

Tutors' marking guide for Business Planning: Banking December 2017

Marking documents

The tutors' marking guide set out below is for the exclusive use of tutors as guidance to how marks are awarded.

The marking information was that used to mark the questions. Markers used discretion and awarded partial marks where a point was either not explained fully or made by implication. More marks are available than the maximum that can be awarded for some requirements. This is indicated by the headroom column.

Question 1 – Robinson

Question	Max	Head-Room	Mark Analysis	Marks
1.1 a) Calculation of total and CET1 regulatory capital requirement b) Calculation of Robinson's total and CET1 regulatory capital and adequacy	11	14	Calculation of risk weighted assets (RWA) Total regulatory capital requirement % CET1 regulatory capital requirement % Calculation of total % and CET1 % x RWA (OF) Calculation of Robinson's regulatory capital Calculation of Robinson's total and CET1 capital adequacy ratios Conclusion about adequacy	3 2 2½ 1 4 1 ½
1.2 Impact of DOJ fine on capital adequacy and its significance	6	7	Quantification of DOJ fine Adjusted total and CET1 capital and related ratios Discussion and calculation of coco bonds conversion (impact on CET1 capital) Conclusion based on revised capital adequacy Impact of capital below minimum percentages	1 2 1 1 2
1.3 Impact of credit rating downgrades on credit risk and impact on capital adequacy	8	9	Explanation that credit downgrades would increase RWA Calculation of increase in RWA for Mediterranean exposures Calculation of increase in RWA for Wakanda debt (net of impairment allowance) Calculation of increase in RWA on total and CET1 capital and capital adequacy Explain impact on capital adequacy	1 3 1½ 2½ 1
1.4 Evaluate risk committee suggestions	10	17	Calculation and explanation of capital shortfall Issue of coco bonds – immediate conversion, attractiveness, cost Rights issue – increase in CET1, discounted rights price, simplicity Issue of subordinated debt – tier 2 capital, contribution to total capital, cost Conclusion	4 4 4 3 2

1.5 Financial reporting treatment of DOJ fine and credit rating downgrades			DOJ fine:	
			- Provision criteria and applicability to DOJ fine	2
			- IAS 10 Events after the Reporting Period	1
			- Impact on financial statements	1
			Mediterranean lending:	
			- Credit downgrade impairment indicator	1
			- Other evidence of impairment and IAS 10	1
			- Impact on financial statements	½
			Wakanda debt:	
			- Specific impairment event	1
			- Not an adjusting event	1
			- Impact on financial statements	½
	7	9		
Total Marks	42	56		

Question 2 – Mariko

Question	Max	Head-Room	Mark Analysis	Marks
2.1 Key audit risks using analytical procedures to identify risks	13	15	1-2 marks per risk depending on explanation of risk and use of scenario in the question	
2.2 Financial reporting treatment of impairment issues and relevant audit procedures	15	19	Loan-to-value analysis:	Max 5
			- Financial reporting treatment ½ to 1 mark per relevant comment	Max 7
			- Audit procedures ½ mark	
			Renegotiated mortgages:	
			- Financial reporting treatment ½ to 1 mark per relevant comment	Max 2
			- Audit procedures ½ mark	Max 5
2.3 Ethics	5	8	Establish the ethical principles facing both Lee and Snook that may be threatened.	4
			Actions that may be taken.	4
Total Marks	33	42		

Question 3 – Peel Bank

Question	Max	Head-Room	Mark Analysis	Marks
3.1 Analyse data to identify and explain the drivers of Peel's profitability	8	8	½ to 1 mark per relevant comment	
3.2 Financial reporting treatment of proposed hedge	6	10	Classification and treatment of swap Identification of type of hedge and treatment Discussion of effectiveness including relevance to the scenario Hedge criteria – designation and documentation Hedging a group of items Valuation of OTC contract as level 2 of IFRS 13 hierarchy Use of FV option	1½ 2 2½ ½ 2 ½ 1
3.3 IFRS 9 changes to financial reporting treatment of hedge strategy	4	4	1 mark per point	
3.4 Internal controls to monitor hedge effectiveness	7	7	1 mark per point	
Total Marks	25	29		