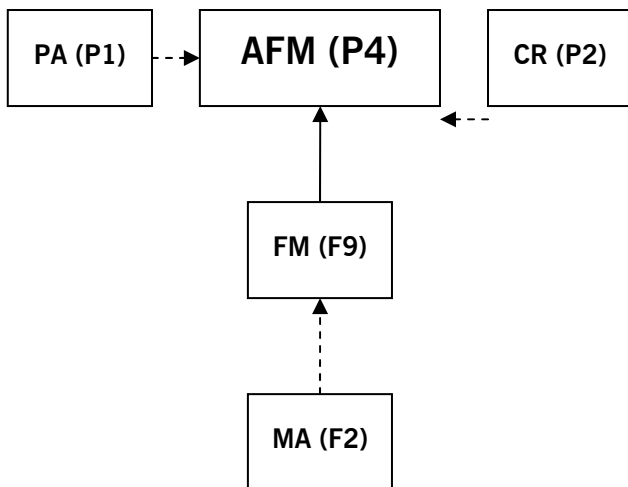


Syllabus



AIM

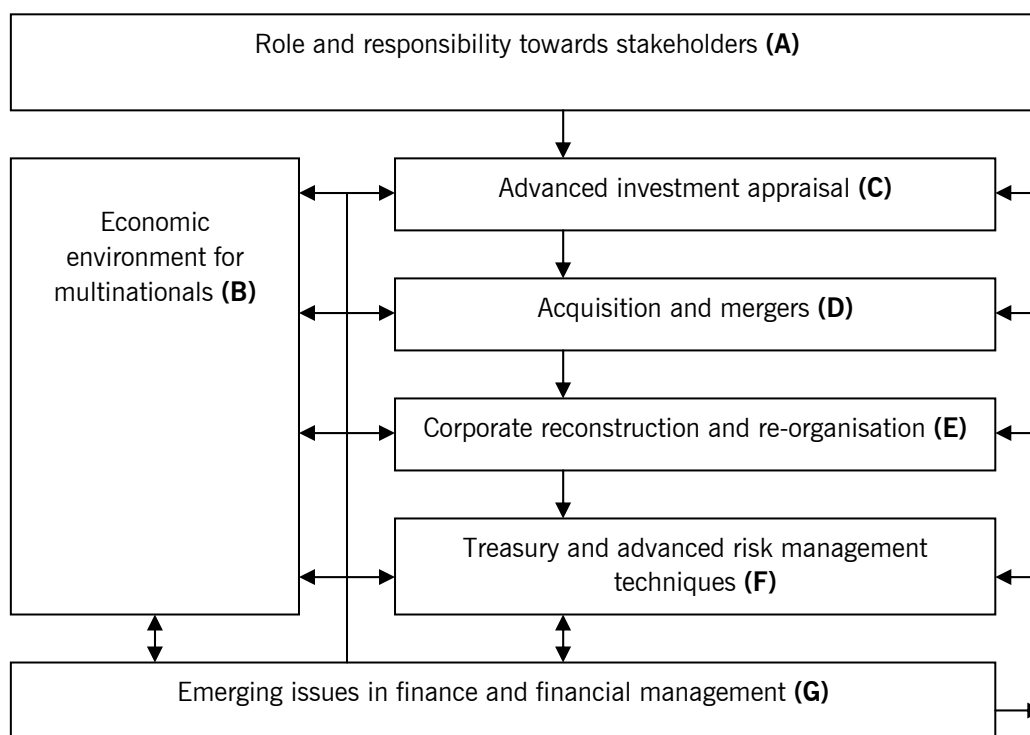
To apply relevant knowledge, skills and exercise professional judgement as expected of a senior financial executive or advisor, in taking or recommending decisions relating to the financial management of an organisation.

MAIN CAPABILITIES

On successful completion of this paper, candidates should be able to:

- A** Explain and evaluate the role and responsibility of the senior financial executive or advisor in meeting conflicting needs of stakeholders
- B** Evaluate the impact of macro economics and recognise the role of international financial institutions in the financial management of multinationals
- C** Evaluate potential investment decisions and assessing their financial and strategic consequences, both domestically and internationally
- D** Assess and plan acquisitions and mergers as an alternative growth strategy
- E** Evaluate and advise on alternative corporate re-organisation strategies
- F** Apply and evaluate alternative advanced treasury and risk management techniques
- G** Identify and assess the potential impact of emerging issues in finance and financial management.

RELATIONAL DIAGRAM OF MAIN CAPABILITIES



RATIONALE

This syllabus develops upon the core financial management knowledge and skills covered in the F9, *Financial Management*, syllabus at the Fundamentals level and prepares candidates to advise management and/or clients on complex strategic financial management issues facing an organisation.

The syllabus starts by exploring the role and responsibility of a senior executive or advisor in meeting competing needs of stakeholders within the business environment of multinationals. The syllabus then re-examines investment and financing decisions, with the emphasis moving towards the strategic consequences of making such decisions in a domestic, as well as international, context. Candidates are then expected to develop further advisory skills in planning strategic acquisitions and mergers and corporate re-organisations.

The next part of the syllabus covers the role of a treasury function in large complex corporate structures. It re-examines, in the broadest sense, the existence of risk in business and the sophisticated strategies which are employed in order to manage such risks. This is a build-up on what candidates would have covered in the F9, *Financial Management*, syllabus and the P1, *Professional Accountant*, syllabus. The syllabus finishes by examining the impact of emerging issues in finance.

DETAILED SYLLABUS

A Role and responsibility towards stakeholders

1. The role and responsibility of senior financial executive/advisor
2. Financial strategy formulation
3. Conflicting stakeholder interests
4. Ethical issues in financial management
5. Impact of environmental issues on corporate objectives and on governance

B Economic environment for multinationals

1. Management of international trade and finance

2. Strategic business and financial planning for multinationals

C Advanced investment appraisal

1. Discounted cash flow techniques and the use of free cash flows
2. Application of option pricing theory in investment decisions and valuation
3. Impact of financing on investment decisions and adjusted present values
4. International investment and financing decisions

D Acquisitions and mergers

1. Acquisitions and mergers versus other growth strategies
2. Valuation for acquisitions and mergers
3. Regulatory framework and processes
4. Financing acquisitions and mergers

E Corporate reconstruction and re-organisation

1. Financial reconstruction
2. Business re-organisation

F Treasury and advanced risk management techniques

1. The role of the treasury function in multinationals
2. The use of financial derivatives to hedge against forex risk
3. The use of financial derivatives to hedge against interest rate risk
4. Dividend policy in multinationals and transfer pricing

G Emerging issues in finance and financial management

1. Developments in world financial markets

2. Developments in international trade and finance

APPROACH TO EXAMINING THE SYLLABUS

The P4, *Advanced Financial Management*, paper builds upon the skills and knowledge examined in the F9, *Financial Management*, paper. At this stage candidates will be expected to demonstrate an integrated knowledge of the subject and an ability to relate their technical understanding of the subject to issues of strategic importance to the company. The study guide specifies the wide range of contextual understanding that is required to achieve a satisfactory standard at this level.

Examination Structure

The examination will be a three-hour paper in two sections:

Section A:

Section A will contain two compulsory questions, comprising between 50 and 70 marks in total.

Section A will normally cover significant issues relevant to the senior financial manager or advisor and will be set in the form of a short case study or scenario. The requirements of the section A questions are such that candidates will be expected to show a comprehensive understanding of issues from across the syllabus. Each question will contain a mix of computational and discursive elements. Each question in section A will comprise of between 25 and 40 marks. Candidates will be expected to provide answers in a specified form such as a short report or board memorandum commensurate with the professional level of the paper.

Section B:

In section B candidates will be asked to answer two from three questions, comprising of between 15 and 25 marks each.

Section B questions are designed to provide a more focused test of the syllabus with, normally, one question being wholly discursive.

Total 100 marks

Study Guide

A ROLE AND RESPONSIBILITY TOWARDS STAKEHOLDERS

1. The role and responsibility of senior financial executive/advisor

- a) Develop strategies for the achievement of the company's goals in line with its agreed policy framework.^[3]
- b) Recommend strategies for the management of the financial resources of the company such that they are utilised in an efficient, effective and transparent way.^[3]
- c) Advise the board of directors of the company in setting the financial goals of the business and in its financial policy development^[2] with particular reference to:
 - i) Investment selection and capital resource allocation
 - ii) Minimising the company's cost of capital
 - iii) Distribution and retention policy
 - iv) Communicating financial policy and corporate goals to internal and external stakeholders
 - v) Financial planning and control
 - vi) The management of risk.

2. Financial strategy formulation

- a) Assess corporate performance using methods such as ratios, trends, EVATM and MVA.^[3]
- b) Recommend the optimum capital mix and structure within a specified business context and capital asset structure.^[3]
- c) Recommend appropriate distribution and retention policy.^[3]
- d) Explain the theoretical and practical rationale for the management of risk.^[3]
- e) Assess the company's exposure to business and financial risk including operational, reputational, political, economic, regulatory and fiscal risk.^[3]
- f) Develop a framework for risk management comparing and contrasting risk mitigation,

hedging and diversification strategies, and demonstrate risk diversification through the application of portfolio theory.^[3]

- g) Establish capital investment monitoring and risk management systems.^[3]

3. Conflicting stakeholder interests

- a) Assess the potential sources of the conflict within a given corporate governance/ stakeholder framework informed by an understanding of the alternative theories of managerial behaviour.^[3]
Relevant underpinning theory for this assessment would be:
 - i) The Separation of Ownership and Control
 - ii) Transaction cost economics and comparative governance structures
 - iii) Agency Theory.
- b) Recommend, within specified problem domains, appropriate strategies for the resolution of stakeholder conflict and advise on alternative approaches that may be adopted.^[3]
- c) Compare the emerging governance structures and policies with respect to corporate governance (with particular emphasis upon the European stakeholder and the US/UK shareholder model) and with respect to the role of the financial manager.^[3]

4. Ethical issues in financial management

- a) Assess the ethical dimension within business issues and decisions and advise on best practice in the financial management of the company.^[3]
- b) Demonstrate an understanding of the interconnectedness of the ethics of good business practice between all of the functional areas of the company.^[2]
- c) Establish an ethical financial policy for the financial management of the company which is grounded in good governance, the highest standards of probity and is fully aligned with the ethical principles of the Association.^[3]

- d) Recommend an ethical framework for the development of a company's financial policies and a system for the assessment of their ethical impact upon the financial management of the company.^[3]
- e) Explore the areas within the ethical framework of the company which may be undermined by agency effects and/or stakeholder conflicts and establish strategies for dealing with them.^[3]

5. Impact of environmental issues on corporate objectives and on governance

- a) Assess the issues which may impact upon corporate objectives and governance from:^[3]
 - i) Sustainability and environmental risk
 - ii) The carbon-trading economy and emissions
 - iii) The role of the environment agency
 - iv) Environmental audits and the triple bottom line approach.

B ECONOMIC ENVIRONMENT FOR MULTINATIONALS

1. Management of international trade and finance

- a) Advise on the theory and practice of free trade and the management of barriers to trade.^[3]
- b) Demonstrate an up to date understanding of the major trade agreements and common markets and, on the basis of contemporary circumstances, advise on their policy and strategic implications for a given business.^[3]
- c) Discuss the objectives of the World Trade Organisation.^[2]
- d) Discuss the role of international financial institutions within the context of a globalised economy, with particular attention to the International Monetary Fund, the Bank of International Settlements, The World Bank and the principal Central Banks (the Fed, Bank of England, European Central Bank and the Bank of Japan).^[2]
- e) Assess the role of the international financial markets with respect to the management of global debt, the financial development of the

emerging economies and the maintenance of global financial stability.^[2]

2. Strategic business and financial planning for multinationals

- a) Advise on the development of a financial planning framework for a multinational taking into account:^[3]
 - i) Compliance with national governance requirements (for example the London Stock Exchange admission requirements)
 - ii) The mobility of capital across borders and national limitations on remittances and transfer pricing
 - iii) The pattern of economic and other risk exposures in the different national markets
 - iv) Agency issues in the central coordination of overseas operations and the balancing of local financial autonomy with effective central control.

C ADVANCED INVESTMENT APPRAISAL

1. Discounted cash flow techniques and the use of free cash flows

- a) Evaluate the potential value added to a company arising from a specified capital investment project or portfolio using the net present value model.^[3] Project modelling should include explicit treatment and discussion of:
 - i) Inflation and specific price variation
 - ii) Taxation including capital allowances and tax exhaustion
 - iii) Multi-period capital rationing to include the formulation of programming methods and the interpretation of their output
 - iv) Probability analysis and sensitivity analysis when adjusting for risk and uncertainty in investment appraisal.
- b) Outline the application of Monte Carlo simulation to investment appraisal.^[2] Candidates will not be expected to undertake simulations in an examination context but will be expected to demonstrate an understanding of:
 - i) Simple model design
 - ii) The different types of distribution controlling the key variables within the simulation

- iii) The significance of the simulation output and the assessment of the likelihood of project success
- iv) The measurement and interpretation of project value at risk.

- c) Establish the potential economic return (using internal rate of return and modified internal rate of return) and advise on a project's return margin.^[3]
- d) Forecast a company's free cash flow and its free cash flow to equity (pre and post capital reinvestment).^[2]
- e) Advise, in the context of a specified capital investment programme, on a company's current and projected dividend capacity.^[3]
- f) Advise on the value of a company using its free cash flow and free cash flow to equity under alternative horizon and growth assumptions.^[3]

2. Application of option pricing theory in investment decisions and valuation

- a) Apply the Black-Scholes Option Pricing (BSOP) model to financial product/asset valuation:^[3]
 - i) Determine, using published data, the five principal drivers of option value (value of the underlying, exercise price, time to expiry, volatility and the risk-free rate)
 - ii) Discuss the underlying assumptions, structure, application and limitations of the BSOP model.
- b) Evaluate embedded real options within a project, classifying them into one of the real option archetypes.^[3]
- c) Assess and advise on the value of options to delay, expand, redeploy and withdraw using the BSOP model.^[3]
- d) Apply the BSOP model to estimate the value of equity of a company and discuss the implications of the change in value.^[3]

3. Impact of financing on investment decisions and adjusted present values

- a) Assess the appropriateness and price of the range of sources of finance available to a

company including equity, debt, hybrids, lease finance, venture capital, business angel finance, private equity, asset securitisation and sale.^[3]

- b) Assess a company's debt exposure to interest rate changes using the simple Macaulay duration method.^[3]
- c) Discuss the benefits and limitations of duration including the impact of convexity.^[3]
- d) Assess the company's exposure to credit risk, including:^[2]
 - i) Explain the role of, and the risk assessment models used by the principal rating agencies
 - ii) Estimate the likely credit spread over risk free
 - iii) Estimate the company's current cost of debt capital using the appropriate term structure of interest rates and the credit spread.
- e) Explain the role of BSOP model in the assessment of default risk, the value of debt and its potential recoverability.^[2]
- f) Assess the impact of financing and capital structure upon the company with respect to:^[3]
 - i) Pecking order theory
 - ii) Static trade-off theory
 - iii) Agency effects.
- g) Apply the adjusted present value technique to the appraisal of investment decisions that entail significant alterations in the financial structure of the company, including their fiscal and transactions cost implications.^[3]
- h) Assess the impact of a significant capital investment project upon the reported financial position and performance of the company taking into account alternative financing strategies.^[3]

4. International investment and financing decisions

- a) Assess the impact upon the value of a project of alternative exchange rate assumptions.^[3]
- b) Forecast project or company free cash flows in any specified currency and determine the

project's net present value or company value under differing exchange rate, fiscal and transaction cost assumptions.^[2]

- c) Evaluate the significance of exchange controls for a given investment decision and strategies for dealing with restricted remittance.^[3]
- d) Assess the impact of a project upon a company's exposure to translation, transaction and economic risk.^[3]
- e) Assess and advise upon the costs and benefits of alternative sources of finance available within the international equity and bond markets.^[3]

D ACQUISITIONS AND MERGERS

1. Acquisitions and mergers versus other growth strategies

- a) Discuss the arguments for and against the use of acquisitions and mergers as a method of corporate expansion.^[2]
- b) Evaluate the corporate and competitive nature of a given acquisition proposal.^[3]
- c) Advise upon the criteria for choosing an appropriate target for acquisition.^[3]
- d) Compare the various explanations for the high failure rate of acquisitions in enhancing shareholder value.^[3]
- e) Evaluate, from a given context, the potential for synergy separately classified as:^[3]
 - i) Revenue synergy
 - ii) Cost synergy
 - iii) Financial synergy.

2. Valuation for acquisitions and mergers

- a) Outline the argument and the problem of overvaluation.^[1]
- b) Estimate the potential near-term and continuing growth levels of a company's earnings using both internal and external measures.^[3]

c) Assess the impact of an acquisition or merger upon the risk profile of the acquirer distinguishing:^[3]

- i) Type 1 acquisitions that do not disturb the acquirer's exposure to financial or business risk
- ii) Type 2 acquisitions that impact upon the acquirer's exposure to financial risk
- iii) Type 3 acquisitions that impact upon the acquirer's exposure to both financial and business risk.

d) Advise on the valuation of a type 1 acquisition of both quoted and unquoted entities using:^[3]

- i) 'Book value-plus' models
- ii) Market relative models
- iii) Cash flow models, including EVATM, MVA.

e) Advise on the valuation of type 2 acquisitions using the adjusted net present value model.^[3]

f) Advise on the valuation of type 3 acquisitions using iterative revaluation procedures.^[3]

g) Demonstrate an understanding of the procedure for valuing high growth start-ups.^[2]

3. Regulatory framework and processes

a) Demonstrate an understanding of the principal factors influencing the development of the regulatory framework for mergers and acquisitions globally and, in particular, be able to compare and contrast the shareholder versus the stakeholder models of regulation.^[2]

b) Identify the main regulatory issues which are likely to arise in the context of a given offer and

- i) assess whether the offer is likely to be in the shareholders' best interests
- ii) advise the directors of a target company on the most appropriate defence if a specific offer is to be treated as hostile.^[3]

4. Financing acquisitions and mergers

a) Compare the various sources of financing available for a proposed cash-based acquisition.^[3]

b) Evaluate the advantages and disadvantages of a financial offer for a given acquisition proposal using pure or mixed mode financing and

recommend the most appropriate offer to be made.^[3]

- c) Assess the impact of a given financial offer on the reported financial position and performance of the acquirer.^[3]

E CORPORATE RECONSTRUCTION AND RE-ORGANISATION

1. Financial reconstruction

- a) Assess a company situation and determine whether a financial reconstruction is the most appropriate strategy for dealing with the problem as presented.^[3]
- b) Assess the likely response of the capital market and/or individual suppliers of capital to any reconstruction scheme and the impact their response is likely to have upon the value of the company.^[3]
- c) Recommend a reconstruction scheme from a given business situation, justifying the proposal in terms of its impact upon the reported performance and financial position of the company.^[3]

2. Business re-organisation

- a) Recommend, with reasons, strategies for unbundling parts of a quoted company.^[3]
- b) Evaluate the likely financial and other benefits of unbundling.^[3]
- c) Advise on the financial issues relating to a management buy-out and buy-in.^[3]

F TREASURY AND ADVANCED RISK MANAGEMENT TECHNIQUES

1. The role of the treasury function in multinationals

- a) Describe the role of the money markets in:^[1]
 - i) Providing short-term liquidity to industry and the public sector
 - ii) Providing short-term trade finance
 - iii) Allowing a multinational company to manage its exposure to FOREX and interest rate risk.

- b) Explain the role of the banks and other financial institutions in the operation of the money markets.^[2]

- c) Explain the characteristics and role of the principal money market instruments:^[2]
 - i) Coupon bearing
 - ii) Discount instruments
 - iii) Derivative products.

- d) Discuss the operations of the derivatives market, including:^[3]
 - i) The relative advantages and disadvantages of exchange traded versus OTC agreements
 - ii) Key features, such as standard contracts, tick sizes, margin requirements and margin trading
 - iii) The source of basis risk and how it can be minimised.
 - iv) Risks such as delta, gamma, vega, rho and theta, and how these can be managed.

- e) Explain the role of the treasury management function within:^[2]
 - i) The short term management of the company's financial resources
 - ii) The longer term maximisation of shareholder value
 - iii) The management of risk exposure.

2. The use of financial derivatives to hedge against forex risk

- a) Assess the impact on a company to exposure in translation, transaction and economic risks and how these can be managed.^[2]
- b) Evaluate, for a given hedging requirement, which of the following is the most appropriate strategy, given the nature of the underlying position and the risk exposure:^[3]
 - i) The use of the forward exchange market and the creation of a money market hedge
 - ii) Synthetic foreign exchange agreements (SAFE's)
 - iii) Exchange-traded currency futures contracts
 - iv) Currency swaps
 - v) FOREX swaps
 - vi) Currency options.
- c) Advise on the use of bilateral and multilateral netting and matching as tools for minimising

FOREX transactions costs and the management of market barriers to the free movement of capital and other remittances.^[3]

3. The use of financial derivatives to hedge against interest rate risk

- a) Evaluate, for a given hedging requirement, which of the following is the most appropriate given the nature of the underlying position and the risk exposure:^[3]
 - i) Forward Rate Agreements
 - ii) Interest Rate Futures
 - iii) Interest rate swaps
 - iv) Options on FRA's (caps and collars), Interest rate futures and interest rate swaps.

4. Dividend policy in multinationals and transfer pricing

- a) Determine a company's dividend capacity and its policy given:^[3]
 - i) The company's short- and long-term reinvestment strategy
 - ii) The impact of any other capital reconstruction programmes on free cash flow to equity such as share repurchase agreements and new capital issues
 - iii) The availability and timing of central remittances
 - iv) The corporate tax regime within the host jurisdiction
- b) Develop company policy on the transfer pricing of goods and services across international borders and be able to determine the most appropriate transfer pricing strategy in a given situation reflecting local regulations and tax regimes.^[3]

G EMERGING ISSUES

1. Developments in world financial markets

Discuss the significance to the company, of latest developments in the world financial markets such as the causes and impact of the recent financial crisis, growth and impact of dark pool trading systems, the removal of barriers to the free movement of capital, and the international regulations on money laundering.^[2]

2. Developments in international trade and finance

Demonstrate an awareness of new developments in the macroeconomic environment, establishing their impact upon the company, and advising on the appropriate response to those developments both internally and externally.^[2]

NOTE OF SIGNIFICANT CHANGES TO P4

RATIONALE FOR CHANGES

ACCA periodically reviews its qualification syllabuses so that they fully meet the needs of stakeholders such as employers, students, regulatory and advisory bodies and learning providers. As a result of the latest review, ACCA is making changes to the ACCA Qualification, effective from June 2011. With each syllabus is included a specific rationale for these changes as far as each examination syllabus and study guide is concerned.

The P4 syllabus has been changed as a result of a periodic qualification review process and to take into account a clearer mapping of the two

syllabuses and to achieve appropriate progression from F9.

Areas that did not align well with the theme of the paper, or where there were overlaps with other papers, have been removed

There have not been any significant new areas added to the syllabus, but rather a re-arrangement of the syllabus and a grouping/splitting of items in the study guide to make it clearer. For example, some deleted sections or subsections have been reworded and moved to other areas in the syllabus, but these have been noted as additions below.

The main changes to the syllabus are as shown in Tables 1 and 2 below:

Table 1 – Additions to P4

Section where additions arise	Subject areas where additions are proposed
A2 – Financial Strategy formulation	<ul style="list-style-type: none"> a) Assess corporate performance using methods such as ratios, trends, EVA and MVA d) Explain the theoretical and practical rationale for the management of risk e) Assess the firm's exposure to business and financial risk including operational, reputational, political, economic, regulatory and fiscal risk.^[3] <p>(note : some of this is from the old section)</p> <ul style="list-style-type: none"> f) This includes the following: 'demonstrate risk diversification through the application of portfolio theory.'^[3]
C1- Discounted cash flow techniques and use of cash flow	<ul style="list-style-type: none"> a) (iv) Probability analysis and sensitivity analysis when adjusting for risk and uncertainty in investment appraisal
C2- Application of option pricing theory in investment decisions and valuation	<ul style="list-style-type: none"> d) Apply the BSOP model to estimate the value of equity of a firm and discuss the implications of the change in value. ^[3]
C3- Impact of financing on investment decisions and adjusted present values	<p>Assess the appropriateness and price of the range of sources of finance available to a firm including equity, debt, hybrids, lease finance, venture capital, business angel finance, private equity, asset securitisation and sale.^[3]</p> <p>Assess a firm's debt exposure to interest rate changes using the simple Macaulay duration method. ^[3]</p>
F1- The role of treasury function in multinational	<ul style="list-style-type: none"> d) (iv) Risks such as delta, gamma, vega, rho and theta, and how these can be managed.

F2. The use of financial derivatives to hedge against forex risk	a) Assess the impact on a firm to exposure in translation, transaction and economic risks and how these can be managed. ^[2]
G1- Emerging issues	This has included the impact of the recent financial crisis, and growth and impact of dark pool trading

Additional reading:

Arnold, G., Corporate Financial Management, FT Prentice Hall

Damodaran, A., Investment Valuation: Tools and Techniques for Determining the Value of Any Asset, Wiley

Hull, J., Fundamentals of Futures and Options Markets, Pearson

Smithson, C., Managing Financial Risk: A guide to Derivative Products, Irwin

Table 2 – Deletions to P4

Section where deletions arise	Subject areas where deletions are proposed
A2- the role and responsibility of senior financial executive	f) Prepare advice on personal finance to individual as well as groups of investors covering areas such as investment and financing
D1- Predicting corporate failure	a) Assess the risk of corporate failure within the short to medium term using a range of appropriate financial evaluation methods (this will require an ability to use multivariate techniques such as the Z and Zeta score models). ^[3] b) Advise on the application of financial distress models to firms in emerging markets given local regulatory and financial market conditions. ^[3]
G2 Financial engineering and emerging derivatives	Financial engineering and emerging derivatives (the whole area)