

## Strategic Financial Management

### AIM

To ensure that candidates can exercise judgement and technique to make commercial value added decisions in strategic financial management and are able to adapt to factors affecting those decisions.

### OBJECTIVES

On completion of this paper candidates should be able to:

- prepare reports for management explaining and evaluating the financial consequences of strategic decisions
- identify and evaluate appropriate sources of finance, their risks and costs
- assess potential investment decisions and strategies
- understand the impact of the global business environment on national and multinational organisations
- explain, demonstrate and recommend suitable risk management techniques
- understand the significance of cash management and the treasury function in the commercial environment
- select the techniques most appropriate to optimise the employment of financial resources and critically evaluate such techniques
- analyse and evaluate financial information relating to past and future business performance
- demonstrate the skills expected in Part 3.

3.3 Performance Management

3.7 Strategic Financial Management

2.4 Financial Management and Control

1.2 Financial Information for Management

### POSITION OF THE PAPER IN THE OVERALL SYLLABUS

Candidates will require a thorough understanding of the financial management section of Paper 2.4 Financial Management and Control. Candidates will also be required to apply quantitative techniques covered in earlier papers.

Paper 3.7 develops the financial management elements of Paper 2.4 by:

- providing a more critical analysis of corporate governance
- examining the strategic implications of short-term and long-term financial planning
- in-depth analysis of risk management in both domestic and international contexts
- more rigorous analysis of investment decisions and the cost of capital, including CAPM and other models
- analysis of corporate growth and restructuring through mergers, acquisitions and other means

- introducing international dimensions of the treasury function
- considering the global economic environment and other influences on financial management decisions
- analysis of global financial management decisions
- introducing ethical considerations.

Paper 3.7 will draw upon strategic management and business planning issues covered in Paper 3.5 Strategic Business Planning and Development in the context of financial planning.

Paper 3.7 covers mergers, acquisitions and corporate restructuring from a financial perspective, areas covered from an accounting perspective in Paper 3.6 Advanced Corporate Reporting.

# Strategic Financial Management (Continued)

## SYLLABUS CONTENT

### 1 Objectives and corporate governance

- a The aims and objectives of an organisation and their impact on business planning.
- b Key stakeholders of an organisation: shareholders, lenders, directors, employees, customers, suppliers and the government.
- c Environmental issues and their impact on corporate objectives and governance.
- d The concept of goal congruence and how it might be achieved.
- e Key aspects of governance in the UK and internationally.
- f The implications of corporate governance for organisations.

### 2 Strategy formulation

- a The strategic planning process and its link with investment decisions
  - i the development and analysis of financial plans to meet agreed objectives
  - ii seeking, clarifying and confirming information (e.g. on the current or past business position through ratios or other forms of analysis) relevant to the achievement of business objectives
  - iii advising clients on the strategies that a company might use to expand or maintain its current market position, and on exit strategies

- iv long term financial planning including measures of value, profit, optimisation and utility
  - v the use of free cash flow in financial planning
  - vi techniques for valuing individual shares and other securities and for valuing a business, including EVA and SVA.
- b Strategic planning for multinationals.
- i entry and exit barriers
  - ii competitive advantage.

### 3 Risk analysis

- a Cost of capital
  - i the cost of equity (CAPM and dividend growth model)
  - ii the cost of debt
  - iii the weighted average cost of capital (WACC)
  - iv the impact of varying capital structures on the cost of capital.
- b Interest rate and foreign exchange risk
  - i the identification of interest rate and foreign exchange exposure
  - ii yield curves and their significance to financial managers
  - iii hedging risk using forwards, futures, options, swaps, FRAs and other products
  - iv the scope and benefit of financial engineering.

### 4 Investment decisions

- a Decision making techniques
  - i detailed knowledge of discounted cash flow(NPV)

- ii adjusted NPV (APV)
  - iii portfolio theory and CAPM and their value to managers
  - iv options embedded in investments (basic knowledge only).
- b Expansion strategies
- i organic growth, mergers and acquisitions
  - ii valuations for mergers and acquisitions
  - iii takeover and defence strategies
  - iv planning for post-merger success and audit.
- c Corporate reorganisation
- i divestments
  - ii buy-outs and buy-ins
  - iii corporate restructuring
  - iv going private
  - v share repurchases.

### 5 Treasury management and financial forecasting

- a Methods of financing short and long term investment, including mergers and acquisitions.
- b The role of cash flow forecasting in business planning
  - i development and analysis of short-term financial plans.
- c Role of treasury function
  - i activities of treasury managers
  - ii centralised versus decentralised treasury functions.
- d Dividend policy
  - i influences on dividend policy
  - ii the effect of dividends upon company value.

## Strategic Financial Management (Continued)

### 6 The global economic environment

- a International factors affecting business developments
  - i trends in global competition
  - ii the role of multinational companies in the world economy
  - iii free trade, protectionism, trade agreements, common markets
  - iv role of World Bank and International Monetary Fund(IMF) and other international organisations
  - v economic relations between developed and developing countries including problems of debt and development
  - vi introduction of a single currency.
- b Exchange rate determination
  - i influences on exchange rates
  - ii models of exchange rate determination
  - iii different forms of exchange rate system.

### 7 Global financial management

- a Appraisal of overseas investment decisions
  - i alternative forms of foreign investment
  - ii the impact of overseas taxation (basic principles only)
  - iii overseas cost of capital and capital structure
  - iv forecasting future exchange rates
  - v political risk.

- b Raising capital overseas
  - i international capital markets including the Euromarkets
  - ii overseas domestic capital markets
  - iii international banking.
- c Managing financial resources within a multinational group
  - i financial control within a group of companies
  - ii international cash management
  - iii international transfer pricing
  - iv performance measurement and evaluation.
- d Management of international trade
  - i the management of the risks of international trade
  - ii the finance of international trade.

### 8 Ethical considerations

- a Ethics and business conduct, including international ethical considerations.

### EXCLUDED TOPICS

The syllabus content outlines the areas for assessment. No areas of knowledge are specifically excluded from the syllabus.

### KEY AREAS OF THE SYLLABUS

The key topic areas are as follows:

- investment decisions
- risk analysis
- global financial management
- treasury management
- financial forecasting.

### APPROACH TO EXAMINING THE SYLLABUS

The examination is a three hour paper comprising a mix of computational and discursive elements. The core questions will normally be in the form of a case study or case scenario.

Key areas of the syllabus will always be tested in the compulsory questions, and may be tested in the elective questions.

	Number of marks
Section A: 2 compulsory questions	70
Section B: Choice of 2 from 4 questions (15 marks each)	<u>30</u>
	<u>100</u>

### ADDITIONAL INFORMATION

The Study Guide provides more detailed guidance on the syllabus.

### RELEVANT TEXTS

There are a number of sources from which you can obtain a series of materials written for the ACCA examinations. These are listed below:

#### Foulks Lynch – ACCA's official publisher

Contact number: +44 (0)20 8831 9990.

Website: [www.foulkslynch.com](http://www.foulkslynch.com)

#### ATC International

Contact number: +44 (0)141 880 6469.

Website: [www.ptc-global.com](http://www.ptc-global.com)

#### BPP

Contact number: +44 (0)20 8740 2211.

Website: [www.bpp.com](http://www.bpp.com)

## Strategic Financial Management (Continued)

### **The Financial Training Company**

Contact number: +44 (0)20 7407 5000.

Website: [www.acca-ftc.com](http://www.acca-ftc.com)

Candidates may also find the following general texts useful:

R H Pike, C W Neale **Corporate Finance and Investment** Prentice Hall  
ISBN 0130812706

For international aspects of the syllabus:  
I Demirag, S Goddard **Financial Management for International Business**  
McGraw Hill ISBN 0077078691

Students wishing to broaden their understanding of Paper 3.7 are recommended to consider:

J Stern, D Chew (eds) **The Revolution in Corporate Finance** Blackwell  
ISBN 0631185542.

Wider reading is also desirable, especially regular study of relevant articles in ACCA's *student accountant*.

### **STUDY GUIDE**

1–2

#### **OBJECTIVES OF ORGANISATIONS**

##### **Syllabus reference 1a, b, c**

- Identify the possible aims and objectives of organisations, both profit seeking and non-profit seeking.
- Discuss the impact of alternative objectives for business planning.
- Identify key stakeholders of organisations including shareholders, lenders, directors, employees, customers, suppliers and the government and the importance of each group of stakeholders to organisations.
- Be aware of different environmental issues that may influence corporate objectives and governance.

#### **CONFLICTS OF INTEREST AND THEIR RESOLUTION**

##### **Syllabus reference 1d**

- Describe the goals of different interest groups.
- Identify directors' powers and behaviour, including the significance of creative accounting, off-balance sheet finance and the influence of the threat of take-over.
- Understand the principles of agency theory and their contribution to the debate on governance.
- Understand the potential for conflict between owners, directors, managers and other interest groups.

- Discuss the meaning of goal congruence, and understand how it might be achieved through the use of alternative reward systems including share option schemes and profit related pay.

#### **CORPORATE GOVERNANCE**

##### **Syllabus reference 1e**

- Understand the significance of changing share ownership patterns for the company.
- Define the meaning of corporate governance from an UK perspective and briefly contrast between UK practices and those of other countries especially the USA, Continental Europe and the Far East.
- Understand the debate regarding corporate governance, including developments from the Cadbury, Greenbury and Hampel reports.

#### **THE IMPLICATIONS OF CORPORATE GOVERNANCE FOR ORGANISATIONS**

##### **Syllabus reference 1f**

- Identify the role of auditors, audit committees, remuneration committees, non-executive directors etc. in corporate governance.
- Discuss the role of non-executive directors, administrators etc. with respect to the organisation.
- Discuss the possible effects of corporate governance on corporate financial strategy.

## Strategic Financial Management (Continued)

3–4

### STRATEGY FORMULATION

#### Syllabus reference 2a

- Understand how business plans are developed and analysed to meet specified objectives.
- Analyse past, current and expected future performance of the organisation through ratios and other techniques to provide relevant information for business planning.
- Compare actual and expected performance, highlighting areas for further investigation.
- Understand the relationship between short-term and long-term financial planning, and the potential conflict between short-term and long-term objectives.

### EXPANSION AND MARKET

#### MAINTENANCE STRATEGIES

- Describe alternative strategies for long-term growth, organic growth versus external growth, and the key dimensions of strategy that need to be addressed if a business is considering organic growth and/or the maintenance of market share.
- Describe top down versus bottom up planning systems.
- Understand the use of budgets to influence the success of financial planning.
- Discuss the relationship of investment decisions to long-term planning.
- Review the nature of financial control. The three levels of control: strategic, tactical and operational.

5–6

### THE VALUATION OF SECURITIES

- Understand models for the valuation of shares, including dividend growth models, earnings growth models, Shareholder Value Added (SVA), Economic Value Added (EVA), and Market Value Added (MVA) and use such models to estimate value from given information.
- Be aware of the theoretical and practical limitations of such models.
- Discuss the relevance of accounting information to share valuation.
- Be aware of practical influences on share price, including reasons why share prices differ from their theoretical values, including the evidence for market efficiency.
- Understand and apply models for the valuation of debt and other securities.
- Understand the meaning of free cash flow and estimate the relevant free cash flow for use in financial planning and valuing companies.

7–8

### INVESTMENT DECISIONS

- Revise NPV analysis, including the identification of relevant cash flows, and the impact of price level changes and taxation.
- Understand the significance of market efficiency to financial decision-making based upon NPV.

### PORTFOLIO THEORY

#### Syllabus reference 4a(iii)

- Understand the benefits of portfolio diversification.
- Estimate the risk and return of portfolios.
- Understand the meaning of mean-variance efficiency for two asset portfolios and portfolios of many assets, efficient portfolios and the efficient frontier.
- Understand the concept of utility and its importance to portfolio selection.
- Explain portfolio selection when both risky and risk free assets are available.
- Discuss the nature and significance of the Capital Market Line.
- Discuss the relevance of portfolio theory to practical financial management.
- Discuss the limitations of portfolio theory.

### 9 THE CAPITAL ASSET PRICING MODEL

#### Syllabus reference 4a(iii)

- Understand the meaning and significance of systematic and unsystematic risk.
- Discuss the Security Market Line.
- Understand what is meant by alpha and beta factors, their interpretation and how they are calculated.
- Discuss the problems of using historic data as the basis for future decision-making, and evidence of the stability of beta over time.
- Describe the assumptions of CAPM.
- Understand the uses of the model in financial management.

## Strategic Financial Management (Continued)

- Discuss the limitations of the model, including some of the instances when it does not perform as expected, (e.g. low beta investments, low PE investments, day of week effects etc.)

### 10 THE COST OF CAPITAL

#### Syllabus reference 3a

- Estimate the cost of equity, using the CAPM and dividend valuation models.
- Estimate the cost of debt, for both redeemable and irredeemable debt.
- Understand the weighted average cost of capital of a company, and how it is estimated.
- Discuss the theories of Modigliani and Miller including their assumptions, and the value and limitations of their theories.
- Evaluate the impact of varying capital structures on the cost of capital.
- Estimate the cost of capital for individual investments and divisions, including use of the 'pure play' method with ungearing and regearing beta.
- Discuss the relevance of the cost of capital for unlisted companies and public sector organisations.
- Explain the practical problems of estimating an appropriate discount rate, and understand the margin of error that is involved in cost of capital estimates.

### 11 ADJUSTED PRESENT VALUE

#### Syllabus reference 4a (ii)

- Understand the interaction of investment and financing decisions
- Understand the adjusted present value technique of investment appraisal including how to estimate the base case NPV and the financing side effects of an investment.
- Discuss the practical problems of using the APV technique.
- Discuss alternatives to the capital asset pricing model, including the Arbitrage Pricing Theory. (N.B. detailed knowledge is not required)

#### OPTIONS EMBEDDED IN INVESTMENTS

#### Syllabus reference 4a(iv)

- Understand the types of option that might be embedded in a capital investment decision, and the limitations of NPV analysis in valuing such options.

### 12 MERGERS AND ACQUISITIONS

#### Syllabus reference 4b

- Understand the arguments for and against mergers and acquisitions.
- Contrast merger and acquisition activity in the UK and USA with activity in continental Europe and Japan, and discuss the implications of the differences that exist.
- Describe the alternative strategies and tactics of mergers and acquisitions.

- Discuss how possible acquisition targets may be identified using financial or other information.
- Estimate the value of potential target companies.
- Distinguish between the various methods of financing mergers and acquisitions – cash, debt, equity and hybrids – and assess the attractiveness of different financing alternatives to vendors.
- Evaluate the various defences against take-overs, and be aware of any restrictions on their use as specified by the City Code.
- Identify key issues that influence the success of acquisitions, and recommend appropriate actions for a given situation.
- Understand the importance of post-audit and monitoring of post-acquisition success.

### 13–14

#### CORPORATE REORGANISATION

#### Syllabus reference 4c

##### Divestments

- Describe the nature of, and reasons for, divestments.
- Describe 'unbundling' and 'de-merging' of quoted companies.
- Evaluate, using given information, whether or not divestment is likely to be beneficial.

## Strategic Financial Management (Continued)

### Management buy-outs and buy-ins

- Discuss the advantages of buy-outs, and understand the issues that a management team should address when preparing a buy-out proposal.
- Identify situations in which a management buy-out is likely to offer the best value for a disposer.
- Evaluate alternative sources of finance for buy-outs.
- Assess the viability of buy-outs from the viewpoint of both the buy-out team and the financial backers.
- Identify the advantages and disadvantages of management buy-ins.

### CAPITAL RECONSTRUCTION SCHEMES

#### Syllabus reference 4c(iii)

- Identify and justify when a capital reconstruction may be required or appropriate.
- Be aware of the importance of taking into account the interests of the various suppliers of capital in a reconstruction situation.
- Formulate a feasible reconstruction from given information.

### GOING PRIVATE

#### Syllabus reference 4c(iv)

- Understand the arguments for and against a quoted company going private

### SHARE REPURCHASES

#### Syllabus reference 4c(v)

- Be aware of the regulations regarding share repurchases

- Understand the possible effect of share repurchases on share price
- Practise a detailed investment appraisal question or mini-case.

### 15 INTEREST RATE AND FOREIGN

#### EXCHANGE RISK

##### Syllabus reference 3b

- Be aware of recent international volatility of interest rates and exchange rates.
- Describe the main instruments that are available to help manage the volatility of such rates.
- Identify the interest rate and foreign exchange exposure faced by an organisation.
- Explain the meaning of the term structure of interest rates, including the forms of the yield curve and the expectations, liquidity preference and market segmentation theories.
- Understand the significance of yield curves to financial managers.
- Explain the workings of the foreign exchange markets, types of quotation, spot and forward rates.
- Discuss the types of currency risk-transaction, translation and economic exposure, and their importance to companies.

### 16–18

#### HEDGING RISK

##### Syllabus reference 3b(iii)

- Evaluate alternative strategies that companies might adopt with respect to interest rate and currency exposure.
- Discuss and evaluate traditional methods of currency risk management, including currency of invoice, leading and lagging, netting, matching, and internal asset and liability management.
- Evaluate hedging strategies using forward foreign exchange contracts.

#### FUTURES MARKETS AND CONTRACTS

- Explain the nature of futures contracts.
- Discuss the use of margin requirements and the functions of futures Clearing Houses.
- Explain how price movements are recognised within futures markets.
- Describe the major interest rate futures (short-term and long-term) and currency futures contracts.
- Understand and estimate basis and basis risk.
- Evaluate hedging strategies with both interest rate and currency futures using given information.
- Contrast the use of futures with forward contracts, FRAs etc.

#### OPTIONS

- Describe the main features of options including puts and calls, the exercise price, American and European options, in and out of the money.

## Strategic Financial Management (Continued)

- Differentiate between traded options and over-the-counter (OTC) options.
- Discuss the determinants of option prices, including the Black-Scholes model and its limitations.
- Use the Black-Scholes model to price basic call and put options, including put-call parity.
- Explain the nature of the 'Greeks': delta, gamma, vega, theta and rho and their significance to hedging using options.
- Undertake a basic delta hedge.
- Explain the advantages and disadvantages of options compared to futures.
- Describe the various types of interest rate options, including short-term options, caps, collars and floors, and the nature of currency options.
- Be aware of the nature and benefits of low cost or zero cost options.
- Evaluate alternative hedging scenarios using interest rate and currency options.

### SWAPS

- Describe nature of interest rate and currency swaps.
- Understand the value of swaps to the corporate treasurer.
- Understand the role of banks in swap activity.
- Describe the various types of risk that are associated with swaps.
- Evaluate hedging scenarios using swaps and swaptions.

### FORWARD RATE AGREEMENTS (FRAS)

- Understand the nature of FRAs and how their prices are quoted.
- Evaluate an interest hedge using FRAs

### FINANCIAL ENGINEERING

#### Syllabus reference 3b(iv)

- Understand how various derivative products may be combined to financially engineer products suitable for risk management (basic knowledge only).
- Describe hybrid forms of instruments such as swaptions.

### 19 TREASURY MANAGEMENT AND FINANCIAL FORECASTING

#### Syllabus reference 5a, b

##### Short-term financial planning

- Understand the information needs of short-term financial planning and how short-term financial plans might be developed.
- Generate a short-term financial plan from given information.
- Explain how budgeting, monitoring and controlling cash flows, including pricing, repaying debt etc. may be used to meet short and medium term financial objectives.
- Discuss the methods of financing short-term and long-term investment including temporary financing for mergers and acquisitions 5a

### 20 ROLE OF THE TREASURY FUNCTION

#### Syllabus reference 5c

- Understand the key activities undertaken by treasury managers
- Understand the arguments for and against centralised treasury management

### CORPORATE DIVIDEND POLICY

#### Syllabus reference 5d

- Describe the practical influences on dividend policy, including the possible effects of both corporate and personal taxation.
- Discuss the role of dividends as signals of future prospects.
- Discuss the alternative arguments with respect to the effect of dividend policy on share prices.

### 21 THE GLOBAL ECONOMIC ENVIRONMENT

#### Syllabus reference 6a(i), 6a(ii)

Multinational companies and trends in global competition.

- Understand the nature, size and significance of multinational companies in the world economy.
- Discuss the influence of exchange rates, international capital markets and changes in global competition patterns on the strategies of multinational companies, with particular reference to the EU, USA and other major countries.

## Strategic Financial Management (Continued)

### INTERNATIONAL TRADE AND PROTECTIONISM

#### Syllabus reference 6a(iii)

- Understand the theory and practice of free trade, and the problems of protectionism, through tariff and non-tariff barriers.
- Describe the major trade agreements and common markets (the European Union, ASEAN, North American Free Trade Area etc.)
- Understand the nature and significance of the balance of payments and the possible effects of national balance of payments problems on the financial decisions of companies.
- Explain the objectives and function of the World Trade Organisation (WTO).

#### Self study

Most of these items, especially where descriptions of the institutional framework is concerned, could be undertaken by self-study.

### 22 THE INTERNATIONAL FINANCIAL SYSTEM

#### Syllabus reference 6a(iv), (v)

- Understand the role of the major international financial institutions, including the IMF, The Bank for International Settlements and the International Bank for Reconstruction and Development (The World Bank)

- Understand economic relations between developed and developing countries, including the nature of the 'Global Debt' problem and its effects on relations between developed and developing countries.
- Be aware of the role of international financial markets and institutions in the global debt problem, and the effect of the problem on multinational companies and international banks.
- Be aware of the methods that have been suggested for dealing with the problem.

### EXCHANGE RATE DETERMINATION

#### Syllabus reference 6c

- Be aware of the major influences, economic and otherwise, on exchange rates.
- Discuss the relationship between foreign exchange rates and interest rates in different countries.
- Explain the meaning and significance of the purchasing power parity theory.
- Discuss whether exchange rates may be successfully forecast using modelling or other techniques.
- Describe the major developments in exchange rate systems since Bretton Woods, including the introduction of a single currency in the European Union

- Be aware of the different types of exchange rate system that exist (e.g. fixed, floating, crawling peg, currency bloc) and the influence of different exchange rate systems on exchange rates.
- Understand the meaning and significance of financial contagion with respect to exchange rate movements.

### 23–24

### APPRAISAL OF OVERSEAS INVESTMENT DECISIONS

#### Syllabus reference 7a

#### International operations

- Describe the forms of entity that are available for international operations, including the relative merits of branch, subsidiary, joint venture, and licensing.
- Describe the factors that might influence the strategic plans of multinational companies.
- Be aware of the barriers to market entry and exit.
- Understand how multinationals might achieve and maintain competitive advantage.

#### Foreign direct investment

- Discuss the additional complexities of foreign direct investment.

#### International capital budgeting

- Estimate the international cost of capital for an organisation, using the CAPM.
- Discuss how adjusted present value (APV) might be used in international investment appraisal.

## Strategic Financial Management (Continued)

- Discuss the impact of blocked funds and restrictions on the remittance of funds to the parent company, and the use of royalties, management charges etc. to avoid restrictions on remittances
- Illustrate the effect of taxation on international investment, including the possibility of double taxation.
- Discuss the nature and possible use of tax havens in international tax planning

The international capital structure decision.

- Discuss the factors that influence the type of finance used in international operations.
- Describe the strategic implications of international financing, with respect both to the type of finance used, and the currency in which the financing is denominated.
- Undertake a detailed appraisal of an international capital investment proposal using given information. This could be either by organic growth or acquisition.

Political risk

- Discuss the possible forms and implications of political risk and its importance to the investment decision process.
- Discuss how a company might forecast and attempt to manage political risk.

### 25 RAISING CAPITAL OVERSEAS

#### Syllabus reference 7b

International capital markets

- Describe the nature and development of the Euromarkets, including the Eurocurrency, Eurobond and Euroequity markets.

- Explain the types of financing instruments that are available to corporate treasurers on the Euromarkets, for both borrowing and financial investment.
- Understand the role of domestic capital markets, especially stock exchanges, in financing the activities of multinational companies.

International banking

- Understand the workings of international money markets.
- Outline the major factors affecting the development of international banking.
- Understand the role of international banks in international finance, including international bank lending through syndication and multi-option facilities and other means.

### 26 FINANCIAL CONTROL WITHIN A MULTINATIONAL GROUP OF COMPANIES

#### Syllabus reference 7c(i)

- Discuss the merits of defining the treasury as a cost centre or profit centre.
- Discuss the arguments for the centralisation versus decentralisation of international treasury activities.

#### INTERNATIONAL CASH MANAGEMENT

##### Syllabus reference 7c(ii)

- Describe the main forms of international cash transfer mechanisms.

- Describe the short-term investment opportunities that exist in international money markets and in international marketable securities.
- Discuss the benefits of centralised depositories and international holding companies.
- Discuss and evaluate how multilateral netting might be of benefit to multinationals.

#### INTERNATIONAL TRANSFER PRICING

##### Syllabus reference 7c(iii)

- Explain the importance of transfer pricing to multinational companies.
- Understand the legal regulations affecting transfer pricing, particularly with respect to the attitude of tax authorities.
- Discuss the use of tax havens to try to maximise the benefits of transfer pricing.
- Explain the potential adverse motivational effects of transfer pricing on individual subsidiaries or divisions.

#### PERFORMANCE MEASUREMENT

##### Syllabus reference 7c(iv)

- Describe the guidelines appropriate to the regular financial reports required from overseas operations.
- Evaluate the performance of all or part of an international group of companies using ratio and other forms of analysis.

## Strategic Financial Management (Continued)

**27-28**

### **THE MANAGEMENT OF INTERNATIONAL TRADE**

**Syllabus reference 7d**

- Advise clients on the alternative methods of exporting and importing.
- Understand the risks of foreign trade, currency, credit/commercial, political, physical and cultural.
- Explain the advantages and disadvantages of using documentary letters of credit, bills of exchange, acceptances etc. in foreign trade.
- Describe the insurance that is available to protect against the risks of foreign trade.
- Describe and evaluate the sources of finance for foreign trade, including forfeiting and international factoring.
- Describe the main features of countertrade, and various alternatives that exist for foreign trade deals other than for monetary payments.

### **ETHICS AND BUSINESS CONDUCT**

**Syllabus reference 8**

- Be aware of the major ethical issues affecting the conduct of business both domestically and internationally.