



DIPLOMA IN CORPORATE FINANCE –

Paper Two: Corporate Finance Strategy and Advice

Content

1. Corporate Strategy
2. Mergers and Acquisitions
3. Corporate Performance and Reconstructions
4. Supporting materials for sections 2 and 3

Integrated skills

Case Study

Aim

To provide students with a detailed understanding of issues, disciplines, regulations and strategies involved in advising on and implementing companies' corporate finance objectives. This covers the following areas: changes in control and restructuring; mergers and acquisitions; debt and equity issues; and strategic financial management. This module also covers, domestic and international businesses: business strategy; mergers and acquisitions; and corporate performance and reconstructions.

This module will also ensure that candidates can analyse and evaluate complex business issues and provide advice upon them.

Entry to Corporate Finance Strategy and Advice

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

It is strongly recommended that candidates have passed the Corporate Finance Techniques and Theory module before embarking on this module of the Diploma in Corporate Finance.

Assessment

The module will draw from across the syllabus and be assessed through a four-hour open-book case study. Candidates will be expected to demonstrate that they can apply their understanding to a case study based upon a real corporate finance scenario. Scenarios will encompass the four major areas of: changes in control and restructuring; mergers and acquisitions; debt and equity issues; and strategic financial management. Scenarios may contain elements of all these areas.

Questions will be phrased to allow candidates to demonstrate the depth of their ability in their area of professional expertise. Examiners and markers will ensure that there is a consistent approach and depth and relevance in answers as appropriate.

Candidates will be required to use professional judgement to identify and evaluate alternatives and determine the appropriate solution or solutions to compliance and other issues, giving due consideration to the commercial impact of their recommendations.

The application of the knowledge gained through the Techniques and Theory syllabus will be enhanced by study of the content areas listed below. This includes deeper study of some of the areas already touched upon in the Techniques and Theory 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.

New Subject matter: Syllabus area	Weighting (%)
1 Corporate Strategy	15 – 35
2 Mergers and Acquisitions	35 – 50
3 Corporate Performance and Reconstructions	30 - 50

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.

Content

1. Corporate Strategy

Candidates will be able to analyse and evaluate information relating to strategy of domestic and international businesses and give relevant advice.

In the assessment, candidates may be required to

1.1. analyse information about business entities of any form in complex scenarios and evaluate strategy using appropriate tools, including:

- SWOT analysis
- PEST analysis
- Porter's 5 Forces analysis

1.2. give relevant and appropriate advice on:

- business strategy
- growth by acquisition versus organic growth
- disposals and the disposal process

2. Mergers and Acquisitions

Candidates will be able to analyse and evaluate information relating to mergers and acquisitions of domestic and international businesses and give relevant advice.

In the assessment, candidates may be required to

2.1. analyse and evaluate information about business entities of any form in complex scenarios and give relevant and appropriate advice on:

- financing acquisitions
- the financial effect of an acquisition on the enlarged group
- advanced valuation (modelling free cash flows, multiples and comparable company analysis)
- creating shareholder value from acquisitions, including post acquisition integration and synergy analysis
- restructuring, including schemes of arrangement
- preparing for a sale
- due diligence (both buy and sell side)

3. Corporate Performance and Reconstructions

Candidates will be able to analyse and evaluate information relating to corporate performance and reconstructions of domestic and international businesses and give relevant advice.

In the assessment, candidates may be required to

3.1. analyse and evaluate information about business entities of any form in complex scenarios and give relevant and appropriate advice on:

- advanced corporate performance, including economic value added (EVA)
- reconstructions and business recovery
- schemes of arrangement
- the role of private equity

4. Supporting material for sections 2 and 3 above

In the assessment of section 2 Mergers and Acquisitions and section 3 Corporate Performance and Reconstructions, candidates may be required to:

4.1. distinguish between the activities of the advisory team, including:

- sponsors
- nominated advisers (NOMAD)
- financial advisers

- stockbrokers
 - lawyers
 - reporting accountants
 - PR / marketing
 - valuers / competent persons
- 4.2. illustrate the role of the advisory team in respect of:
- pricing and timing
 - underwriting
 - market dynamics
 - global markets/issues
 - strategic reviews
 - long-term goals
 - American and global depositary receipts (ADR/GDR)
 - dual listings
- 4.3. understand the application and general provisions of:
- the FCA Conduct of Business Source Book (COBS) to corporate finance business
 - the rules applying to all firms conducting designated investment business
- 4.4. distinguish between the various sources and methods of raising capital and the most appropriate method for a given circumstance
- 4.5. explain the principal factors involved in the Main market, AIM market and AQUIS market flotations (G)
- 4.6. explain the preparations for a flotation:
- suitability
 - responsibilities of a sponsor / financial adviser / nomad / AQUIS adviser
 - pre-flotation considerations
 - taxation implications
- 4.7. explain the principal factors involved in private equity investment, including:
- houses and fund structure
 - key characteristics of private equity backed businesses
 - typical process
 - debt packages
 - mezzanine
 - management team
 - due diligence – scope and nature
 - legal documents
- 4.8. interpret the regulatory requirements for a quoted transaction, including:
- Listing Rules
 - Prospectus Regulation Rules
 - the Takeover Code
 - Disclosure Guidance and Transparency Rules
 - Financial Services and Markets Act 2000 ss.21, 72-103, and related orders
 - Financial Services Act s. 89 – 90A
 - FCA Conduct of Business sourcebook
 - Market Abuse Regulation
 - AIM Rules
 - AQUIS Rules
 - Companies Act
- 4.9. critically evaluate the main methods of conducting a flotation:
- offer for sale

- placing
 - introduction
 - reverse takeover
- 4.10. discuss the pricing mechanisms available when raising capital via an IPO or flotation
- 4.11. critically evaluate methods of raising capital available to quoted companies and the issues surrounding these, including:
- vendor placings
 - rights issues
 - placing and open offer (and claw-backs)
 - public to private
 - regulatory considerations
 - pre-emption rights
 - schemes of arrangement
 - Pre-Emption Group, The Investment Association and other relevant guidelines
 - demerger
 - private investment in public equity
- 4.12. explain the nature and purpose of secondary and dual listings
- 4.13. interpret and apply the continuing obligations requirements of quoted companies
- 4.14. discuss the requirements and purpose of regulations relating to the disclosure of price sensitive information
- 4.15. evaluate the regulatory requirements in respect of shareholder notifications and their intended purpose
- 4.16. evaluate the regulatory requirements surrounding acquisitions and disposals:
- Listing Rules
 - AIM and AQUIS rules (G)
 - Prospectus Regulation Rules
 - Takeover Code
 - Companies Act
 - Criminal Justice Act
 - insider dealing
 - Financial Services and Markets Act 2000 and the Financial Services Act
 - Disclosure Guidance and Transparency Rules
- 4.17. critically appraise the techniques and concepts of employee share participation and pensions arrangements, examining the following concepts and techniques used in share participation arrangements:
- unapproved share option schemes
 - approved share option schemes
 - Long term incentive plans (LTIPs)
 - Investment Performance Council (IPC) guidelines
 - Other options and warrants
 - SAYE plans
- 4.18. critically evaluate the various stakeholder relationships, stakeholders' expectations and management of them:
- categories of institutional and other investors
 - management of investor expectations
 - analysts' and shareholders' meetings
- 4.19. evaluate the appropriateness, advantages and limitations of the following methods of disseminating information:
- public announcements
 - investment advertising rules
 - press conferences and PR
 - private meetings

- selective disclosure notifications of inside information
- 4.20. examine the role of directors and discuss their duties and obligations in relation to:
- related party transactions
 - board committees
 - directors' dealings
 - conflicts of interest
 - non-executive directors
 - corporate governance
 - responsibilities to stakeholders
- 4.21. discuss the requirements for continuing advice arising from:
- dividend policy
 - Regulatory bodies
 - London Stock Exchange
 - Financial Conduct Authority
- 4.22. discuss the requirements for the management of inside and confidential information:
- current best practice for the management of confidential and price sensitive information
 - familiarity with current events including market conduct, regulatory breaches and industry developments
- 4.23. demonstrate an awareness of:
- US, EU and other extraterritorial regulations which might impact upon a UK transaction. (G)

Integrated skills

The objective of the case study is to assess candidates' understanding of complex business issues and the ability to analyse financial and non-financial data, exercise professional and ethical judgement, and develop conclusions and recommendations. Theoretical study alone is insufficient for success in the case study; candidates must bring practical work experience into their preparation and development programme.

The case study is designed to reproduce a hypothetical real-life situation which candidates might find in their professional capacity. This will involve using information arising from meetings and communicated in memoranda, documents, letters or reports from a variety of business and professional advisors and stakeholders. The situation could be based upon a real life corporate finance transaction.

The case study scenario may be based on any of a variety of different organisational structures or operations. Candidates will be provided with advance information in the examination venue on the organisation and its business environment an hour before the exam answer book is distributed.

This information, as in real life, may be imperfect and will not give specific indication of the eventual requirements of the case study. Candidates will be expected to familiarise themselves with the information provided and undertake some additional analysis. Candidates may use the results of their analysis in answering the case study.

Requirements will be open in that there may be no predetermined "correct" answers to the case study.

Assessed skills	How skills are assessed
Assimilating and using information	
<ul style="list-style-type: none"> • Understanding the subject matter • Accessing, evaluating and managing data and information provided in multiple sources (some pre-disclosed) • Using technical knowledge & professional experience to assess interaction of information from different sources • Evaluating the strengths and weaknesses of an organisation and comparing with benchmarks • Planning, controlling and evaluating operations in a global context • Understanding the needs of customers (internal and external) • Demonstrating an understanding of the significance of ethics in the business environment and the importance of ethical behaviour • Using appropriate content of the relevant professional codes of ethics • Demonstrating an understanding of the regulatory structure of the profession, its ethos, culture and role in corporate and social responsibility 	<ul style="list-style-type: none"> • Uses the exam information, knowledge of ethical codes and professional experience to define the specific issue / situation • Uses own understanding of context and findings • Describes wider context • Identifies business issues <ul style="list-style-type: none"> ○ Understanding of business entity ○ Position in industry sector ○ Appreciation of wider economy • Recognises where business is in its life cycle
Structuring problems and solutions	
<ul style="list-style-type: none"> • Using the information given: analysing and evaluating requirements, information, issues and business context • Analysing, evaluating and synthesising new and complex ideas • Displaying an enquiring and questioning mind • Identifying faults in arguments and gaps in evidence • Demonstrating understanding of the pressures on professional ethical behaviour, including the interaction between professional ethics, the law and other value systems • Financial data analysis: <ul style="list-style-type: none"> ○ analysing and evaluating data by selecting appropriate analytical and technical tools and applying technical knowledge and professional experience ○ demonstrating an understanding of sensitivities to change: flexing a range of inputs and evaluating potential outcomes ○ evaluating, prioritising and trading off solutions to complex problems, considering various perspectives, including competitive reaction and internal reaction 	<ul style="list-style-type: none"> • Identifies, uses and presents key information • Demonstrates technical knowledge • Uses professional experience • Uses relevant strategic analytical tools (SWOT, PEST, Porter's 5 Forces) • Performs relevant analysis • Produces quality analysis: <ul style="list-style-type: none"> ○ depth ○ breadth ○ logic ○ reasonableness • Uses knowledge of ethical codes and professional experience to perform relevant analysis • Financial data analysis: <ul style="list-style-type: none"> ○ Uses appropriate analytical tools (valuations methodologies, sensitivity analysis) ○ Performs relevant analysis on <ul style="list-style-type: none"> ▪ numerical data ▪ other information ○ Integrates numbers and words

<ul style="list-style-type: none"> • Financial statement analysis: <ul style="list-style-type: none"> ○ analysing and evaluating financial statements by selecting appropriate analytical and technical tools and applying technical knowledge and professional experience ○ linking all elements of financial statements, evaluating and making comparisons where there are complex interactions ○ evaluating financial statements in the context of other business information 	<ul style="list-style-type: none"> • Financial statement analysis: <ul style="list-style-type: none"> ○ Uses appropriate analytical tools to measure financial performance, identify trends and make comparisons • Performs relevant analysis on: <ul style="list-style-type: none"> ○ financial statements ○ other information ○ Integrates numbers and words
Applying judgement	
<ul style="list-style-type: none"> • Using technical knowledge, and professional experience and evidence to support reasoning • Applying discrimination: filtering information to identify critical factors • Applying a sceptical and critical approach • Interpreting information from a range of stances and developing arguments, having first appreciated the perspective of other parties • Conducting critiques: considering alternative views in testing the validity of ideas in practice • Considering and evaluating the effects of a range of alternative future scenarios • Seeking opportunities to add value • Prioritising key issues • Applying the concept of materiality to interrelated situations • Appreciating the ethical dimensions of situations, exercising ethical judgement and explaining the consequence of unethical behaviour • Appreciating when more expert help is required 	<ul style="list-style-type: none"> • Builds on implications of analysis • Identifies and uses key financial information • Recognises linkages • Evaluates key points • Discusses output <ul style="list-style-type: none"> ○ Pros / cons • Demonstrates professional scepticism • Demonstrates objectivity / balance • Demonstrates an appreciation of more than one side / bias • Evaluates options • Prioritises key points • Uses knowledge of ethical codes and professional experience to: <ul style="list-style-type: none"> ○ build on implications of analysis ○ discuss output ○ recognise linkages ○ evaluate key points ○ evaluate options
Drawing conclusions, making recommendations and communication	
<ul style="list-style-type: none"> • Generating solutions for complex problems using information from multiple sources • Using technical knowledge, professional experience, evidence and analysis to support conclusions • Formulating opinions, advice, plans, solutions, options and reservations, based on valid and different technical skills • Making decisions and recommendations in unstructured situations with risks and uncertainty • Specifying the criteria for the most appropriate proposal • Assessing the costs and benefits that may flow from a decision • Approaching decision-making using an ethical framework 	<ul style="list-style-type: none"> • Draws conclusions linked to analysis and judgement • Makes practical commercial recommendations
Integrative and multidisciplinary skills	
<ul style="list-style-type: none"> • Time awareness: recognising time constraints and prioritising given tasks • Preparing, describing, outlining the advice, report, 	<ul style="list-style-type: none"> • Provides appropriate terms of reference (purpose, scope, disclaimer) • Provides an executive summary that is consistent

<p>notes required in a clear and concise style</p> <ul style="list-style-type: none"> • Relating parts and wholes: discerning interrelated issues as part of complex scenarios, employing a sense of perspective in over-viewing situations • Providing a report to specialist or non- specialist audience 	<p>with the main report</p> <ul style="list-style-type: none"> • Demonstrates appropriate balance between topics • Uses sufficient but not excessive sub- divisions • Makes appropriate but not excessive use of notes and bullets • Uses correct style and language for audience with appropriate tact • Contains appropriate appendices: <ul style="list-style-type: none"> ○ Calculations easy to follow ○ Assumptions clearly set out ○ No excessive text • Provides a coherent answer to the question: <ul style="list-style-type: none"> ○ Covers the major elements ○ Suitable use of numbers ○ Figures clearly derived ○ Structured discussion, not just a list of facts
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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.