EXAMINATION INFORMATION GUIDE
SFM

Structure of examination paper

The syllabus will be assessed in a 3 hours paper plus a 15 minutes reading time. The questions will be in two sections as follows:

Section A:

Section A will be a compulsory 40 marks scenario-based/case study question taken from section B, the core area of the syllabus, which comprises evaluation and assessment of value of business and advising on the value of shares and business, carrying out financial valuation in accordance with guidelines provided by International Valuation Standards (IVS), bond valuation and analysis, forecasting and evaluating long term financial performance and position of a business and investment appraisal.

Section B:

Section B will be five (5) questions of 20 marks each, out of which candidates will be required to attempt three (3) questions. The five (5) questions will be from sections A (Financial environment, role of financial manager and money market institutions), C (Financing decisions), D (Mergers and acquisitions, organic growth and corporate restructuring) and E (Management of financial risks) of the syllabus, based on the weight attached to each section in the syllabus.

Detailed contents of the syllabus

A. Financial environment, role of financial manager and money market Institutions15%

i. Financial environment and role of financial manager

a. Evaluate financial objectives within the strategic planning process of an organisation.

b. Identify key stakeholders of organisations and advise on their interests.

c. Evaluate the impact of macroeconomic environment and the role of international financial institutions in strategic financial management.

d. Evaluate and apply the concept of corporate social responsibility and its relationship with the objective of maximising shareholders' wealth.

e. Assess and advise on agency theory and its relevance to financial management.

f. Report on the professional, regulatory and legal frameworks relevant to financial management, including stock exchange requirements, anti-money laundering regulations and directors' responsibilities.

g. Evaluate and communicate the key activities undertaken by treasury managers.

h. Analyse and evaluate centralised and decentralised treasury management and the arguments for and against each.

i. Identify and assess the impact of emerging issues in strategic financial management.

j. Discuss ethical issues in strategic financial management.

2. The nature and roles of financial markets and institutions

(a) Identify the nature and roles of money and capital markets, both nationally and internationally.

(b) Explain the roles of financial intermediaries.

(c) Explain the functions of stock market and corporate bond market.

3. The nature and roles of money markets

(a) Describe the roles of money markets in providing
  i) short-term liquidity to private and public sectors, and
  ii) short-term trade finance.

(b) Explain the functions of banks and other financial institutions in the operations of money markets.

(c) Explain the characteristics and roles of the following principal money market instruments:
  i) interest-bearing instruments;
  ii) discount instruments; and
  iii) derivative products.

(d) Compare and contrast capital and money market operations.

B. Business analysis 30%

1. Evaluate and assess the value of businesses and give advice on the

value of shares and business, in a given scenario, using:

(a) Dividend yield based valuation techniques;
(b) Price earnings ratio based valuation techniques;
(c) Discounted cash flow based valuation techniques and free cash flow models;
(d) Asset-based measures of value;
(e) Option-based techniques;
(f) Value-based management;
(g) Shareholder value analysis;
(h) Short and long term growth rates and terminal values;
(i) Economic profit methods;
(j) Cash flow return on investment;
(k) Total shareholder return;
(l) Economic value added (EVA) and market value added (MVA); and
(m) Efficient Market Hypothesis (EMH) and practical considerations in the valuation of shares.

2. International Valuation Standards

Carry out financial valuation in accordance with guidelines provided by International Valuation Standards (IVS) Council:

a. IVS 200: Business and business interest;
b. IVS 210: Intangible assets;
c. IVS 410: Development property; and
d. IVS 500: Financial instruments.

3. Bond valuation and analysis

a. Evaluate and advise on the worth of a bond using value of bond or yield to maturity.
b. Assess an organisation's yield volatility using simple Macaulay duration and modified duration methods.
c. Assess and apply terms interest rate (yield curves).
d. Assess the benefits and limitations of duration including the impact of convexity. (Note: calculation of convexity not required)

4. Forecast and evaluate long term financial performance and position of a business, using:

a. Statement of profit or loss;
b. Statement of financial position; and
c. Statement of cash flows.

5. Investment appraisal

(a) Discounted cash flow techniques

(i) Evaluate potential value added to an organisation arising from aspecified capital investment project, using the net present value(NPV) model covering:

- ❖ Inflation and specific price variation;
- ❖ Taxation;
- ❖ Single period and multi-period capital rationing, Including linear programming formulation and interpretation of finaltableau;
- ❖ Probability and sensitivity analyses;
- ❖ Decision tree, simulation, certainty equivalent;
- ❖ Value of perfect and imperfect information;
- ❖ Project duration as a measure of risk; and
- ❖ Risk adjusted discount rates.

(ii) Establish the potential economic return (using internal rate of return (IRR) and modified internal rate of return).

(iii) Assess the relative merits of NPV and IRR.

(b) Specific investment decisions

(i) Evaluate leasing and borrowing to buy.

(ii) Evaluate asset replacement decisions using equivalent annual cost and equivalent annual benefits.

(c) Impact of financing on investment decisions

Assess the worth of projects using adjusted net present value (ANPV).

(d) International investment decisions

(i) Assess factors affecting foreign investment decisions and associated risks.

(ii) Apply interest rate parity and purchasing power parity to assess appropriate discount rate for foreign projects.

(iii) Evaluate NPV of foreign projects.

(e) Real options in investment appraisal

(i) Identify possible embedded real options within a project.

(ii) Advise on the value of options to delay, expand, abandon and redeploy, using the Black-Scholes option pricing model.

C. Financing decisions 25%

1. Sources of finance

(a) Assess the range of long-term sources of finance available to businesses, including equity, debt and venture capital.

(b) Evaluate and discuss methods of raising equity finance, including:

(i) Rights issue;
(ii) Placement;
(iii) Public offer;
(iv) Stock exchange listing; and
(v) Financial market dealers' quotations over the Counter (FMDQOTC).

(c) Methods of raising short and long term Islamic finance including major differences between Islamic finance and the other forms of business finance
(i) Evaluate the concept of riba (interest) and how returns are made by Islamic financial securities.
(ii) Evaluate Islamic financial instruments available to businesses, including:
❖ Murabaha (trade credit);
❖ Ijara (lease finance);
❖ Mudaraba (equity finance);
❖ Sukuk (debt finance); and
❖ Musharaka (venture capital).

(Note: calculations are not required)

d. Assess and advise on appropriate dividend policy.

2. Estimating cost of capital
Evaluate and apply:
(a) Cost of equity, using dividend growth model and capital asset pricing model (CAPM);
(b) Cost of fixed interest capital;
(c) Weighted average cost of capital (WACC);
(d) Project specific cost of capital; and
(e) Business and financial risk, asset and equity beta.

3. Capital structure theories
(a) Assess the traditional view of capital structure and its assumptions.
(b) Evaluate and apply Modigliani and Miller models 1 & 2 on capital structure.
(c) Discuss the limitations of Modigliani and Miller models 1 & 2 on capital structure.
(d) Discuss and evaluate pecking order theory.

4. Finance for small and medium-sized entities (SMEs)
Discuss the various sources and problems of access to finance for SMEs including:
(a) Business angel;

(b) Government assistance;
(c) Supply chain financing; and
(d) Crowd funding.

5. Portfolio theory and asset pricing models
   (a) Portfolio theory
   Assess and apply:
      (i) Risk and return relationship in investments;
      (ii) Risk (standard deviation) of 2-asset portfolio; and
      (iii) Risk reduction through diversification.
   (b) Capital asset pricing model (CAPM)
      i) Discuss:
         ❖ Systematic and unsystematic risks;
         ❖ Capital market line (CML) and the security market line (SML); and
         ❖ Alpha value and its use.
      (ii) Calculate Beta factor and explain its uses.
   (c) Evaluate return on assets using multi factor model (MFM).

D. Mergers and acquisitions, organic growth and corporate restructuring 15%

1. Acquisition and merger
   Assess and advise on:
   (a) The arguments for and against the use of acquisitions and mergers as a method of corporate expansion;
   (b) The criteria for choosing an appropriate target for acquisition;
   (c) The reasons for high failure rate of acquisitions;
   (d) The use of the reverse takeover as a method of acquisition;
   (e) Defensive strategies in hostile takeover bids;
   (f) Valuation of an organisation in the context of a potential takeover;
   (g) Due diligence during a merger/acquisition; and
   (h) Management buy-out (MBO), management buy-in and buy-in management buy-out (BIMBO).
2. Organic growth
   Evaluate and discuss organic growth.
3. Corporate reconstruction and re-organisation
   (a) Corporate failure
   Assess and advise on:

(i) Causes and symptoms of corporate failure; and
(ii) Corporate failure using Altman Z-score model.

(b) Financial reconstruction
(i) Assess the suitability of financial reconstruction as a survival strategy.
(ii) Assess market reaction to reconstruction schemes.

(c) Business re-organisation
(i) Advise on strategies for unbundling parts of a quoted company.
(ii) Evaluate the likely financial and other benefits of unbundling.
(iii) Advise on de-merger, equity carve out, equity carve in, spin off, asset stripping and liquidation.
(iv) Discuss the arguments for and against a quoted company going private.

E. Management of financial risks 15%

(a) Assess and advise on:
(i) Different types of foreign currency risk;
(ii) The causes of exchange rate fluctuations (balance of payments, purchasing power parity theory and interest rate parity theory);
(iii) The causes of interest rate fluctuations (structure of interest rates and yield curves, expectations theory, liquidity preference theory, market segmentation, spot and forward interest rates);
(iv) The traditional and basic methods of foreign currency risk management, (currency of invoice, netting and matching, leading and lagging, forward exchange contracts, money market hedging, asset and liability management);
(v) The appropriate derivative instruments for hedging foreign currency risks, (forward contracts, futures contracts, currency options and currency swaps);
(vi) The appropriate derivative instruments for hedging interest rate risk, (forward interest rate agreement, interest rate futures, interest rate options and interest rate swaps)

(b) Assess and apply financial options in capitalisation:

(i) Value of call and put options using Black-Scholes option pricing model and the Binomial option pricing model; and

(ii) Option sensitivities (delta, gamma, rho, theta and vega).