

Advanced Financial Management (P4) June & December 2013

This syllabus and study guide is designed to help with planning study and to provide detailed information on what could be assessed in any examination session.

THE STRUCTURE OF THE SYLLABUS AND STUDY GUIDE

Relational diagram of paper with other papers

This diagram shows direct and indirect links between this paper and other papers preceding or following it. Some papers are directly underpinned by other papers such as Advanced Performance Management by Performance Management. These links are shown as solid line arrows. Other papers only have indirect relationships with each other such as links existing between the accounting and auditing papers. The links between these are shown as dotted line arrows. This diagram indicates where you are expected to have underpinning knowledge and where it would be useful to review previous learning before undertaking study.

Overall aim of the syllabus

This explains briefly the overall objective of the paper and indicates in the broadest sense the capabilities to be developed within the paper.

Main capabilities

This paper's aim is broken down into several main capabilities which divide the syllabus and study guide into discrete sections.

Relational diagram of the main capabilities

This diagram illustrates the flows and links between the main capabilities (sections) of the syllabus and should be used as an aid to planning teaching and learning in a structured way.

Syllabus rationale

This is a narrative explaining how the syllabus is structured and how the main capabilities are linked. The rationale also explains in further detail what the examination intends to assess and why.

Detailed syllabus

This shows the breakdown of the main capabilities (sections) of the syllabus into subject areas. This is the blueprint for the detailed study guide.

Approach to examining the syllabus

This section briefly explains the structure of the examination and how it is assessed.

Study Guide

This is the main document that students, tuition providers and publishers should use as the basis of their studies, instruction and materials. Examinations will be based on the detail of the study guide which comprehensively identifies what could be assessed in any examination session. The study guide is a precise reflection and breakdown of the syllabus. It is divided into sections based on the main capabilities identified in the syllabus. These sections are divided into subject areas which relate to the sub-capabilities included in the detailed syllabus. Subject areas are broken down into sub-headings which describe the detailed outcomes that could be assessed in examinations. These outcomes are described using verbs indicating what exams may require students to demonstrate, and the broad intellectual level at which these may need to be demonstrated (*see intellectual levels below).

Learning Materials

ACCA's Approved Learning Partner - content (ALP-c) is the programme through which ACCA approves learning materials from high quality content providers designed to support study towards ACCA's qualifications.

ACCA has one Platinum Approved Learning Partner content which is BPP Learning Media. In addition, there are a number of Gold Approved Learning Partners - content.

For information about ACCA's Approved Learning Partners - content, please go ACCA's Content Provider Directory.

The Directory also lists materials by Subscribers, these materials have not been quality assured by ACCA but may be helpful if used in conjunction with approved learning materials. You will also find details of Examiner suggested Additional Reading which may be a useful supplement to approved learning materials.

ACCA's Content Provider Directory can be found here–
http://www.accaglobal.com/learningproviders/alpc/content_provider_directory/search/.

Relevant articles will also be published in Student Accountant.

INTELLECTUAL LEVELS

The syllabus is designed to progressively broaden and deepen the knowledge, skills and professional values demonstrated by the student on their way through the qualification.

The specific capabilities within the detailed syllabuses and study guides are assessed at one of three intellectual or cognitive levels:

Level 1: Knowledge and comprehension
Level 2: Application and analysis
Level 3: Synthesis and evaluation

Very broadly, these intellectual levels relate to the three cognitive levels at which the Knowledge module, the Skills module and the Professional level are assessed.

Each subject area in the detailed study guide included in this document is given a 1, 2, or 3 superscript, denoting intellectual level, marked at the end of each relevant line. This gives an indication of the intellectual depth at which an area could be assessed within the examination. However, while level 1 broadly equates with the Knowledge module, level 2 equates to the Skills module and level 3 to the Professional level, some lower level skills can continue to be assessed as the student progresses through each module and level. This reflects that at each stage of study there will be a

requirement to broaden, as well as deepen capabilities. It is also possible that occasionally some higher level capabilities may be assessed at lower levels.

LEARNING HOURS AND EDUCATION RECOGNITION

The ACCA qualification does not prescribe or recommend any particular number of learning hours for examinations because study and learning patterns and styles vary greatly between people and organisations. This also recognises the wide diversity of personal, professional and educational circumstances in which ACCA students find themselves.

As a member of the International Federation of Accountants, ACCA seeks to enhance the education recognition of its qualification on both national and international education frameworks, and with educational authorities and partners globally. In doing so, ACCA aims to ensure that its qualifications are recognized and valued by governments, regulatory authorities and employers across all sectors. To this end, ACCA qualifications are currently recognized on the education frameworks in several countries. Please refer to your national education framework regulator for further information.

Each syllabus contains between 23 and 35 main subject area headings depending on the nature of the subject and how these areas have been broken down.

GUIDE TO EXAM STRUCTURE

The structure of examinations varies within and between modules and levels.

The Fundamentals level examinations contain 100% compulsory questions to encourage candidates to study across the breadth of each syllabus.

The Knowledge module is assessed by equivalent two-hour paper based and computer based examinations.

The Skills module examinations are all paper based three-hour papers. The structure of papers varies from ten questions in the *Corporate and Business*

Law (F4) paper to four 25 mark questions in *Financial Management* (F9). Individual questions within all Skills module papers will attract between 10 and 30 marks.

The Professional level papers are all three-hour paper based examinations, all containing two sections. Section A is compulsory, but there will be some choice offered in Section B.

For all three hour examination papers, ACCA has introduced 15 minutes reading and planning time.

This additional time is allowed at the beginning of each three-hour examination to allow candidates to read the questions and to begin planning their answers before they start writing in their answer books. This time should be used to ensure that all the information and exam requirements are properly read and understood.

During reading and planning time candidates may only annotate their question paper. They may not write anything in their answer booklets until told to do so by the invigilator.

The Essentials module papers all have a Section A containing a major case study question with all requirements totalling 50 marks relating to this case. Section B gives students a choice of two from three 25 mark questions.

Section A of both the P4 and P5 Options papers contain one 50 mark compulsory question, and Section B will offer a choice of two from three questions each worth 25 marks each.

Section A of each of the P6 and P7 Options papers contains 60 compulsory marks from two questions; question 1 attracting 35 marks, and question 2 attracting 25 marks. Section B of both these Options papers will offer a choice of two from three questions, with each question attracting 20 marks.

All Professional level exams contain four professional marks.

The pass mark for all ACCA Qualification examination papers is 50%.

GUIDE TO EXAMINATION ASSESSMENT

ACCA reserves the right to examine anything contained within the study guide at any examination session. This includes knowledge, techniques, principles, theories, and concepts as specified.

For the financial accounting, audit and assurance, law and tax papers except where indicated otherwise, ACCA will publish *examinable documents* once a year to indicate exactly what regulations and legislation could potentially be assessed within identified examination sessions..

For paper based examinations regulation **issued** or legislation **passed** on or before 30th September annually, will be assessed from June 1st of the following year to May 31st of the year after. . Please refer to the examinable documents for the paper (where relevant) for further information.

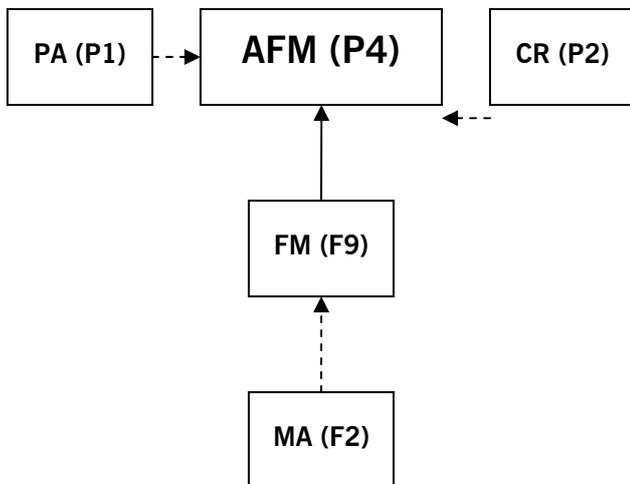
Regulation issued or legislation passed in accordance with the above dates may be examinable even if the **effective** date is in the future.

The term issued or passed relates to when regulation or legislation has been formally approved.

The term effective relates to when regulation or legislation must be applied to an entity transactions and business practices.

The study guide offers more detailed guidance on the depth and level at which the examinable documents will be examined. The study guide should therefore be read in conjunction with the examinable documents list.

Syllabus



AIM

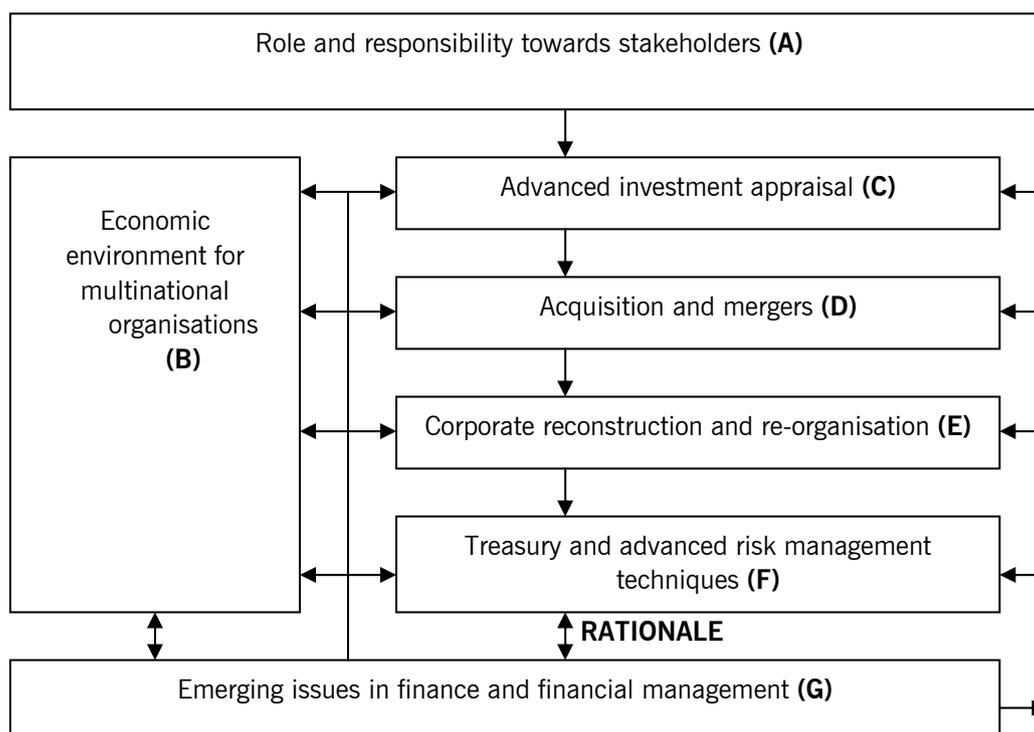
To apply relevant knowledge, skills and exercise professional judgement as expected of a senior financial executive or advisor, in taking or recommending decisions relating to the financial management of an organisation.

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



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 re-examines, in the broadest sense, the existence of risks in business and the sophisticated strategies which are employed in order to manage such risks. It builds on what candidates would have covered in the F9, *Financial Management*, syllabus and the P1, *Governance, Risk and Ethics*, 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 organisational objectives and on governance

B Economic environment for multinational organisations

1. Management of international trade and finance
2. Strategic business and financial planning for multinational organisations

C Advanced investment appraisal

1. Discounted cash flow techniques
2. Application of option pricing theory in investment decisions
3. Impact of financing on investment decisions and adjusted present values
4. Valuation and the use of free cash flows
5. 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
3. Developments in Islamic financing

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 organisation. 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 a compulsory question, comprising of 50 marks.

Section A will normally cover significant issues relevant to the senior financial manager or advisor and will be set in the form of a case study or scenario. The requirements of the section A question are such that candidates will be expected to show a comprehensive understanding of issues from across the syllabus. The question will contain a mix of computational and discursive elements. Within this question 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 in part or whole of the question.

Section B:

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

Section B questions are designed to provide a more focused test of the syllabus. Questions will normally contain a mix of computational and discursive elements, but may also be wholly discursive or evaluative where computations are already provided.

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 organisational goals in line with its agreed policy framework.^[3]
- b) Recommend strategies for the management of the financial resources of the organisation such that they are utilised in an efficient, effective and transparent way.^[3]
- c) Advise the board of directors or management of the organisation 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 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 organisational 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 organisation'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.^[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 different governance structures and policies (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 organisation.^[3]
- b) Demonstrate an understanding of the interconnectedness of the ethics of good business practice between all of the functional areas of the organisation.^[2]
- c) Establish an ethical financial policy for the financial management of the organisation 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 an organisation's financial policies and a system for the assessment of its

ethical impact upon the financial management of the organisation.^[3]

- e) Explore the areas within the ethical framework of the organisation 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 organisational objectives and on governance

- a) Assess the issues which may impact upon organisational 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 policies 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 organisation taking into account:^[3]
 - i) Compliance with national regulatory 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

- a) Evaluate the potential value added to an organisation arising from a specified capital investment project or portfolio using the net present value (NPV) 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) Single period and multi-period capital rationing. 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
 - v) Risk adjusted discount rates.
- 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 (IRR) and modified internal rate of return) and advise on a project's return margin. Discuss the relative merits of NPV and IRR.^[3]

2. Application of option pricing theory in investment decisions

- a) Apply the Black-Scholes Option Pricing (BSOP) model to financial product valuation and to asset valuation:^[3]
 - i) Determine and discuss, 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, calculate and advise on the value of options to delay, expand, redeploy and withdraw using the BSOP model.^[3]

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

- a) Identify and assess the appropriateness of the range of sources of finance available to an organisation including equity, debt, hybrids, lease finance, venture capital, business angel finance, private equity, asset securitisation and sale and Islamic finance. Including assessment on the financial position, financial risk and the value of an organisation.^[3]
- b) Calculate the cost of capital of an organisation, including the cost of equity and cost of debt, based on the range of equity and debt sources of finance. Discuss the appropriateness of using the cost of capital to establish project

and organisational value, and discuss its relationship to such value.^[3]

- c) Calculate and evaluate project specific cost of equity and cost of capital, including their impact on the overall cost of capital of an organisation. Demonstrate detailed knowledge of business and financial risk, the capital asset pricing model and the relationship between equity and asset betas.^[3]
- d) Assess an organisation's debt exposure to interest rate changes using the simple Macaulay duration method.^[3]
- e) Discuss the benefits and limitations of duration including the impact of convexity.^[3]
- f) Assess the organisation's exposure to credit risk, including:^[3]
 - 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 organisation's current cost of debt capital using the appropriate term structure of interest rates and the credit spread.
- g) Assess the impact of financing and capital structure upon the organisation with respect to:^[3]
 - i) Modigliani and Miller propositions, before and after tax
 - ii) Static trade-off theory
 - iii) Pecking order propositions
 - iv) Agency effects.
- h) Apply the adjusted present value technique to the appraisal of investment decisions that entail significant alterations in the financial structure of the organisation, including their fiscal and transactions cost implications.^[3]
- i) Assess the impact of a significant capital investment project upon the reported financial position and performance of the organisation taking into account alternative financing strategies.^[3]

4. Valuation and the use of free cash flows

- a) Apply asset based, income based and cash flow based models to value equity. Apply appropriate models, including term structure of interest rates, the yield curve and credit spreads, to value corporate debt.^[3]
- b) Forecast an organisation's free cash flow and its free cash flow to equity (pre and post capital reinvestment).^[3]
- c) Advise on the value of an organisation using its free cash flow and free cash flow to equity under alternative horizon and growth assumptions.^[3]
- d) Explain the use of the BSOP model to estimate the value of equity of an organisation and discuss the implications of the model for a change in the value of equity.^[2]
- e) Explain the role of BSOP model in the assessment of default risk, the value of debt and its potential recoverability.^[2]

5. 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 organisation free cash flows in any specified currency and determine the project's net present value or organisation 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 an organisation's exposure to translation, transaction and economic risk.^[3]
- e) Assess and advise on 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) Discuss the problem of overvaluation.^[2]
- b) Estimate the potential near-term and continuing growth levels of a corporation'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 alter 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 based 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 entity 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 an organisational 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 organisation.^[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 organisation.^[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) Discuss the role of the treasury management function within.^[3]

- i) The short term management of the organisation's financial resources
- ii) The longer term maximisation of corporate value
- iii) The management of risk exposure.

b) 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.

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

- a) Assess the impact on an organisation to exposure in translation, transaction and economic risks and how these can be managed.^[3]
- 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 (SAFEs)
 - 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 (FRAs)
 - ii) Interest Rate Futures
 - iii) Interest rate swaps
 - iv) Options on FRAs (caps and collars), Interest rate futures and interest rate swaps.

4. Dividend policy in multinationals and transfer pricing

- a) Determine a corporation's dividend capacity and its policy given:^[3]
 - i) The corporation's short- and long-term reinvestment strategy
 - ii) The impact of capital reconstruction programmes such as share repurchase agreements and new capital issues on free cash flow to equity.
 - iii) The availability and timing of central remittances

iv) The corporate tax regime within the host jurisdiction.

- b) Advise, in the context of a specified capital investment programme, on an organisation's current and projected dividend capacity.^[3]
- c) Develop organisational 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 IN FINANCE AND FINANCIAL MANAGEMENT

1. Developments in world financial markets

Discuss the significance to the organisation, 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, assessing their impact upon the organisation, and advising on the appropriate response to those developments both internally and externally.^[2]

3. Developments in Islamic financing

Demonstrate an understanding of the role of, and developments in, Islamic financing as a growing source of finance for organisations; explaining the rationale for its use, and identifying its benefits and deficiencies.^[2]

SUMMARY OF CHANGES TO P4

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.

Table 1 – New additions

Section and subject area	Syllabus content
G3 Developments in Islamic finance	Demonstrate an understanding of the role of, and developments in, Islamic financing as a growing source of finance for organisations; explaining the rationale for its use, and identifying its benefits and deficiencies

Table 2 – Deletion

The following has been removed from P4 but will be assumed knowledge from F9

Section and subject area	Syllabus content
F-1, 2 and 3- The role of treasury function in multinationals	<ul style="list-style-type: none"> a) Describe the role of the money markets in: <ul style="list-style-type: none"> 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. c) Explain the characteristics and role of the principal money market instruments: <ul style="list-style-type: none"> i) Coupon bearing ii) Discount instruments iii) Derivative products.

Table 3 – Other major amendments

Section and subject area	Syllabus content
The following areas have been added to clarify what was already in the syllabus:	C1a) iii) Single period and multi-period capital rationing. Multi-period capital rationing to include the formulation of programming methods and the interpretation of their output C1a) v) Risk adjusted discount rates C3b) Calculate the cost of capital of an organisation, including the cost of equity and cost of debt, based on the range of equity and debt sources of finance. Discuss the appropriateness of using the cost of capital

	<p>to establish project and organisational value, and discuss its relationship to such value.^[3]</p> <p>C3c) Calculate and evaluate project specific cost of equity and cost of capital, including their impact on the overall cost of capital of an organisation. Demonstrate detailed knowledge of business and financial risk, the capital asset pricing model and the relationship between equity and asset betas.[†]</p> <p>C4a) Apply asset based, income based and cash flow based models to value equity. Apply appropriate models, including term structure of interest rates, the yield curve and credit spreads, to value corporate debt</p>
The following areas have either wording changes, small insertions and or small deletions to provide clarity and scope for exams:	A2f, A3c, C1c, C2c, C3a, C3g, D2a and F1a
The following have moved and some with wording changes for better flow of topics and for clarity (sections here are referenced in the old syllabus)	C1d, , C1f, C2d and C3e to new section C4 C1e to section F4
The structure of the paper has changed and as a result there is a new pilot exam for P4	Section A- One compulsory question worth 50 marks Section B- A choice of two from three questions each worth 25 marks
Formula sheet	The formula sheet has been amended to remove the two asset portfolio theory formula due to changes to A2f.