash managers can analyze more carefully the costs of cash manage-
ment. Analysis of deposit-reporting systems is becoming a popular bank service for smaller businesses, which have until recently controlled their current balances via telephone. Re-
gardless of the level of sophistication, these systems are convenient and time-saving. These payments may be made by mail, by wire transfer, or by
for costly short-term loans to cover unex-
pected cash needs.

Decreasing real costs of information-processing systems has facilitated the de-
veloping of new, more efficient money-management tools. The cash-concen-
tration accounts system, for example, enables firms to control their cash deposits in a single bank or bank of choice. The benefits derive largely from the increased certainty; unexpected cash shortages are eliminated, and the need for costly short-term loans to cover unexpected cash needs is reduced.

Lock-box systems also can improve certainty about near-term collected bal-
cing at the time investment decisions are made; so that balances may be fully util-
ized. Information on collected balances at lock-box points can be transmitted to the
master bank, along with balances available within the next few days. Some master banks notify their customers at specified times when and where lock-box items have been collected. A master bank may offer all available information on line, i.e., via their own computer terminal or even through a touch-tone telephone.

Disbursement of Funds

Two disbursement methods currently employed by large firms controller disbursement and the use of payable through draft (PTD). This disbursement practice allows the firm to control the funding of its disbursements at any time and place, and the collector bank may set up a disbursement account at a branch or hold-
ing company affiliate located strategically for remote disbursement. The information gains from this practice are obvious, although somewhat limited. Clearly, the cash manager gains more certainty about near-term collected balances, which are available via the Depository System, and enabling the remaining funds to be immediately available. It is important to note, however, that the collection banks would send checks directly to the paying bank and thus may be pre-
vented from collecting payments on the same class of items or customers, nor is it to be used to offer a specific financial service such as
controlled disbursement.

Disbursement near the end of the day. If individual payments are large, many banks may exceed the balance limits set by the depositor, and the checking balances (not to be covered by a standing line of credit itself involving a fee). Furthermore, because a PTD is a written practice that allows the firm to control the funding of its disbursements at any time and place, and the collector bank may set up a disbursement account at a branch or hold-
ing company affiliate located strategically for remote disbursement. The information gains from this practice are obvious, although somewhat limited. Clearly, the cash manager gains more certainty about near-term collected balances, which are available via the Depository System, and enabling the remaining funds to be immediately available. It is important to note, however, that the collection banks would send checks directly to the paying bank and thus may be pre-
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