



DIPLOMA IN CORPORATE FINANCE –

Paper One: Corporate Finance Techniques and Theory

Content

1. Financial Statement Analysis
2. Valuation
3. Debt and Equity
4. Mergers, Acquisitions and Disposals
5. Regulations, Governance and Ethics

Aim

To provide students with a thorough understanding of techniques, theories and issues found in practical corporate finance situations.

On completion of this module, students will be able to:

- undertake a high-level analysis of financial statements
- value a range of undertakings across industry sectors
- conduct an advanced analysis of debt and equity requirements in given situations
- establish how, and whether, value is created in public and private mergers, disposals and acquisitions
- demonstrate a broad understanding of UK regulatory requirements.

Entry to Corporate Finance Techniques and Theory

Students embarking on this module of the Diploma in Corporate Finance will have passed CISI Certificate in Corporate Finance or the ACA.

Assessment

The module will draw from across the syllabus and be assessed through short scenario style questions in a three-hour open book examination. Candidates will be expected to demonstrate that they can apply their understanding to a range of practical scenarios.

The examination will comprise: Section A - worth 50 marks.

Candidates answer five questions from a choice of seven, each question worth 10 marks

Section B – worth 50 marks.

Candidates answer two scenario style questions in this section, worth 25 marks each. The questions in this section are mandatory and will primarily test knowledge of the Financial Statements Analysis and Valuation sections of the syllabus.

Specification grid

This grid shows the relative weightings of topics within this module and should guide the relative study time spent on each. Over time the marks available in the assessment will equate to the weightings below, while slight variations may occur in individual assessments to enable suitable questions to be set.

Syllabus area	Weighting (%)
1 Financial Statement Analysis	20 - 25
2 Valuation	20 - 25
3 Debt and Equity	15 - 20
4 Mergers, Acquisitions and Disposals	15 - 20
5 Regulations, Governance and Ethics	15 - 20

Knowledge Levels

The level of knowledge required in this module is that required for the solution of complex problems *except* where indicated with a (G), where knowledge is required only at a level for the solution of straightforward problems.

Candidates are expected to have a working knowledge of:

- The Takeover Code (including practice statements)
- Financial Conduct Authority:
 - Listing Rules
 - Prospectus Regulation Rules
 - Disclosure Guidance and Transparency Rules
- London Stock Exchange AIM Rules for Companies
- AQUIS Exchange Rules for Issuers
- Relevant sections of:
 - Financial Services and Markets Act 2000
 - Financial Services Act 2012
 - Companies Act
 - Bribery Act 2010

Content

1. Financial Statement Analysis

Candidates will be able to undertake an advanced level of financial statement analysis and will be able to recognise the particular analytical problems of different types of domestic and international industry sector and business entity.

In the assessment, candidates may be required to

1.1. use ratio analysis and other techniques on the financial statements of single companies and / or groups, including the use of cash to measure return

1.2. interpret financial statements of single companies and / or groups, and explain the implications of accounting standards on the financial statements, taking account of the following aspects and issues in the analysis of financial statements:

- Revenue recognition
- Revenue recognition principles in different sectors
- Reporting deferred and accrued income
- Revenue recognition versus cash flow
- Off-balance-sheet financing
- Leases
- Informative notes to the financial statements
- Group accounting, including intra-group activity and taxation
- Accounting for acquisitions, disposals and mergers

2. Valuation

Candidates will be able to undertake an advanced level of valuation and will be able to recognise the particular valuation problems of different domestic and international industry sectors and types of business entity.

In the assessment, candidates may be required to

2.1. use and appraise methods of equity analysis for different types of business entity and industry sectors, indicating each methods' problems and limitations:

- Traditional methods
 - Earnings per share (EPS)
 - Return on capital employed (ROCE)
 - Price/book, price/sales and the price/earnings ratios
- Adjusted traditional methods
 - EV and EBITDA
 - EV and EBIT
 - Turnover
 - Other "rule of thumb" methods
 - Advantages and disadvantages of an enterprise based approach to valuation
 - The treatment of synergies
- The cost of equity
 - The capital asset pricing model (CAPM)
 - Systematic and business risk
 - Application of beta
 - The dividend valuation model (DVM)
 - Alternative measures of the cost of equity (G)
 - Arbitrage pricing theory and its limitations (G)

- The cost of debt
 - Calculating the required yield on debt
 - Considerations of currency and inflation matching
- Weighted average cost of capital (WACC)
 - Calculation and limitations
 - Gearing and its impact on WACCs and values
- Free cash flow (FCF)
 - Applying discounted cash flow (DCF) techniques to FCF
 - FCF for equity holders
 - FCF for the enterprise
 - Key economic assumptions used to structure a forecast
 - The treatment of synergies
 - Terminal values and their derivation from both multiples and DCF
 - Sensitivity analysis and its interpretation
- Economic value added (EVA) (G)
- Real options and options-based valuation models (G)

3. Debt and Equity

Candidates will be able to explain and evaluate advanced aspects of domestic and international debt instruments and equity issues, to judge when and where to use debt and/or equity, the appropriate mix of debt and equity, and when to use certain types of debt instrument.

In the assessment, candidates may be required to:

- 3.1. summarise the terms, rights, conditions of use and the factors concerning value of the following instruments:
 - Ordinary shares
 - Preference shares
 - Debt
 - Convertible loans
 - Warrants
 - Options
 - Bonds including debt capital markets
- 3.2. critically evaluate the following unquoted sources of finance:
 - Private equity and venture capital (including VCTs)
 - Private placings
 - Enterprise investment schemes
 - Banks
 - Financial leases
 - Project finance
 - Senior, mezzanine and other debt
 - Sovereign wealth funds
 - Family offices
- 3.3. evaluate the appropriateness of unquoted finance for the following:
 - Start-ups / early stage
 - Development capital
 - Management buy-outs / buy-ins
 - Public companies
- 3.4. determine financing options, including rights issues, placings and vendor placings, for a company by evaluating a company's financing needs.

- 3.5. understand and evaluate dividend policy considerations and their impact on investors and stakeholders.
- 3.6. determine financing options for a company's pension fund deficit by examining the financial implications of pension schemes, with particular reference to: **(G)**
- Defined contribution schemes
 - Defined benefit schemes
 - Valuation of assets and liabilities
 - Deficit funding
 - Rights of pension holders
 - Asset based finance
 - Bonds
- 3.7. explain the use of the following derivatives in debt and equity and incorporate these instruments in financing options in straightforward situations:
- Forwards and futures
 - Options
 - Swaps

4. **Mergers, Acquisitions and Disposals**

Candidates will be able to assess how, and whether, value is created by domestic and international mergers, acquisitions and disposals, including the effect on a group's financial statements (including institutional buyouts, management buy-outs and other variants).

In the assessment, candidates may be required to

- 4.1. evaluate or construct commercial and financial rationale for acquisitions and disposals in a given scenario
- 4.2. explain in detail how the following disposal processes are carried out, in both the public and private markets, and apply this knowledge to a given scenario:
- The sale process (initiation only)
 - Traditional and alternative disposal methods
 - Identifying and short-listing purchasers
 - Approaching potential purchasers
 - The auction process
 - Inviting and evaluating offers
- 4.3. explain in detail how the following stages in an acquisition are carried out and apply this knowledge to a given scenario:
- Identifying potential acquisition targets
 - Initial evaluation of targets
 - Approaching the target: considerations and best practice
- 4.4. explain in detail the following aspects of mergers, acquisitions and disposals and apply this knowledge to a given scenario:
- Public deals
 - Transaction process overview
 - Outline of regulatory issues
 - Defence and bid strategies
 - Due diligence
 - Scope of due diligence
 - Vendor due diligence and data rooms
 - Purchaser due diligence

- Buying and selling documentation
 - No names “teaser” document
 - Confidentiality and non-circumvention undertakings
 - Company presentation
 - Business plan
 - Information memorandum

- Legal documentation
 - Heads of agreement
 - Break clauses and exclusivity agreements
 - Sale and purchase agreement
 - Warranties, indemnities, representations and disclosures
 - Conditions precedent and subsequent
 - Exchange and completion
 - The completion meeting and problem areas
 - “Locked box” mechanisms versus completion accounts
 - Other post completion mechanisms

- Deal structuring
 - Buying and selling assets versus shares
 - Cash, loan stock, shares and alternatives as consideration
 - Earn-outs, options and deferred consideration
 - Tax considerations for the vendor and purchaser
 - Hedging foreign exchange rate risk
 - Hedging interest rate risk

5. Regulation, Governance and Ethics

Candidates will be able to describe UK regulation and the regulatory regimes in different jurisdictions, recognise the applicability of regulation in given scenarios and apply that knowledge to given scenarios.

5.1. In the assessment, candidates may be required to describe the following aspects of the Takeover Code and assess their relevance to a given scenario. Specific rules and practice statements will be tested:

- The structure of the Code
- The spirit of the Code
- The structure of the Panel and its powers
- Statutory status
- Companies to which the code applies
- Independent advice
- Irrevocable undertakings
- Financing arrangements
- Offers for different classes of shares
- Concert parties
- Special deals and management incentives
- Accuracy and content of documents
- The creation of false markets
- Restrictions and frustrating actions
- Consideration
- Mandatory offers
- The timetable of an offer
- Consulting the Panel
- Schemes of arrangement

5.2. describe the following aspects of the FCA Rules and assess their relevance to a given scenario:

- The structure of the FCA Rules

- Overview of the Disclosure Guidance and Transparency Rules
- Prospectus Regulation Rules
- The Listing Rules
- Standard and premium listing options
- The minimum requirements for listing
- Prospectuses
- Timetable for listing
- Sponsor's obligations
- Announcements and circulars to shareholders
- Continuing obligations
- Class tests
- Share buybacks
- Secondary offerings
- AIM Rules
- AQUIS Exchange Rules (G)

5.3. describe the following areas relevant to corporate finance activity and assess their relevance to a given straightforward scenario: (G)

- Corporate governance
 - The UK Corporate Governance Code (including the implications for smaller companies)
 - The overlap with the FCA Disclosure Guidance and Transparency Rules
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- Competition regulation
 - The general purpose of competition regulation
- Financial Promotion Rules
 - Invitations to engage in investment activity
 - The Prospectus Regulation Rules
 - Approval by authorised person
- Ethics
 - Fiduciary duties to the client
 - Identifying and managing conflicts of interest
 - A good understanding of the ethics of your profession with reference to fiduciary duties generally, your own professional body's code and the Bribery Act
- Market abuse
 - Insider trading
 - Price sensitive information
 - Misleading statements
 - Financial promotions
- Companies Act, including but not limited to:
 - The different types of company
 - Constitutional documents
 - Share capital
 - Business review
 - AGM and accounts
 - People with significant control
 - Financial assistance
- UK Markets in Financial Instruments Regulation and The Conduct of Business Sourcebook
 - Client categorisation
 - Approved persons

- Conflicts of interest
- Investment research

5.4. Candidates should be able to demonstrate an awareness of:

- US, EU and other extraterritorial regulations which might impact upon a UK transaction. (G)

Examinations at level 6 and level 7 are intellectually demanding tests which differ from the CISI's offer at levels 3 to 5 in a number of ways.

Although it is the case that for all our examinations it is the syllabus which is tested, not the workbook, at levels 3 to 5 no further reading is expected in respect of the technical content of the syllabus, although regular scrutiny of the financial press will be an advantage. You are expected to be able to apply principles outlined in the workbooks to situations which are not explicitly stated in the workbook, and may be expected to use information from more than one area of the workbook in answering a single question.

At levels 6 and 7, while the official workbook is essential reading, you are expected to read around the subject, and this reading is not prescribed, although for some subjects, there are suggestions at the end of the syllabus. Questions will be set on the whole syllabus, and topical issues may be tested, so candidates are expected to be aware of developments in the relevant area of financial services.

As part of your preparation for all level 6 and 7 examinations you should thoroughly scrutinise past papers for your exam, all of which are available free of charge via MyStudy, and refer to the Examiners' reports, which are also available. Together, these give a detailed insight into the type of questions asked, although they should not be relied upon to predict questions or syllabus areas likely to be tested in future papers.

The Diploma in Corporate Finance differs from other high level CISI exams in that the Diploma is tested by open book examinations. You are permitted to bring in texts, articles and notes of any kind. It is your responsibility to select and bring in any material needed and any such texts brought into the examination venue should be in hard copy only. We recommend that Takeover Code / Listing Rules (whichever sections you deem relevant) are taken into the examination. You should be familiar with and understand relevant laws and regulations such as the Listing, AIM and AQUIS Rules, the UK Takeover Code (Including Practice Statements) and the Companies Act.