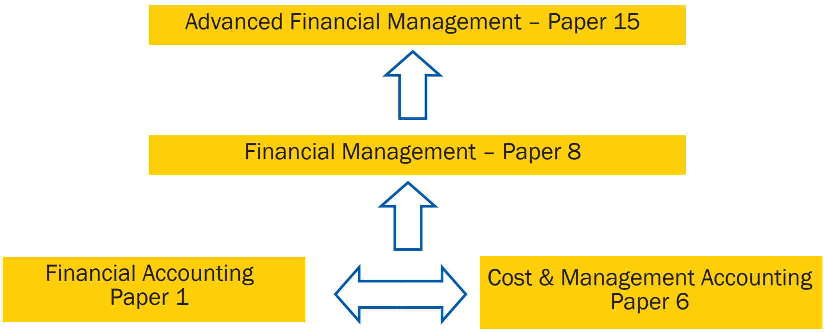
ADVANCED FINANCIAL MANAGEMENT

PAPER 15

SYLLABUS CHART



OVERALL AIM

To equip the learner with skills to exercise judgment in strategic financial management decision making

LEARNING OUTCOMES

On completion of this course, the learner should be able to:

	Learning outcomes	**K**	**C**	**A**	**An**	**S**	**E**
1.	Evaluate the role of financial management executives in corporate governance						√
2.	Evaluate the role of financial market theories and financial securities						√
3.	Evaluate the impact of financial decisions on cost of capital						√
4.	Evaluate investment decisions and their impact on the financial position						√
5.	Recommend appropriate financing options					√	
6.	Recommend appropriate corporate restructuring strategies					√	
7.	Evaluate financial decisions in the international environment						√
8	Assess the appropriateness of Islamic financing to an investment						√

LEVEL OF ASSESSMENT

The examination will test the learner's synthetic and evaluation skills in financial decision making

EXAMINATION STRUCTURE

There will be a three-hour examination made up of sections A and B. Section A will comprise one compulsory question of 50 marks. Section B will comprise three questions of 25 marks each, of which the candidate will be required to attempt any two

DETAILED SYLLABUS

A. CORPORATE GOVERNANCE

1. Financial objectives of the strategic planning process
2. Corporate social responsibility and its relationship to the objectives of the organisation
3. Stakeholders: Interests of each stakeholder group; resolution of stakeholder conflict
4. Patterns of share ownership
5. Maximisation of shareholder wealth
6. Agency theory and its relevance to financial management; use/ abuse of directors' powers
7. The professional, regulatory and legal framework relevant to financial management including stock exchange requirements, money laundering and directors' responsibilities
8. Compensation schemes for directors and senior managers
9. Corporate policies and management of corporate funds
10. Money laundering: Layers, methods/ modes, stages, effects; anti-money laundering: Policies, procedures, compliance issues
11. Audit committees: Structure, roles, benefits and drawbacks
12. Non-executive directors: Roles, effectiveness
13. Sustainability and environmental management issues
14. Best practices
15. Ethical considerations
    (a) Corruption
    (b) Bribery
    (c) Integrity
    (d) Conflict of interest
    (e) Insider dealing

B. FINANCIAL MARKET THEORIES AND FINANCIAL SECURITIES

1. Technical analysis
2. Random walk theory
3. Efficient market hypothesis; significance of efficient market hypothesis
4. Use of market ratios in financial decisions
5. Evaluation of convertible securities and warrants
6. Foreign currency markets
   (a) Exchange rate quotations
   (b) Factors influencing exchange rates
   (c) Purchasing power parity theory
   (d) Interest rate parity theory
   (e) Exchange rate systems

C. CAPITAL BUDGETING

1. Evaluation of capital budgeting decisions
   (a) Asset replacement decisions
   (b) Asset acquisition decisions:
      (i) Mutually exclusive projects
      (ii) Mutually exclusive projects with unequal lives
      (iii) Under conditions of capital rationing
   (c) Abandonment/ disposal decisions
2. Risk and uncertainty in relation to project lifespan
3. Application, usefulness and limitations of the following in capital budgeting:
   (a) Sensitivity analysis
   (b) Probability analysis
   (c) Other risk adjusting techniques: Adjusted payback, simulation
4. Evaluation of alternative asset acquisition and financing methods, including lease or buy decisions, investment decisions using Islamic finance
5. The adjusted present value approach

D. COST OF CAPITAL AND CAPITAL STRUCTURE

1. Concept of cost of capital; relevance of cost of capital in investment management
2. Evaluation of an entity's weighted average cost of capital
3. Gearing and the cost of capital:
   (a) Concept of gearing and its relation to the overall cost of capital
   (b) Implications of high levels of gearing and its relation to financial risk using ratio analysis, and cash flow forecasting
4. Theories of capital structure and their relevance:
   (a) The traditional school of thought
   (b) The Modigliani and Miller school of thought (both with and without taxes)
5. Estimation of cost of capital for unlisted companies
6. Interaction between financing and investment decisions

E. DIVIDEND POLICY

1. Relationship between dividend and financing decisions
2. Dividend policy theories
3. Relevance of dividend decisions- the traditional and Modigliani and Miller schools of thought
4. Forms of dividends:
   (a) Stock splits
   (b) Bonus shares
   (c) Cash dividends
5. Dividends as a signal to investors
6. Practical factors that influence dividend decisions

F. PORTFOLIO THEORY

1. Risk and return for a single asset:
   (a) The risk-return relationship in corporate investments
   (b) Determination of risk for a single asset using standard deviation/ variance
   (c) The return of a single asset using expected value and probability theory
2. Determination of risk and return for a two asset portfolio

3. Application of correlation and covariance in selecting investments in a portfolio
4. Properties and computation of correlation
5. Risk diversification and reduction: Meaning, role in investment management
6. Application of the mean-variance approach in portfolio selection process
7. Expected value and expected return of a portfolio
8. Covariance of a portfolio
9. Determination of covariance using joint probability function
10. Relevance of portfolio theory to financial management
11. Limitations of portfolio theory

G. THE CAPITAL ASSET PRICING MODEL (CAPM)

1. Investor preferences and indifference curves
    - (a) Efficient portfolio
    - (b) Indifference curve
    - (c) Risk-free investments
2. Systematic versus unsystematic risk
3. Propositions of CAPM
4. Capital and security market lines:
    - (a) Meaning
    - (b) Relationship
    - (c) Relevance
5. Alpha values
6. Estimation of beta values using:
    - (a) Security market line
    - (b) Covariance/ correlation formulae
7. Gearing and the beta values
8. Using the CAPM in investment decisions
9. Practical applications and limitations of CAPM
10. Arbitrage pricing theory and its relevance in financial investment

H. CORPORATE RESTRUCTURING

1. Nature and role of corporate restructuring
2. Capital reconstruction schemes

3. Mergers and acquisitions
   (a) Differences
   (b) Motives
   (c) Price and regulatory considerations
   (d) Strategic considerations for conglomerate, vertical and horizontal mergers/ acquisitions
   (e) Payment options
   (f) Hostile and friendly mergers; defences against hostile takeovers
   (g) Process considerations
   (h) Factors that influence the success of mergers; reasons why some mergers may fail to meet objectives
4. Other methods of corporate amalgamations
   (a) Demergers
   (b) Divestments
   (c) Management buyouts/ buy-ins
   (d) Sell-offs/ spin-offs
   (e) Share repurchase
   (f) Going private

I. DERIVATIVES

1. Types of derivatives:
   (a) Forward contracts
   (b) Futures contracts
   (c) Options
   (d) Swaps
2. Options and option valuation
   (a) Nature of options
   (b) Option writers and purchasers
   (c) Types of options:
      (i) Share options
      (ii) Currency options
      (iii) Collars
      (iv) Swaptions
   (d) Valuation of options using Black-Scholes Pricing Model

(e) Application of options theory in financial decisions

J. MULTINATIONALS AND INTERNATIONAL TRADE

1. Multinationals and global trends; types, growth and impact on the economies of host countries
2. Multinationals and Foreign Direct Investments (FDI)
3. International trade and economic groupings
4. Sourcing finance in the international environment
5. International banking and capital markets
6. International operations
   - (a) Forms of international operations
     - (i) Foreign direct investment:
       1. Meaning
       2. Forms
          - Greenfield investments
          - Joint ventures
          - Acquisitions and subsidiaries
     - (ii) Other forms of international operations
       1. Exporting
       2. Licensing
       3. Franchising
       4. Management contracts
   - (b) Risks of international operations
   - (c) International investment decisions; factors to take into consideration
     - (i) International cost of capital
     - (ii) Taxation

K. INTERNATIONAL MARKETS

1. Treasury and risk management
2. Role of treasury function
   - (a) Key activities of treasury managers
   - (b) Arguments for and against centralised treasury management
   - (c) Treasury function as a cost/ profit centre
   - (d) Evaluation of transfer prices in treasury decisions

3. Management of interest rates and interest rate risks
4. Use of derivative instruments to hedge interest rates
5. Managing a debt portfolio
6. Interest rate exposure and management
   (a) Forward interest rates agreements
   (b) Duration analysis
   (c) Derivative instruments
7. Effect of monetary policy and regulation on interest rates
8. Currency risk:
   (a) Management of currency risk
   (b) Methods of managing currency risk
      (i) Matching receipts and payments
      (ii) Managing the currency of invoicing
      (iii) Leading and lagging
      (iv) Matching assets and liabilities
      (v) Forward rate agreements
      (vi) Netting
      (vii) Hedging using money markets and futures contracts

L. ISLAMIC FINANCE

1. The regulatory framework:
   (a) Financial Institutions Act, 2016
   (b) Financial Institutions (Islamic Banking) Regulations, 2018
   (c) Insurance Act, 2017
   (d) Takaful Regulations
2. Requirements for sustained growth of Islamic finance
3. The concept of time value of money
4. Islamic capital markets:
   (a) Islamic financial instruments
   (b) Potential for Islamic capital instruments
   (c) Sharia compliance and the equity market

5. Corporate governance under Islamic finance
   (a) Definition, composition and functions of Sharia Advisory Board and Sharia Advisory Council
   (b) Issues that need to be considered:
      (i) Risks and liabilities
      (ii) Co-financing

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