ACT LEADING TREASURY PROFESSIONALS

BUILDING FUTURES

DIPLOMA

in Treasury Management

SYLLABUS

DIPLOMA
in Treasury Management

The Association of Corporate Treasurers (ACT) is the leading global professional body for treasurers. The ACT offers internationally recognised benchmark qualifications for individuals who operate within the treasury function and those with treasury responsibilities in their roles.

"It is suitable for anyone working in or with treasury at a managerial or senior operational level."

The Diploma in Treasury Management provides a detailed insight into managing treasury activities and the treasury function. It will give you a wide range of managerial, technical and behavioural skills to prepare you for the role of treasurer. The core units provide tools to enable you to support the business when making investment decisions and to manage the financial risks that arise in the course of business. The optional units provide the opportunity to specialise in an area of particular relevance to you or your organisation.

The Diploma in Treasury Management consists of three core units and two optional units:

- **Unit one:** **Corporate finance for treasury**
- **Unit two:** **Risk management for treasury**
- **Unit three:** **The treasury manager**
- **Unit four A:** **Financial reporting, tax and regulation for treasury** (optional unit)
- **Unit four B:** **Working capital and trade finance** (optional unit)

You must successfully complete the three core units and one optional unit to complete the Diploma.

The course is supported by online study resources. Each unit will take you approximately 150 hours of study time to complete, with 600 hours study required to complete the whole Diploma. We estimate you should be able to complete the course in 12 to 18 months alongside your full-time work.

You can study for these qualifications through the ACT or one of its approved tuition providers. Successful completion of the course leads to the award of the Diploma in Treasury Management.

Further information about all our qualifications can be found at **treasurers.org/qualifications**

Entry criteria

The entry requirements for this qualification are as follows:

- ACT Certificate in Treasury; or
- Accredited degree where the ACT Certificate in Treasury is embedded as part of the degree programme; graduation within previous 5 years and three years' experience in suitable treasury role(s)

Assessment

The assessment for the Diploma in Treasury Management is via a combination of assignments and examinations.

You will be provided with information and instructions on the assessment for each unit at the time of booking with the ACT.

Glossary of qualification terms

To assist you in your understanding of the qualifications, the ACT has defined the following terms:

A-Z GLOSSARY OF QUALIFICATION TERMS

Award	For the purpose of this qualification, upon passing your assessments, you will be awarded the Diploma in Treasury Management. The award is therefore the outcome of your studies and assessments and represents your achievement.
Unit	A unit represents a segment of learning within the Diploma in Treasury Management. Each individual unit has its own rationale, introduction and content. Each unit also has a number of learning outcomes and supporting indicative content.
Overarching learning outcomes	The learning outcomes within a unit lay down the expectations of the learner and define the level of knowledge and understanding required in order to be fully prepared to take the ACT assessment.
Learning outcomes	These appear within each of the sections in the units and, like the overarching learning outcomes, act as the basis to determine knowledge and understanding which shape your learning and assessment.
Indicative content	The indicative content is an indication of the knowledge required in order to fulfil the assessment requirements and achieve the learning outcomes and details the level of technical content of the programme.
Weightings	The weighting indicates the proportion of input and learning required by students. All units in the Diploma in Treasury Management are equally weighted. Therefore, for the purpose of the Diploma in Treasury Management, your study time should be equally spread across the four units.

CORPORATE FINANCE FOR TREASURY

Unit one

- Rationale for unit one
- Introduction to unit one
- Overarching learning outcomes
- Unit one content

? RATIONALE FOR UNIT ONE

Effective corporate financial management is a key component of the long term survival of any organisation.

A clear understanding of the operational objectives of the organisation enables sustainable growth in shareholders' returns to be delivered. Treasury must ensure that it becomes an integral element in financial decision-making, particularly in major transactions, so that optimal financing solutions can be identified and implemented in delivery of these objectives.

Therefore, from a treasury perspective, the treasurer must understand the organisation's corporate objectives and risk appetite in order to establish the funding requirements of the organisation, recommend sources of finance to fund all of the company's activities and optimise capital structure whilst meeting corporate objectives.

INTRODUCTION TO UNIT ONE

The unit begins by setting the context in which corporate finance strategy is developed, providing an introduction to concepts such as expected shareholder returns and the funding decisions that must be taken in response to the risk appetite of the organisation. It then explores corporate finance theory and the cost of capital before moving on to an analysis of both equity and debt as sources for finance for the organisation. The unit then turns to project appraisal and consideration of some of the more advanced business evaluation techniques, and concludes with a discussion of what corporate finance means for treasury in practice and the role that treasury should play in the management of capital structure.

OVERARCHING LEARNING OUTCOMES

On completing unit one you will be able to:

1. Evaluate how shareholder value is integral to the development of appropriate corporate finance strategy.
2. Apply corporate finance theory to the identification and implementation of a capital structure that will meet the organisation's objectives.
3. Implement strategy to manage expectations of equity investors.
4. Critically assess a range of debt funding sources, in order to support the objectives of the organisation.
5. Utilise the appropriate valuation and project appraisal model to aid decision making and the ongoing management of projects, acquisitions and disposals.
6. Recommend an appropriate treasury structure, which will support the achievement of the organisation's corporate finance objectives, whilst ensuring relationships with key stakeholders are effectively managed.

All six sections carry equal weighting

1 INTRODUCTION TO THE CORPORATE FINANCE WORLD

1.1 Corporate objectives and corporate financial management

LO1 ▸ Evaluate how corporate objectives are integral to the development of corporate finance strategy in order to deliver sustainable shareholder value.

Indicative content which outlines the scope of learning expected:

- Corporate objectives including market share, size and revenue
- The risk/return dynamic
- Expected shareholder returns
- Corporate social responsibility
- Integration of the corporate finance function within the organisation

1.2. Growing shareholder value

LO2 ▸ Discuss measures of shareholder value in order to optimise the sustainable long-term wealth of equity investors.

Indicative content which outlines the scope of learning expected:

- Earnings based management
- Measuring shareholder value creation, destruction and total shareholder returns
- Shareholder value analysis, economic profit, economic value added and other measures
- Efficient market hypothesis

1.3. Governance and ethics

LO3 ▸ Recommend treasury policies, processes and procedures in the corporate finance context in order to protect the organisation from fraudulent or unethical activities.

Indicative content which outlines the scope of learning expected:

- The agency problem
- Access to financial statements and relevant business information for internal and external stakeholders
- Codes of conduct including internal codes: the UK Code and Sarbanes-Oxley
- Avoidance of activities that mislead investors: improper or fraudulent
- The relevance of internal training, auditing and monitoring practices

1.4. Establishing the long term funding requirements of a business (how much money do we need)

LO4 ▸ Critically assess the funding requirements of the business over the longer term in order to identify optimum capital structure.

Indicative content which outlines the scope of learning expected:

- Funding implications of the organisation's operations and business sector
- Funding corporate strategy, including putting in place funds for expansion and acquisition
- Strategic planning: medium and longer term cash flow forecasting
- Maturity profile of funding, and managing refinancing risk

2 THE CAPITAL STRUCTURE – THEORY AND PRACTICE

2.1. Capital structure - theory and practice

LO5 ▸ Devise an appropriate capital structure to deliver a balance of risk and return in accordance with the organisation's risk appetite.

Indicative content which outlines the scope of learning expected:

- Traditional view of optimal capital structure and WACC
- Modigliani and Miller without tax
- Modigliani and Miller with tax
- Use of multiples and accounting measures for gearing
- Financial distress: agency cost, financial slack and finite tax capacity
- Pecking order theory
- Other practical considerations that apply to optimal capital structure, including market conditions and regulations
- Decision to target WACC or rating

2.2. The cost of capital - theory

LO6 ▸ Evaluate the costs of different sources of capital in order to calculate the optimal capital structure.

Indicative content which outlines the scope of learning expected:

- Capital asset pricing model and its limitations
- Alternative techniques for establishing the cost of equity: the Gordon growth model
- Establishing the cost of debt for a range of debt instruments and tax relief
- Warrants
- Geared and ungeared betas
- Application in a range of organisations: private companies, SMEs and private equity

2.3. Weighted average cost of capital in practice

LO7 ▸ Critique the drivers of an organisation's weighted average cost of capital under a variety of practical economic conditions in order to identify which measures are most appropriate in differing circumstances.

Indicative content which outlines the scope of learning expected:

- The Weighted Average Cost of Capital (WACC)
- Tax shields
- Practical considerations when calculating the WACC: cash on the balance sheet
- Market versus book values
- Changing WACC with changes in gearing: private equity and tech companies
- Multinational WACC

2.4. The relevance of credit ratings

LO8 ▸ Analyse the costs and benefits of acquiring and managing a credit rating in order to broaden the organisation's access to capital and reduce its cost.

Indicative content which outlines the scope of learning expected:

- Ratings are universal and can be explicit (public/official) or implicit (private/unofficial)
- Credit spreads
- Relevance, importance and implications of gaining a formal credit rating
- Rating agencies and grades
- Investment and non-investment grades
- Developing relationships with rating agencies
- The ratings process including the appointment of a rating agency
- The ratings methodology and ratings grids

3 EQUITY FUNDING IN PRACTICE

3.1. Equity funding

LO9 ▸ Evaluate the use of equity as a source of long-term funding for the organisation.

Indicative content which outlines the scope of learning expected:

- Equity markets, including the functions of stock exchanges, and trading conventions
- Market participants including FTSE equivalents, private equity and SMEs
- Share capital including authorised and allotted share capital and classes of share capital
- Rights and other equity issues, such as placing and IPO
- Implications of the efficient market hypothesis for equity funding

3.2. Managing equity

LO10 ▸ Appraise how the organisation manages equity investors in order to recommend how the expectations of its shareholders can be managed.

Indicative content which outlines the scope of learning expected:

- Total Shareholder Returns (TSR) recap
- Dividend policy and managing shareholder expectations
- Dividend irrelevance theory, signalling and clientele
- Special dividends and scrip issues
- Share buy backs
- Investor relations
- Legal and regulatory considerations

4 DEBT FUNDING IN PRACTICE

4.1 Sources of debt funding

LO11 ▸ Evaluate the use of debt as a source of long term funding for the business.

Indicative content which outlines the scope of learning expected:

- Domestic versus international sources of funds
- Bank lending, including committed and uncommitted facilities
- Bond issuance on debt capital markets
- Medium term notes
- Commercial paper
- Private placements
- Alternative bonds including retail bonds

4.2. Other funding sources

LO12 ▸ Evaluate the use of other funding sources to provide long term funding for the business.

Indicative content which outlines the scope of learning expected:

- Trade and supply chain finance, including international trade finance solutions such as documentary credits and export credit agencies
- Project finance, asset backed finance and leasing
- Islamic financing
- Hybrid capital defined

4.3. Managing debt

LO13 ▸ Recommend how debt should be managed to ensure the organisation's funding policy and stakeholder requirements are met.

Indicative content which outlines the scope of learning expected:

- Investor communication
- Effective bank relationship management
- Covenant calculations, headroom and events of default
- Sensitivity analysis
- Funding characteristics, including currency and fixed versus floating
- Impact of current market and economic conditions on the organisation's funding strategy

5 TECHNIQUES IN PROJECT APPRAISAL AND BUSINESS EVALUATION

5.1 Project appraisal techniques

LO14 ▸ Critically appraise a project by selecting and using appropriate evaluation models.

Indicative content which outlines the scope of learning expected:

- The investment process
- Discounted cash flow
- Other investment appraisal techniques: internal rate of return, profitability index, Payback period, Return On Capital Employed and Economic Value Added
- The importance of real versus nominal flows and taxation
- Applications of project appraisal including replacement decisions
- Real options: definition and key considerations in valuation

5.2. Business evaluation

LO15 ▸ Produce a comparative analysis of financial information so that treasury is able to make informed decisions about the financial performance of a business.

Indicative content which outlines the scope of learning expected:

- Financial reports, including those required under international financial reporting standards
- Uses of published accounts and their shortcomings
- Ratio analysis: performance, liquidity, solvency and shareholder measures
- Financial profiling including profitability, capital expenditure and cash flow analysis
- Dynamic and comparative analysis

5.3. Valuing a business

LO16 ▸ Select from a range of decision making tools in order to reach a recommended valuation for a transaction.

Indicative content which outlines the scope of learning expected:

- Why we value a business: merger, acquisition, divestment, own business or potential target
- Cash flow valuation
- Dividend valuation models
- Valuation using multiples
- Valuation using net asset values
- Sum of the parts
- Synergies, negative synergies and unbundling synergies
- Why most acquisitions are over-priced

6 WHAT DOES CORPORATE FINANCE MEAN FOR TREASURY IN PRACTICE?

6.1 Building a treasury structure

LO17 ▸ Recommend appropriate treasury structures in order to deliver the organisation's objectives.

Indicative content which outlines the scope of learning expected:

- The role of treasury in corporate finance
- Factors which determine treasury structure
- Cost centre, cost saving and profit centre
- Centralised and decentralised structures

6.2. Participating in the corporate finance process

LO18 ▸ Outline the management skills required when collaborating with others to ensure effective participation in the financial decision making processes.

Indicative content which outlines the scope of learning expected:

- Developing strong relationships with a range of internal and external stakeholders, including the board, business units, debt and equity investors, auditors and rating agencies
- Relationship management skills including influencing stakeholders
- Teamwork and collaboration
- Personal skills and traits including motivation, attention to detail, commercial acumen and openness to change
- Monitoring market developments for best practice and commercial opportunities
- Company and treasury specific ethical codes such as the ACT's Ethical Code

6.3. Corporate finance is a continuous process

LO19 ▸ Evaluate the results of the corporate finance actions in order to implement continuous improvements to the process.

Indicative content which outlines the scope of learning expected:

- Opportunistic funding: market fashion and sentiment
- Feedback loop: benchmarking and reviewing efficiency of funding
- Making funding recommendations to the board
- Investor relations
- Uses for the cash generated by funding activities

RISK MANAGEMENT FOR TREASURY

Unit two

RATIONALE FOR UNIT TWO

The effective management of risk can increase shareholder value and give the organisation a substantial competitive advantage.

However, irrespective of their size, organisations today face an extraordinarily wide range of inter-related risks, and this complexity presents a potentially bewildering challenge for the treasurer.

This unit has been developed to offer a systematic approach to managing uncertainty by identifying, assessing, evaluating, acting on and reporting risks to enable the treasurer to adopt an effective risk management framework appropriate to the financial risks which they encounter.

INTRODUCTION TO UNIT TWO

To manage risk effectively, the company must first understand the risks to which it is exposed and determine its own appetite for risk. Having identified why a risk management policy is important and how the risk appetite of the organisation will influence decision making, the unit follows the structure of a generic risk management framework to explore the ideas of risk identification, evaluation and management.

The unit will provide practical techniques for identifying and assessing the relative importance to the organisation of a range of treasury and other risks. A range of quantitative and qualitative approaches to risk measurement will be covered, in order to enable the systematic evaluation of risks. The unit will then investigate the ways in which risks can be managed. Finally, the unit will analyse how risk is reported, both internally and externally, and how the effectiveness of risk management is reviewed and fed back into the risk management process.

OVERARCHING LEARNING OUTCOMES

On completing unit two you will be able to:

1. Evaluate the key factors which organisations should take into account when establishing a robust and integrated risk management framework.
2. Assess the risks which treasury has responsibility for managing in variable economic, political and commercial environments in order to ensure treasury can put in place appropriate risk management techniques. commercial situations.
3. Appraise various practical techniques for the evaluation of treasury and inter-related risks to identify the materiality of the risks which an organisation faces.
4. Recommend the use of appropriate risk management techniques in managing those risks that have been identified, prioritised and evaluated.
5. Evaluate reporting and governance in the risk management process to ensure the risk appetite and tolerance of the organisation is not exceeded and that the risks which an organisation faces are being appropriately communicated to stakeholders.

1 FORMULATION OF RISK MANAGEMENT POLICY

1.1. Defining risk

LO1 ▸ Analyse the risks faced by an organisation in order to develop an effective and enterprise-wide view of risk.

Indicative content which outlines the scope of learning expected:

- What is risk: threat and opportunity
- Business risk
- Financial market risks including market, liquidity and credit risks
- Operational risks
- Dynamic interaction between risks
- Estimating the timescale of risk impact
- Systematic and unsystematic risk
- Alternative dimensions of risk including transferable, non-transferable, committed and uncommitted risks
- Whose risk is it to manage: shareholder or business

1.2. The risk appetite of the organisation

LO2 ▸ Evaluate the risk appetite of the organisation in order to support the business in developing and implementing appropriate risk management policies.

Indicative content which outlines the scope of learning expected:

- Risk appetite and tolerance
- Risk probability and impact
- Relationship of risk management with Corporate Social Responsibility (CSR): ethics and sustainability
- Aligning risk management to corporate objectives
- The risk management function
- A risk budget

1.3. Risk policy development

LO3 ▸ Critically assess the factors, people and processes involved in the formulation of a robust risk management policy and how these can be monitored and controlled effectively.

Indicative content which outlines the scope of learning expected:

- Risk management and the responsibilities of treasury
- The structure of risk management: oversight across the organisation
- Policy statement and objectives
- The role of corporate governance and regulation in setting policy
- Key Risk Indicators (KRIs), Key Control Indicators (KCIs) and Key Performance Indicators (KPIs) defined
- Policy construction including risk measurement, permitted tools and procedures, decision making, KPIs and continuous improvement
- The importance of reporting and effective communication of risk policy
- Using policies in practice

1.4. Applying a risk management framework

LO4 ▸ Appraise how a risk management framework implemented in treasury can support corporate objectives.

Indicative content which outlines the scope of learning expected:

- The selection of a risk management framework
- Implementing a risk management framework
- Enterprise-wide risk management
- Risk register and high level risk mapping

2 RISK IDENTIFICATION AND ASSESSMENT

2.1. Risk identification in treasury

LO5 ▸ Identify the key risks which are within treasury's competence to manage in order to propose and implement strategies to safeguard stakeholders' wealth.

Indicative content which outlines the scope of learning expected:

- Risk taxonomies and different ways of looking at risk
- Risk identification, including the use of financial statements and forecasts, economic forecasts and competitor analysis
- Risk identification using business models, including market simulation or sensitivity analysis
- The importance of monitoring the world's press and specialist financial sources
- Time horizon of risks
- Liaising with a wide range of internal business units: treasury risks checklist

2.2. Foreign exchange risk identification and assessment

LO6 ▸ Assess the foreign exchange risks which may impact upon business objectives.

Indicative content which outlines the scope of learning expected:

- Types of foreign exchange risk: transaction, economic and translation risk (the risks of ownership v. the risks of trading)
- FX volatility
- Sensitivity of business performance to FX changes
- Impact on key variables such as gearing, net worth, cash balances and earnings
- Covenant breaches and ratings downgrades
- Linkages between FX risk and other financial risks

2.3. Interest rate risk identification and assessment

LO7 ▸ Assess the interest rate risks which may impact upon business objectives.

Indicative content which outlines the scope of learning expected:

- Links between interest rates and business performance
- Impact on net interest expense or income
- Changing market values of assets and liabilities
- Understanding yield curves and volatility

2.4. Liquidity risk identification and assessment

LO8 ▸ Assess the liquidity risks which may impact upon business objectives.

Indicative content which outlines the scope of learning expected:

- Identifying liquidity requirements and the use of forecasts
- Internal sources of liquidity risk:
  - Working capital management as a source of finance
  - Intercompany funding: transfer pricing, thin capitalisation and tax rules
  - Trapped cash and external debt servicing
- External sources of liquidity risk:
  - Market conditions
  - Lender relationship risk

2.5. Identifying and assessing other risks

LO9 ▸ Critically assess other risks to achieving business objectives, including pensions and insurance, in order to make recommendations to manage their impact.

Indicative content which outlines the scope of learning expected:

- Other market risks and commodity risk
- Credit and counterparty risk, including settlement risk, replacement/pre-settlement risk, credit ratings management and monitoring counterparties
- Operational risk
- Pension risk
- Insurance risk
- Political risk
- Reputational risk: compliance, reporting and governance
- Margin risk: risk arising from deterioration in credit strength
- Interrelationships between multiple treasury risks e.g. interest rate and foreign exchange
- Role of treasury in supporting the business in the identification of other key non-treasury risks

3 TECHNIQUES FOR THE EVALUATION OF RISK

3.1. The context for the evaluation of risk

LO10 ‣ Analyse the risks which an organisation faces in order to quantify the probability and impact of adverse changes in the context of risk appetite and risk tolerance.

Indicative content which outlines the scope of learning expected:

- The purpose of risk evaluation
- Key Risk Indicators (KRIs)
- Considerations for risk measurement
- Impact only techniques
- Black swans and uncertainty
- Which criteria to use in evaluation

3.2. Evaluating risk

LO11 ‣ Evaluate risks in order to quantify them and inform the risk response process.

Indicative content which outlines the scope of learning expected:

- Probability versus likelihood
- Expected value
- Refining the risk map
- Refining risk priorities

3.3. Risk measurement techniques

LO12 ‣ Critique the principal techniques available to enable treasury to effectively measure and prioritise the risks which an organisation faces.

Indicative content which outlines the scope of learning expected:

- Benefits and problems of statistical techniques used for risk measurement
- Probabilities, variance, standard deviation, volatility and correlation
- Sensitivity analysis
- Scenario analysis: Value at Risk, Monte Carlo analysis and their limitations
- Duration, convexity, and their limitations
- Modelling complex cash flows: define Cash Flow at Risk (CFAR)
- Application of option pricing techniques to quantify risk

3.4. Other techniques for evaluating risk

LO13 ‣ Recommend alternative techniques for evaluation of risks in order to determine a holistic view of the materiality of such risks.

Indicative content which outlines the scope of learning expected:

- Key performance indicators
- Market based risk measures, including credit default swaps, credit ratings, market prices of debt and equity and the VIX
- Ratio analysis, changes in the cost of capital and covenant implications
- Qualitative techniques of risk evaluation: the importance of professional judgement

4 RISK MANAGEMENT APPROACHES

4.1. Risk responses and policy implications

LO14 ▸ Recommend with justification appropriate responses to risks to ensure that the organisation's risk appetite is not exceeded and that its risk management policy is followed.

Indicative content which outlines the scope of learning expected:

- Decisions about the avoidance, acceptance, reduction or transfer of risks
- Planning the risk response: identify alternatives and cost benefit analysis
- Hedging considerations, including to hedge or not to hedge and internal v. external hedging
- Opportunity costs
- Risk management policy development
- Consequence of actions on overall risk map

4.2. Using outrights for risk management

LO15 ▸ Evaluate outright (fixing) instruments to manage a range of treasury risks to ensure that the organisation's risk appetite is not exceeded and that its risk management policy is followed.

Indicative content which outlines the scope of learning expected:

- Features of Over the Counter (OTC) and Exchange Traded (ExT) fixing instruments
- Forward contracts
- Currency futures
- Cross currency swaps and their evaluation
- Forward rate agreements
- Interest rate futures
- Interest rate swaps, including vanilla swaps, accreting and amortising swaps, basis swaps and swap valuation
- Validating pricing from counterparties
- Regulatory considerations of using fixing instruments including tax

4.3. Using options for risk management

LO16 ▸ Evaluate the use of financial options to manage a range of treasury risks to ensure that the organisation's risk appetite is not exceeded and that its risk management policy is followed.

Indicative content which outlines the scope of learning expected:

- Features and conventions of option markets
- Option pricing principles, mechanics and validation, including the Greeks
- Option structures defined: Swaptions, Collars, Average Rate, American, European
- Regulatory considerations when using option instruments including tax
- Using options for managing foreign exchange, interest rate and commodity risk

4.4. Managing liquidity risk

LO17 ▸ Recommend practical liquidity management strategies that are consistent with the needs and risk appetite of the organisation.

Indicative content which outlines the scope of learning expected:

- Commercial responses: working capital management
- Internal sources and uses of surplus cash: intercompany lending
- Mechanisms for remitting cash across a group, including royalties, dividends and loans
- Reducing the cost of debt financing: minimising borrowings, reducing margin risk and understanding the yield curve
- Money market borrowings and deposits
- Commercial paper, repos and certificates of deposit
- Investment of surplus cash: principles of security, liquidity and yield
- Diversification

4.5. Further considerations when managing risk

LO18 ▸ Assess the key considerations that modify the organisation's response to risk.

Indicative content which outlines the scope of learning expected:

- Commercial responses, including updating price lists and matching currency inflows with outflows
- Adjusting the fixed rate and floating rate debt mix
- Portfolio hedging
- Disaster recovery planning

5 RISK REPORTING AND THE FEEDBACK LOOP

5.1. External risk reporting and international accounting standards

LO19 ▸ Recommend how the external reporting of risk should be structured to meet risk reporting best practice.

Indicative content which outlines the scope of learning expected:

- Identification of key stakeholders
- Communicating with investors
- Qualitative and quantitative measures
- Reporting on risk and risk disclosure
- Risk compliance and audit
- Reporting on the use of financial instruments: IFRS 7
- IAS 39, IFRS 9 and hedge accounting
- The role of external audit

5.2. Internal risk reporting

LO20 ▸ Assess treasury reporting to ensure that the organisation has the information it needs to establish the appropriateness of its risk responses and, as necessary, make recommendations to improve the responses.

Indicative content which outlines the scope of learning expected:

- Aims and frequency of risk reporting
- Responsibilities of the board, business units and individuals
- Reporting at all stages of framework: identify, assess, evaluate, manage and report
- Good practice treasury management reports, including liquidity, market risk exposures, funding and compliance
- Generation of appropriate risk management reports from the treasury management system
- Internal audit role

5.3. The feedback loop

LO21 ▸ Evaluate the effectiveness of the risk management policy in order to recommend changes to the policy and related procedures.

Indicative content which outlines the scope of learning expected:

- Determining the effectiveness of risk management strategies
- Implications of risk management policy on the treasury organisation
- Key Risk Indicators, Key Control Indicators, Key Performance Indicators (KRIs, KCIs, KPIs, and how they can drive the feedback loop
- Recommendations for policy improvements in light of reported outcomes
- Communicating the value added by the treasury department to wider business units
- Enterprise-wide risk management: the relevance of the matrix organisation

THE TREASURY MANAGER

Unit three

- Rationale for unit three
- Introduction to unit three
- Overarching learning outcomes
- Unit three content

RATIONALE FOR UNIT THREE

The purpose of this unit is to explore a treasury management issue in depth and, through the completion of an assignment, demonstrate the managerial level skills you have developed throughout this unit and your other ACT studies.

The choice of topic will be provided for you and drawn from the content of the core Diploma in Treasury Management units.

This unit will therefore allow you not only to analyse a business problem from a technical treasury perspective, but also to develop and apply business and behavioural knowledge acquired from your studies of this unit. As a result you should be able to formulate business wide recommendations and evaluate how they should be implemented.

These business and behavioural skills are critical transferable skills that you can utilise throughout your career, being especially important for those working at senior levels.

INTRODUCTION TO UNIT THREE

The assignment requires you to adopt a structured approach to research a treasury management issue. This will involve analysing technical, business and behavioural issues and then developing practical recommendations which can be implemented in the current economic environment.

It will require the application of the business and behavioural skills found at the managerial level in the ACT's competency framework and the resource guide which supports this unit will signpost you to a variety of resources to support the specific learning outcomes of this unit.

The scenario provided will enable you to demonstrate an appreciation of both treasury and firm-wide issues by applying treasury best practice in a managerial context.

OVERARCHING LEARNING OUTCOMES

On completing unit three you will be able to:

1. Set departmental, team and personal objectives and manage others to implement actionable and measurable plans within the agreed time, budget and quality parameters in order to support the achievement of the organisation's objectives.
2. Manage and control the financial and risk management responsibilities of a treasury department whilst ensuring that internal financial controls are applied in accordance with relevant legislation.
3. Manage staff to collect and analyse data to produce timely reports and recommendations for colleagues and stakeholders, in order to help solve issues, minimise risk and justify strategic decision-making.
4. Demonstrate the added value which an effective treasury team provides to an organisation.
5. Persuade, negotiate and/or convince internal and external stakeholders to support particular ideas or plans to maximise the value of the business, and support others to do likewise, including managing a team to achieve objectives and synthesise conflicting views in order to formulate appropriate strategies.

1 PLANNING AND PROJECTS

1.1. Objective setting

LO1 ▸ Set departmental, project, team and own objectives, which are supported by actionable plans, in order to deliver results that are in line with departmental, project, team and corporate objectives.

- Identification of the organisation's key aims and objectives
- Identification and evaluation of project aims
- SMART objective setting
- The role of treasury in supporting the organisation to meet its objectives
- Treasury department aims
- Practical considerations of treasury objective implementation
- Treasury KPIs
- Treasury policy compliance

1.2. Problem solving

LO2 ▸ Identify, analyse and resolve existing or potential problems in a practical and timely fashion, utilising the available resources in the most efficient and effective way.

- Identifying and analysing existing treasury problems
- Resolving potential problems
- Managing time
- Managing resources, systems and procedures
- Dealing with ambiguity

1.3. Project management

LO3 ▸ Demonstrate how the use of project management techniques can be applied to achieve project objectives through a project team or as the project manager ensuring projects are delivered within the agreed time, budget and quality parameters.

- The need for project management
- Skills needed to successfully lead a project
- Reconciling time, scope, cost and quality
- Project management processes including monitoring, control and managing people
- Change management and managing a dynamic environment
- Establishing robust lines of project communication
- Dealing with a range of parties including internal departments, external consultants and other stakeholders
- Managing conflicting objectives
- Use of project management software
- Project review and appraisal

2 FINANCIAL AND TREASURY MANAGEMENT

2.1. Issues in financial and treasury management

LO4 ▸ Evidence how budgetary and in year monitoring processes can be managed, ensuring that internal financial controls are applied in accordance with relevant legislation, along with wider treasury and corporate finance issues in order to identify and offer solutions to the risks and opportunities that the organisation faces.

- Participate in the budgetary and in-year monitoring processes
- Ensuring internal financial controls are applied in accordance with relevant legislation
- Interest budgets and covenant compliance
- Reporting against benchmarks identified to align with corporate and departmental objectives
- Risk and opportunity scanning
- A risk management framework and links to the project management process
- Strategic issues in corporate financial management including corporate finance, long term funding and investment
- Management consideration in treasury execution including treasury operations, financial products and markets and cash and liquidity management

2.2. Benchmarking

LO5 ▸ Document working practices that that can be applied across treasury and that align with the organisation's corporate policies, including delegation of authorities, board reporting and links to audit.

- Aligning benchmarks and KPIs to a firms objectives
  - Risk management benchmarks and KPIs
  - Treasury control benchmarks and KPIs
- Other KPIs including compliance reporting, speed of response, cash concentration and peer benchmarking
- Measuring treasury performance
  - The development and monitoring of treasury dashboards

3 KNOWLEDGE AND INFORMATION MANAGEMENT

3.1. Knowledge management

LO6 ▸ Formulate an approach to the collection, analysis and translation of data into information that can be selectively disseminated to assist with problem solving and decision making, using knowledge from across the organisation in order to minimise risk and justify decision making.

- Identification of sources of data
- Turning data into information and knowledge
- Production and timely reporting of information
- Managing efficient and robust methodologies for the analysis of data
- The utilisation of appropriate software
- Awareness of data limitations
- Making recommendations

3.2. Application of technology

LO7 ▸ Propose a range of information technology solutions to assist with treasury-related problem solving and decision making in order present and disseminate information to internal and external stakeholders.

- Recommend and implement optimal system solutions
- Configure solutions to mirror policy, procedures and audit requirements
- Establishing appropriate security measures for treasury activities
- Interface between solutions to drive efficiencies: Straight through Processing, automation etc.
- Develop cost-effective interfaces with the business

4 WORKING EFFECTIVELY WITH OTHERS AND INFLUENCING SKILLS

4.1. Leadership and strategic capability

LO8 ▸ Demonstrate and synthesise the key skills a treasury manager needs in order to lead a team and manage treasury operations successfully, thus achieving team objectives in a constructive and resource-efficient manner.

- Managerial principles of managing a team
- Planning, coordinating, controlling and motivating a treasury team to achieve organisation objectives
- Identification and management of staff development and training
- Negotiation skills and conflict management
- Team work and collaboration
- Managing complex issues and reporting upwards
- Knowledge management and information sharing
- Negotiation skills

4.2. Relationship management

LO9 ▸ Evaluate working relationships with internal and external stakeholders to ensure that they are mutually beneficial, namely that they deliver value for the organisation whilst balancing the needs of a diverse range of stakeholders.

- Internal relationship management
- Managing external relationships
- Engaging with consultants and specialists including tax and legal advisors
- Contributing to the management of financial institutions to deliver effective relationships
- Engaging with other stakeholders to ensure their involvement in treasury transactions
- Empathy with stakeholders and peers
- Developing successful working relationships

4.3. People management

LO10 ▸ Demonstrate how to lead a treasury team effectively through the planning, coordination and development of people so that their skills and experience can help treasury meet the needs of the organisation.

- Identifying the team's capability and weaknesses including identifying training needs
- Empowering team members
- Delegation
- Resource utilisation and workload planning
- Sharing best practice
- Integrating and mentoring new staff
- Managing and empowering external stakeholders

4.4. Negotiation skills

LO11 ▸ Show how negotiations with internal and external stakeholders can enable you to successfully influence, convince or reach compromise with others in order to achieve organisational and treasury goals.

- Influencing and persuasion skills
- Skills needed when undertaking negotiations between two or more parties
- Setting clear negotiation objectives, clarify differences, resolve disputes and bring negotiations to a mutually satisfactory conclusion
- Tact and diplomacy
- Managing conflicting opinions and agendas
- Encouraging cooperation and collaboration
- Depersonalising the situation

4.5. Communication skills

LO12 ▸ Show how information can be managed and relayed effectively to selected audiences to ensure that messages are understood as intended.

- Effective communication skills
- Customising delivery
- Effective use of a range of communication methods
- Harnessing feedback in a constructive manner
- Dealing with misunderstandings
- Dealing and communicating with non-specialists

5 SELF-MANAGEMENT, ACCOUNTABILITY AND COMMERCIAL DRIVE

5.1. Organisation and self-management

LO13 ▸ Explore the key personal attributes required to successfully manage a career in treasury and highlight the essential personal skills needed to effectively work within a treasury team.

- Accountability
- Motivation and emotional intelligence
- Emotional self-awareness
- Commercial acumen
- Organisation and attention to detail
- Stretch, continuous improvement and commitment
- Trustworthiness, honesty and integrity
- Working under pressure
- Working independently or with the help of others

5.2. Organisational awareness and initiative

LO14 ▸ Evaluate your own and team's position and contribution to the wider organisation, and the dynamics of influence and control within them by identifying issues and opportunities and championing solutions that meet organisational objectives.

- Position and role of treasury within the organisation
- Position and role of your own post within the organisation and treasury
- Identification of opportunities and issues
- Championing solutions
- Awareness of external developments and best practice

5.3. Commercial acumen

LO15 ▸ Assess situations and/or proposals from a commercial or business perspective including existing and potential markets, customers and competition and communicate the outcome to other business functions using terminology they understand.

- View situations from a commercial or business perspective
- Understand existing and potential markets, customers and competition so that proposals can be assessed accurately
- Relate to other business functions

5.4. Innovation and change management

LO16 ▸ Manage the implementation of new ideas through the identification and development of opportunities for business growth, through the implementation of change and the transition of individuals and teams to capitalise on the innovation.

- Developing, managing and implementing ideas to improve treasury and business wide processes
- Understanding the process of change
- Utilisation of the skills, expertise and experience of the treasury team to develop new ideas for business growth
- Openness to change
- Managing periods of transition to capitalise on innovation

FINANCIAL REPORTING, TAX AND REGULATION FOR TREASURY (OPTIONAL)

Unit four A

- Rationale for unit four A
- Introduction to unit four A
- Overarching learning outcomes
- Unit four A content

RATIONALE FOR UNIT FOUR A

Treasurers need to understand the legal, regulatory, tax and reporting environment in which they and the wider organisation operate to ensure that all activities undertaken by treasury not only comply with regulations but are also optimal for the organisation.

The accounting and tax rules that govern treasury transactions are complex. As a result, although treasury transactions may be of economic benefit to the organisation, if they are not structured or accounted for correctly, there may be unintended consequences which may result in reputational as well as financial losses. Such consequences may arise from the underlying contract (documentation), accounting or tax rules.

The regulatory environment that treasury operates in has evolved dramatically since 2000 and in particular since the Global Financial Crisis of 2008 and treasurers need to keep up to date with developments that may impact either them or their banks.

This unit explores the financial accounting, legal and tax regulations that may impact on treasury transactions and provides techniques to ensure that corporate governance guidelines are adhered to.

INTRODUCTION TO UNIT FOUR A

This unit provides an understanding of the key aspects of regulation, reporting and tax that treasurers need to understand.

The key financial accounting considerations when undertaking treasury transactions are explored in order to ensure that accounting and reporting of such transactions is accurate and the possible implications of such transactions on the financial results of the organisation are fully understood. Issues of regulation, documentation and taxation are also explored to enable the treasurer to make informed decisions about how best to structure their activities.

OVERARCHING LEARNING OUTCOMES

On completing unit four you will be able to:

1. Understand the key aspects of reporting, regulation, documentation and taxation that impact on treasury activities.
2. Evaluate the impact of the organisation's structure on accounting for treasury.
3. Recommend how treasury transactions might be structured to mitigate the impact of accounting standards.
4. Recommend how treasury policies and procedures can be developed to reflect corporate governance requirements.
5. Evaluate the terms and conditions commonly occurring in legal documentation in order to develop and understand the implications of legal contracts underpinning financial transactions.
6. Interpret developments in financial regulation in the context of its application to corporate treasury.
7. Evaluate the impact of tax regulation on the structure of the organisation and activities undertaken by treasury.

1 THE ESSENTIALS OF ACCOUNTING FOR TREASURY

1.1. The impact of corporate structure on treasury

LO1 ▸ Understand how the corporate structure impacts treasury activity.

Indicative content which outlines the scope of learning expected:

- Factors affecting corporate structure – degree of centralisation; culture; tax efficient structures
- Legal entity v management entity
- The Finance function
  - Structure
  - Roles and responsibilities
- Financial reporting
  - Consolidated v Individual company accounts
  - Entity v Operating unit accounts
- Shareholder value – the impact of accounting rules, tax and regulation

1.2. Budgets and forecasts in treasury

LO2 ▸ Recommend the most appropriate approach to constructing a treasury budget in order to monitor and report treasury activities.

Indicative content which outlines the scope of learning expected:

- Purpose of budgets
- Types of budget
- Treasury budgets, including interest budgets
- Key steps in the preparation of budgets
- Variance analysis and reporting
- Flexing budgets for actual activity levels
- Forecasts

1.3. The importance of cash

LO3 ▸ Assess the importance of cash as opposed to profit in decision making in treasury and identify appropriate cash flow measures for the organisation.

Indicative content which outlines the scope of learning expected:

- Cash flow v profit
- Actual cash balances v accounting cash balances
- The location of cash – trapped cash
- Cash flow forecasts

1.4. The importance of currency

LO4 ▸ Explain the importance of foreign currency, including its significance for the organisation's foreign exchange risk management strategy, compliance with loan covenants and credit rating.

Indicative content which outlines the scope of learning expected:

- Functional currency
- Presentation currency
- Intragroup balances
- Foreign operations
- Net investment

2 ACCOUNTING FOR TREASURY ACTIVITIES

2.1. International financial reporting

LO5 ▸ Analyse the importance of complying with relevant financial reporting requirements.

Indicative content which outlines the scope of learning expected:

- Accounting principles – Generally Accepted Accounting Principles (GAAP), International Financial Reporting Standards (IFRS)
- International GAAP and IFRS – harmonisation
- Compliance with IFRS; GAAP
- The contribution of the treasurer
  - Financial statements
  - Disclosures
  - Management Discussion and Analysis
- Practical Application
  - Covenants
  - Sensitivity analysis
  - Reputation risk

2.2. Disclosure of treasury transactions

LO6 ▸ Evaluate the accounting standards that determine the disclosure and presentation requirements for treasury transactions to ensure compliance with accounting regulation.

Indicative content which outlines the scope of learning expected:

- IFRS7 – Financial Instruments – Disclosures
  - Disclosure of information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms
- IAS 32 – Financial Instruments: Presentation
  - Accounting requirements for the presentation of financial instruments,
  - The classification of financial instruments into financial assets, financial liabilities and equity instruments.
- Classification of related interest, dividends and gains/losses, and when financial assets and financial liabilities can be offset
  - Management Discussion and Analysis
    - Integrated reporting
    - Going Concern statements

2.3. Fair value: IFRS 13: Fair value measurement

LO7 ▸ Interpret IFRS 13 in order to determine the appropriate fair value accounting treatment and disclosures necessary for the organisation.

Indicative content which outlines the scope of learning expected:

- Alternate values: Book value, market value, fair value
- Valuation techniques
- Disclosures required
- When to apply IFRS 13

2.4. Hedge accounting

LO8 ▸ Recommend an optimal hedge accounting policy to be adopted by the organisation to comply with accounting guidelines and deliver most benefit to investors.

Indicative content which outlines the scope of learning expected:

- What to hedge account:- instruments, assets and liabilities
- Recognition
- Measurement and impairment
- De-recognition
- The history of accounting standards:
  - IAS 39 – Financial Instruments: Recognition and measurement
  - IFRS 9 – Financial Instruments
- Embedded derivatives
- When to hedge account:- degree of flexibility an organisation has; risk appetite; impact on published accounts

2.5.Foreign exchange: IAS 21 — The effects of changes in foreign exchange rates

LO9 ▸ Apply IAS21 to activities undertaken by the organisation in order to identify the impact on financial results and the organisation's foreign exchange risk management strategy.

Indicative content which outlines the scope of learning expected:

- Areas impacted: foreign currency transactions; foreign operations
- Methodology for translation
- Reporting the effects of changes in exchange rates in the financial statements
- Carve outs: Compliance with loan covenants; Impact on credit rating

3 REGULATION AND DOCUMENTATION FOR TREASURY

3.1. The impact of regulation on treasury activities

LO10 ▸ Analyse the possible effects of financial regulation on corporate treasury in order to mitigate the impact of regulation and ensure compliance.

Indicative content which outlines the scope of learning expected:

- Market Structure – objectives and impact of:
  - European Market Infrastructure Regulation (EMIR)
  - Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank)
  - Markets in Financial instruments Directive (MiFID)
- Bank Structure - objectives and impact of:
  - Vickers Rule (UK)
  - Volcker Rule (US)
  - Liikanen Commission (EU)
- Capital and Liquidity - objectives and impact of:
  - Basel III (Global)
  - Capital Requirements Directive (CRD IV) (EU)
  - Solvency II (Insurance)

3.2. Corporate governance and ethics

LO11 ▸ Evaluate the current regulations and guidelines relating to corporate governance and ethical behaviours in order to recommend how treasury's policies, practices and procedures can be managed to ensure that the requirements of such guidelines are met.

Indicative content which outlines the scope of learning expected:

- The concept of corporate governance and corporate social responsibility (CSR)
- Corporate governance codes around the world
- Sarbanes-Oxley Act 2002 (SOX)
  - Public Company Accounting Oversight Board
  - Director and auditor independence
  - Definitions of corporate responsibility and accountability
  - Requirements for accurate financial disclosures
- Corporate governance from the treasury perspective
  - Treasury risk and control issues
- Policies, procedures and preventive measures for treasury
- Ethical Codes:
  - UK; Practices in other jurisdictions;
  - ACT; other professional codes
- Whistle-blowing
- Role of the audit committee

3.3. Debt documentation and financial covenants

LO12 ▸ Determine the detailed processes of drafting and negotiating loan, bond and intercompany documentation in order to protect the firm's operational flexibility and its access to sources of funding.

Indicative content which outlines the scope of learning expected:

- General aspects of loan, bond and intercompany documentation
- Types of covenant
  - Incurrence
  - Maintenance
  - Contingent
- Default and acceleration
- Financial covenants
  - Leverage covenants
  - Cover covenants
  - Tangible net worth covenants
- Foreign exchange
- Changes in accounting rules and frozen GAAP

3.4. Other issues in debt documentation

LO13 ▸ Appraise the key terms within financial agreements designed to protect the firm from the legal, financial and reputational consequences of non-compliance.

Indicative content which outlines the scope of learning expected:

- LMA documentation
- Conditions precedent
- Representations and warranties
- Non-financial covenants
- Provision of information
- Carve-outs
- Negative pledge
- Pari passu
- Grace periods
- Waivers
- Increased costs clauses
- Transferability
- Pricing grids

3.5. ISDA Master Agreements and Credit Support Annexes

LO14 ▸ Critically evaluate the negotiation and use of ISDA documentation (International Swap Dealers Association).

Indicative content which outlines the scope of learning expected:

- Settlement risk
  - Pre-settlement risk
  - Net settlement
- ISDA Master Agreements
  - Purpose and pricing
  - Use in default
- Credit Support Annexes
- Impact of Regulation – Central clearing; demand for product

4 TAXATION FOR TREASURERS: ITS IMPORTANCE, STRATEGY AND COMMUNICATION

4.1. Tax in the context of treasury

LO15 ▸ Discuss the importance of tax awareness in the treasury function, In managing tax costs, minimising risk, supporting the firm's compliance obligations, safeguarding reputation and adding value to the organisation.

Indicative content which outlines the scope of learning expected:

- Why is tax important for a treasurer?
  - Tax as a cost of the treasury function
  - Cash flow implications
  - Distributable Reserves
  - Reputational risk
- Pre-tax or post-tax risk management
- Examples of developments in tax rules
  - Financial Transaction Tax (FTT) (EU)
  - Foreign Account Tax Compliance Act (FATCA) (US)
  - Anticipating regulatory changes
- Benefits of tax awareness
  - Ability to engage, challenge, influence
  - Compliance deadlines, claims and elections
  - Expectations of banks, credit agencies and investors

4.2. Domestic and international taxation

LO16 ▸ Understand the key terms used in taxation in order to ensure that the effects of tax on externally reported profits are understood and planned for.

Indicative content which outlines the scope of learning expected:

- Tax jurisdictions
  - Tax residence
  - Double taxation and tax treaties
- The total tax contribution
  - Corporate taxation
- Direct versus indirect taxation
  - Sales taxes and duties
  - Payroll taxes
  - Capital taxes
  - Withholding tax
- The effective tax rate
- Basis of corporate taxation
  - Taxable profits
  - Group versus entity
  - Interaction with accounting rules
  - Trading and non-trading transactions
  - Using losses
- Prior year adjustments
- Deferred tax

4.3. Profit shifting, transfer pricing and the tax base

LO17 ▸ Critically assess the opportunities and pitfalls of tax planning, in particular the importance of transfer pricing and thin capitalisation in meeting governments' objective of preserving the international tax base.

Indicative content which outlines the scope of learning expected:

- What is the tax base?
- International tax planning
- Profit shifting
- Anti-avoidance measures
  - Transfer pricing
  - Thin capitalisation
  - Base erosion and profit shifting (BEPS) initiatives
- Reputational issues

4.4. Taxation of treasury transactions

LO18 ▸ Analyse the taxation of treasury transactions and their impact on the organisation's financial results, organisation structure and capital structure recognising that this may differ by jurisdiction.

Indicative content which outlines the scope of learning expected:

- Corporate debt
  - Debt versus equity
  - Basis of taxation
  - Definition of 'loan relationship'
  - Interaction with accounting rules
  - Trading or non-trading loans
  - Relief for losses
  - Connected party transactions
  - Withholding tax
  - Anti-avoidance measures
- Derivative Contracts
  - Basis of taxation
  - Definition of 'derivative contract'
  - Interaction with accounting rules
  - Trading or non-trading contracts
  - Relief for losses
- Foreign exchange
  - Basis of taxation
  - Interaction with accounting rules
  - Computational currency
  - Tax planning
  - Relieving foreign exchange losses
  - Foreign exchange risk management strategy
- Tax efficient hedging and risk management
  - Interaction with hedge accounting rules
  - Tax exposures and changes in accounting rules
    - Foreign exchange risk management
    - Interest rate risk management
    - Net investment hedges

WORKING CAPITAL AND TRADE FINANCE(OPTIONAL)

Unit four B

- **Rationale for unit four B**
- **Introduction to unit four B**
- **Overarching learning outcomes**
- **Unit four B content**

RATIONALE FOR UNIT FOUR B

The treasurer must understand the business in which they operate and a key element is an understanding of the cash flow characteristics of the organisation and the risks to cash flow that may arise as a result of doing business (buying and selling products or services).

Working capital and trade finance are two aspects of the same topic – how the organisation optimises the cash flows and the risks arising in the normal course of business.

The most efficient source of funds (i.e. the cheapest) is that generated internally by the organisation – and this source of funds is generated by effective working capital management and in particular, receivables and payables management. In addition the risks associated with trade (either domestic or international) also need to be identified, assessed and managed and trade finance offers solutions to this.

This unit explores both the cash optimisation and the risk mitigation aspects of doing business.

INTRODUCTION TO UNIT FOUR B

The unit establishes the differences between working capital (cash optimisation) and trade finance (risk mitigation) and the importance of each to the organisation as a whole.

The key elements of working capital will be examined and techniques identified to enable the treasurer to recommend solutions for the organisation that balances the conflicting demands of the working capital cycle.

The unit evaluates the various tools that may be used to manage the risks associated with trading both domestically and internationally and identified a number of key payment processes that offer alternative risk profiles to enable the treasurer to meet the risk appetite of the organisation.

Finally the unit explores how the role of treasury interlinks with working capital and the provision of trade finance solutions.

OVERARCHING LEARNING OUTCOMES

On completing unit five you will be able to:

1. Analyse the range of practices, procedures, and risks inherent in domestic and international trade in order to manage the complexities and risks involved.
2. Critically assess accounts receivable, accounts payable, supply chain and inventory control in order to recommend how the organisation can optimise these processes whilst minimising cost and maintaining operational flexibility.
3. Recommend the appropriate trading arrangements for domestic and international trade in order to manage the risks arising from such trading and support the operations of a business.
4. Evaluate appropriate specialised financing techniques in order to manage the cash flow risks arising from the additional complexities arising when transacting internationally.
5. Appraise the importance of optimising working capital for domestic and international trade in order to develop strategies for working capital management, including the role of IT.

1 OVERVIEW OF WORKING CAPITAL MANAGEMENT AND TRADE FINANCE

1.1. Working capital management

LO1 ▸ Investigate the relevance of working capital management to the success of the organisation.

Indicative content which outlines the scope of learning expected:

- Definition of working capital
- The working capital cycle
- Who is responsible:
  - Key stakeholders
  - Competing objectives: OpCo v Treasury
  - The role of procurement
- Key metrics: Days Payable Outstanding (DPO); Days Sales Outstanding (DSO); Days Inventory Outstanding (DIO); cash conversion cycle; % Sales
- Trade off – sensitivity analysis
  - Understanding the Terms of trade: supply contracts; importance of relationships
  - Who has the power in the supply chain
- Sector specifics – products; services; projects
- The role and application of ratios and metrics
- The role and application of benchmarks

1.2. Trade finance

LO2 ▸ Compare working capital and trade finance in order to recommend appropriate solutions for the organisation.

Indicative content which outlines the scope of learning expected:

- Definitions of trade finance
  - Trade finance
  - Supply chain finance
- How trade finance fits into the working capital cycle
  - Working capital – internal: managing cash
  - Trade finance – external: managing risk

1.3. Counterparty risk

LO3 ▸ Minimise the organisation's counterparty credit risk.

Indicative content which outlines the scope of learning expected:

- When to provide credit: assess risk of providing credit
- Credit management
  - Counterparty risk management
  - The role of credit insurance
- Examination of published accounts
- Using credit reference agencies

2 WORKING CAPITAL MANAGEMENT – MANAGING CASH FLOW

2.1. Trade payables

LO4 ▸ Recommend appropriate tools to manage trade payables to optimise the working capital cycle of the organisation.

Indicative content which outlines the scope of learning expected:

- Definition
- Segmenting suppliers:- strategic, core, non-core
- Payables processing:- Straight Through Processing; Enterprise-wide Resource Planning (ERP)
- Management of information
- How to improve metrics (cash outflow extension):-
  - Extended trade terms
  - Seasonal dating
  - Payment methodology: float, value dating, types of transactions

2.2. Trade receivables

LO5 ▸ Recommend appropriate tools to manage trade receivables to optimise the working capital cycle of the organisation.

Indicative content which outlines the scope of learning expected:

- Definition
- Segmenting customers
- Receivables processing:- direct debits; Single European Payments Area (SEPA)
- How to improve metrics (cash inflow acceleration):-
  - Invoice generation
  - Trade discounting: volume; rebates; invoice
  - E-invoicing

2.3. Supply chain and inventory management

LO6 ▸ Recommend appropriate tools to manage the supply chain and inventory to optimise the working capital cycle of the organisation.

Indicative content which outlines the scope of learning expected:

- Definition
- Overview of supply chain and inventory control process
- Supply chain logistics: floor planning
- Inventory management:- just in time; consignment stock
- Value of inventory
  - Fluctuating value of commodities

2.4. Optimising the management of working capital

LO7 ▸ Evaluate working capital solutions in order to recommend strategies to optimise its management for the organisation.

Indicative content which outlines the scope of learning expected:

- Restricted markets and operating practices
- Cultural differences and local terms and conditions
- Techniques to maximize cash opportunities and improve operating profit
- Currency risk analysis
- Liquidity opportunities

3 TRADE FINANCE – MANAGING RISK

3.1. Evolution of trade finance

LO8 ▸ Appreciate the particular aspects of international trade which have led to the development of specialist risk management and financing solutions.

Indicative content which outlines the scope of learning expected:

- Bills of lading; Waybills
  - Bills of Exchange
  - Avalisation (guarantee)
- Terms of trade
- Incoterms

3.2. Trade finance – payment and collection techniques

LO9 ▸ Evaluate alternative payment and collection techniques to manage the risks associated with trade flows.

Indicative content which outlines the scope of learning expected:

- Overview of the four main terms of payment
- Payment methods:
  - Open account
  - Documentary collection
  - Letter of credit
  - Cash in advance
- Criteria for the selection of appropriate risk management solutions

3.3. Documentary collections

LO10 ▸ Assess the advantages and disadvantages of using documentary collections in international trade to reduce risk.

Indicative content which outlines the scope of learning expected:

- Operational requirements for documentary collections
- The legal position of the seller in documentary collections
- The responsibilities of the seller's bank
- The legal position of the buyer in documentary collections
- Responsibilities of the buyer's bank

3.4. Letters of credit: operation and management

LO11 ▸ Evaluate the practical use of letters of credit for facilitating international trade and reducing its risk.

Indicative content which outlines the scope of learning expected:

- Operation of letters of credit (L/Cs)
- Responsibilities of banks in connection with L/Cs
- Rights of buyers in connection with L/Cs
- Responsibilities of buyers in L/Cs
- Formalities with which the seller must comply to be eligible to enforce the L/C
- Special types of L/C: standby L/C

3.5. Bonds and guarantees

LO12 ▸ Appraise the use of bonds and guarantees in order to reduce the risk of non-payment and associated costs.

Indicative content which outlines the scope of learning expected:

- Role of bonds/guarantees
- On-demand bonds
- Conditional bonds
- Different types of bond/guarantee found in international trade
- Risks which could apply to the issuer of a bond/guarantee
- Management of risks inherent in bonds/guarantees

3.6. Specialist risk management tools for international trade

LO13 ▸ Recommend the most appropriate forms of finance when looking to transact internationally.

Indicative content which outlines the scope of learning expected:

- Factoring; supplier finance (reverse factoring)
- Bill advances
- Bank payment obligation
- The role of Export Credit Agencies
- Recourse/non-recourse financing - who pays for/ takes the risk
- Buyer and Supplier Credit facilities
- Countertrade
- Forfaiting
- Securitisation
- Criteria for selection of appropriate financing and risk management tools

4 THE ROLE OF TREASURY IN WORKING CAPITAL AND TRADE FINANCE

4.1. Key considerations

LO14 ▸ Evaluate a variety of considerations when establishing working capital or trade finance solutions to ensure that the optimal solution is recommended to the organisation.

Indicative content which outlines the scope of learning expected:

- The use of information technology
  - Managing the data flows
  - Enterprise resource planning (ERP) solutions – integration and reporting
  - Emerging technologies
- Accounting for working capital
  - Balance sheet treatment
  - Off balance sheet solutions
- The impact of operating overseas
  - Extending the cash conversion cycle
  - Foreign exchange
  - Culture
  - Local terms and conditions
- Regulation
  - Anti-money laundering
  - Sanctions

4.2. Evolution of the role of corporate treasury in working capital management and trade finance

LO15 ▸ Assess the developing role of the treasurer in order to recommend how best practice, efficiencies and effective solutions can be delivered to in manage working capital and trade finance.

Indicative content which outlines the scope of learning expected:

- How treasury overlaps with working capital and trade finance
  - Cash flow forecasting
  - Liquidity management
  - Techniques to maximise cash; improve operating profit
  - Alternative funding/investment options:- using surplus cash in supply chain finance solutions
- Increasing breadth of treasury responsibilities
- Shared Service Centres
- Enabling processes to achieve working capital efficiency
- 'Bank solutions' – different banks offer different solutions/capabilities

ACT

Competency Framework

GLOBAL TREASURY STANDARDS

ACT COMPETENCY FRAMEWORK

The result of consultation with senior treasurers, banks and learning and development teams, the framework defines the competencies treasurers need to operate successfully in global business today. The skills a treasurer needs over their career varies according to seniority. The competencies have therefore been benchmarked and mapped to four job levels; tactical, operational, managerial and strategic.

The content of this syllabus introduces the skills required to operate at an managerial level.

Strategic Level
Managerial Level
Operational Level
Tactical Level

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