



STRATEGIC LEVEL – STRATEGIC CORPORATE FINANCE

EDUCATORS BRIEFING 2020/21

Comment on 2020 Examination Performance

April 2020 – This exam was postponed due to Covid-19.

August 2020 (exam took place on 2/9/2020) – 47% pass rate. Overall, the students seemed to struggle with the given case study. More specifically, students did not follow the necessary steps to deduce beta that would then have allowed them to find the applicable cost of capital. Further, many students struggled to appreciate that differential cost savings between competing projects could be used to evaluate such projects, even when revenues – which are presumed to remain the same – are not given. However, the Examiner is pleased to note that some of the students handled the above issues very well.

The students also exhibit room for improvement when it comes to appreciating dividend payout policies, what kind of signals such payouts could provide to the market, and how such policies could impact firm value.

Majority of the students are well prepared for critically appraising a company's exposure to foreign exchange risks which are very significant issues facing companies in the world of strategic corporate finance. Students are showed preparedness in dealing with issues related to capital structure, and costs and benefits of issuing debt as a source of finance.

Syllabus Objectives

The aim of this module is to develop students' critical understanding of the key responsibilities and financing decisions facing today's strategic financial manager. Students should be able to develop detailed business plans, to assess potential financial risks, and to advise on suitable risk management strategies for entrepreneurial activities as well as established organisations. Detailed learning outcomes can be found in the syllabus available from www.cpaireland.ie.

Syllabus Changes

Syllabus has been updated for 2021. A new topic 'Emerging Technologies in Finance' is introduced which deals with issues related to Fintech, Techfin, related regulatory challenges, and distributed ledger (Blockchain) technology. Reference materials to cover these issues are also updated.

Other minor changes are introduced throughout the syllabus to aid in clarity and to accommodate best pedagogic practices.

The following syllabus clarifications arose from past Educators' Conferences:

- Answers to questions based on case studies require that students engage with the material contained in the case. There should be no off-the-shelf templates for answers or styles of answer. What is required is a clear understanding of the concepts of Corporate Finance and how they can be applied in practice. Students must be able to determine the appropriate quantitative analyses to be undertaken to address the salient issues in a case. Having undertaken appropriate computations students are expected to justify, interpret and explain their significance and limitations in the context of the case.
- An assessment of value creation/destruction should underpin the evaluation of projects and strategies and any advice given in relation to same, while at the same time taking into account other relevant objectives of the firm in the given context.
- Investment Appraisal, valuation especially with particular emphasis on DCF techniques, capital rationing, agency theory, corporate governance and leverage are all examinable topics. This may involve the valuation of a business or the assessment of whether a merger creates or destroys value.
- The specific investment appraisal topic concerning the determination of optimum asset replacement cycles will not be examined.
- **Detailed** Interest Rate Risk related **calculations** involving futures and swaptions will not be required though candidates should be familiar with how to use such instruments to achieve financial risk management goals.
- **Detailed** Foreign Currency Risk related **calculations** involving futures and swaps will not be required though candidates should be familiar with how to use such instruments to achieve financial risk management goals.
- More generally, **detailed calculations** relating to derivative positions will not be required though candidates should be familiar with how to use such instruments to achieve financial risk management goals.
- Valuation issues which constitute the core of Corporate Finance can, at least partly, be addressed by accounting analyses. Students should be able to apply financial ratio analysis and understand the links between accounting information and strategic financial decision making. The ability of candidates to bring their

accounting expertise to bear on financial decisions maintained, in 2018, the improvement demonstrated in recent prior years.

- Capital structure theories and their application in informing corporate financial policy advice are examinable topics. Students should be able to evaluate whether a client has the repayment capacity for any borrowing it may wish to undertake.
- For students to score well they must be able to identify the major factors that affect valuation in the case. A lack of knowledge of how to compute free cash flow or residual income (either will suffice) in order to establish the discounted cash flow valuation of a company will severely hinder a student's prospects for doing well in the SCF examination. In terms of foreign currency exposure the cases don't generally look for textbook type hedging solutions. Rather they look for long-term solutions to address the particular type of economic exposure relevant to the case. More detailed discussion and justification of the position taken regarding the case is required. While the cases can be complex and attention must be paid to each complexity it is important to identify the crucial issues that require attention. These issues must then be appraised in appropriate detail. An ability to use the accounting data given in the case to understand the corporate finance issues facing a company is essential when attempting the SCF examination.
- Students should be able to advise clients appropriately with respect to their business plans and their banking relationships.

Style of Examination

The examination will be case study based. The case study will include considerable narrative and relevant financial/quantitative detail. Students will be expected to critically apply their knowledge of each syllabus area to analyse the scenarios presented with a view of addressing specific decision making or valuation problems, focusing on strategically important financial considerations. In doing so, they should demonstrate an ability to produce an appropriate synthesis by formulating well motivated and relevant advice for key stakeholders and decision-makers identified by the case study.

Format of Examination Paper

The format of the papers for 2021 will be as follows:

Section A - Q 1 – Compulsory (50 Marks)

Section B - Q 2, Q3 and Q4 – Choice of two of these three questions (25 Marks each)

The initial question, carrying 50 marks, will usually involve some detailed financial analysis typically requiring the appraisal of a project or the valuation of a business/company in order to address a given financial strategy problem. The other questions will cover a broader range of examinable topics and may take a variety of formats. In any case, the analysis required to answer the first question will typically come useful in answering the other questions. Therefore, the candidate is advised to go through the first question before attempting the other ones, as the former will set the stage (especially in terms of detailed calculations and analysis) for answering the latter.