ACT

LEADING TREASURY PROFESSIONALS

BUILDING FUTURES

CERTIFICATE
in Treasury

SYLLABUS

CERTIFICATE
in Treasury

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, or who have treasury responsibilities in their roles, or corporate bankers and others working at the interface between businesses and the financial markets.

"It is suitable for anyone with some background in business or finance, either academic or obtained through experience"

The Certificate in Treasury provides a comprehensive grounding in the terminology and core technical concepts of treasury, and how they apply in a way that is relevant and transferable between roles, organisations and locations worldwide. It is suitable for anyone with some background in business or finance, either academic or obtained through experience, who is interested in learning more about treasury, or becoming a treasury professional. For those without this background, we recommend starting with our qualification, Certificate in Treasury Fundamentals.

The Certificate in Treasury consists of five units that introduce a wide range of treasury subjects in broad detail:

- **Unit one:** **The context of treasury**
- **Unit two:** **Cash and liquidity management**
- **Unit three:** **Corporate finance**
- **Unit four:** **Ethics, governance and regulation in treasury**
- **Unit five:** **Risk analysis and management**

The course is supported by online study resources and is assessed online. Each unit will take approximately 50 hours of study time to complete, so around 250 hours study in total. You should be able to complete the course in six to twelve 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 and passing all five of the assessments will lead to the award of the Certificate in Treasury.

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

Assessment

The Certificate in Treasury will be assessed online. There is one assessment at the end of each of the five units.

You will be provided with information and instructions on the individual assessments at the time of booking with the ACT. However, you will be able to take practice assessments as part of your learning programme to assist in your preparation and familiarise yourself with the types of assessment questions you can expect.

Glossary of key terms associated with the qualification

To assist you in your understanding of the qualification, the ACT has defined the following terms below.

A-Z GLOSSARY OF QUALIFICATION TERMS

Award	For the purpose of this qualification, upon passing all 5 assessments, you will be awarded the Certificate in Treasury. The award is therefore the outcome of your studies and assessment and represents your achievement.
Unit	A unit represents a segment of learning within the Certificate in Treasury. Each individual unit has its own rationale, learning outcomes and indicative content.
Overarching learning outcomes	The overarching 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 (LO)	These appear within each of the sections in the units and, like the overarching learning outcomes, they act as the basis to determine knowledge and understanding and 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 outcome and it details the technical components of the programme.
Weightings	The weighting indicates the amount of input and learning required for each section of the syllabus as a proportion of the whole. All units in the Certificate in Treasury are equally weighted and total 100 per cent. Therefore, for the purpose of the Certificate in Treasury, your study time should be equally spread across the five units.

THE CONTEXT OF TREASURY

Unit one

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

RATIONALE FOR UNIT ONE

This unit provides the context of treasury, and an introduction to a variety of techniques which will underpin your future studies and your career.

The role and structure of treasury is driven by the underlying business and so it is imperative that treasury understands and supports the business. An understanding of the key drivers of the business and of the organisation's and investors' risk appetites, will enable treasury be able to develop appropriate policies and procedures to enable the organisation to reach its objectives. Treasury policy documents that provide the overriding structure under which a treasury department operates.

Business decisions have to factor in the cost of money, either in the form of interest, or a more general cost of funds. This is achieved by using Discounted Cash Flow (DCF) techniques and for this reason, DCF is hugely important and present in every aspect of financial evaluation.

Foreign exchange is another core area that treasurers and companies of all sizes have to deal with. In order to remain competitive, it is vital that companies can handle the currencies that financial markets dictate or that their commercial counterparties prefer.

INTRODUCTION TO UNIT ONE

The first part of the unit looks at how the treasury department is structured to support the business in meeting its overall aims.

The second part of the unit will introduce you to two of the fundamental principles of finance: interest rates and the time value of money. You will investigate some general aspects of interest rates and how interest is calculated, which leads onto concepts including the time value of money and discounted cash flow analysis. These concepts will then be used to examine practical treasury issues, for example, how interest rates vary with maturity, and what long-term interest rates can tell us about future short-term rates.

The third and final section looks at the essentials of foreign exchange. It starts with a general overview of the foreign exchange markets and then considers the mechanics of spot and forward foreign exchange dealing. The final part of the unit examines the important relationship between spot and forward foreign exchange rates.

OVERARCHING LEARNING OUTCOMES

On completing unit one you will be able to:

1. Explain the role of the corporate treasury function and, in particular, how a treasury department is structured and the controls in place to ensure its effectiveness in supporting the financial and risk management objectives of the organisation.
2. Explain and apply a range of interest rates, yields and discount rates, undertake discounted cash flow analysis, differentiate between different yield curves and undertake relevant yield curve calculations.
3. Describe the features, participants and conventions of the foreign exchange market in order for the organisation to maximise the value of its net assets and minimise foreign exchange risk.

All three sections carry equal weighting.

1 TREASURY ORGANISATION AND OPERATIONS

1.1 The treasury function

LO1 Discuss the role of treasury and how it can support the achievement of both short-term and longer-term objectives of the organisation.

Indicative content which outlines the scope of learning expected:

- The structure of the finance function within a typical organisation
- The responsibilities of the finance director, treasurer, and the finance team
- Objectives of a treasury department
  - Ensuring liquidity
  - Ensuring and managing appropriate funding to finance the organisation's operations
  - Identifying and managing financial risks
  - Developing a culture of sound financial practice
- The links between the underlying business and the role and actions of treasury

1.2. The structure of treasury

LO2 Evaluate a range of appropriate treasury structures which reflect the risk appetite, culture and financial objectives of the organisation.

Indicative content which outlines the scope of learning expected:

- Key factors which influence the structure of treasury within an organisation including its size and international operations
- The role of treasury within an organisation including advisory, agency and in-house bank
- Risk appetite and the impact this has on treasury's response to risk
- Cost centre, cost saving centre or profit centre approach to managing treasury risks
- Centralised and decentralised treasury structures

1.3. The organisation and policies of a treasury department

LO3 Outline the activities and controls required of a treasury department in order to carry out its role successfully, avoiding operational errors, financial penalties or loss of reputation.

Indicative content which outlines the scope of learning expected:

- The process for undertaking treasury deals including the analysis, decision making, execution, approval, settlement and accounting implications of a deal
- Front office, back office and middle office roles and the skills needed to successfully fulfil these positions
- Segregation of duties
- Outsourcing treasury activities
- Treasury policy including key contents, approval process, implementation and review

1.4. Core treasury elements

LO4 Describe how the role of the treasury function ensures that the key financial risks and requirements of the organisation are identified and appropriately managed.

Indicative content which outlines the scope of learning expected:

- Operational and strategic functions of treasury
- Cash and liquidity management including analysis of working capital
- Corporate financial management including corporate finance and investment management
- Capital markets and funding including funding management and bank relationship management
- Risk management including a basic risk management framework and general responses to risk
- Treasury operations and controls
- Relationship management with key internal and external stakeholders

2 FUNDAMENTALS OF INTEREST RATE MARKETS AND THE PROCESS OF DISCOUNTING

2.1. Analysis using calculations

LO5 Explain why numerical analysis is essential to the function of treasury

Indicative content which outlines the scope of learning expected:

- Analysis and interpretation of data
- Monitoring cash flow
- Forecasting need for other funds
- Forecasting return on investments
- Value of money in different currencies
- Time value of money

2.2. Interest rate market conventions

LO6 Calculate the common types of interest rates and use them to compare short-term borrowing costs and returns on short-term investments.

Indicative content which outlines the scope of learning expected:

- Basis points and day counts
- Simple interest rates
- Periodic interest rates
- Compound interest rates
- Effective annual rates
- Nominal annual rates

2.3. Yield and discount

LO7 Calculate short-term yields, discount rates, redemption values and market prices to enable appropriate comparisons between different short-term instruments.

Indicative content which outlines the scope of learning expected:

- Redemption value, market price and short-term yield calculations
- Principles of short-term discount instruments
- Converting between discount rates and yields
- The relationship between nominal interest rates and the equivalent annual effective rate
- Comparing different short-term instruments on a like-for-like basis

2.4. The yield curve

LO8 Examine the various yield curves, what they are used for and the relationships between them, including calculations, to ensure the correct rates are used for given tasks.

Indicative content which outlines the scope of learning expected:

- The term structure of interest rates
- Why yields differ for different maturities
- Zero coupon, forward and par instruments
- Zero coupon, forward and par yield curves
- The no-arbitrage relationships between different yield curves

2.5. The time value of money and discounted cash flow

LO9 Calculate present values of single and multiple future cash flows in order to undertake appropriate and accurate investment appraisal.

Indicative content which outlines the scope of learning expected:

- Identifying when cash flows occur
- Present values and discounting
- Annuities
- Perpetuities
- Net present value including the use of periodic and simple annual rates

3 FOREIGN EXCHANGE MARKET FUNDAMENTALS

3.1. The foreign exchange market

LO10 Review the main features of, and participants in, the foreign exchange market in order to understand how the market operates.

Indicative content which outlines the scope of learning expected:

- Key features of the foreign exchange rate markets including market size and market location
- The role of central banks in the foreign exchange market
- The main market participants including market makers such as banks and market takers such as corporates and brokers
- Drivers of exchange rate movements
- Dealing methods including via a bank, phone, web based portals and the need for credit lines

3.2. Foreign exchange market dealing conventions

LO11 Show how foreign exchange rates are calculated and used in order to the meet the needs of the organisation.

Indicative content which outlines the scope of learning expected:

- Currency codes
- How foreign exchange rates are quoted including determining the base and variable currency and bid offer principles
- Buying foreign exchange
- Selling foreign exchange
- Spot transactions including identifying the spot date
- Calculating cross rates

3.3. Forward foreign exchange markets

LO12 Explain the principles and practicalities of forward foreign exchange contracts and short-dated foreign exchange swaps and how they can be used by the organisation to protect itself against basic types of foreign exchange risk.

Indicative content which outlines the scope of learning expected:

- Differences between spot and forward exchange rates
- Value dates for forward exchange contracts
- Forward exchange rate quotations
- Forward foreign exchange rates
- Forward foreign exchange cross rates
- Foreign exchange swaps
- Undertake calculations in relation to foreign exchange swaps

3.4. Linking spot rates, interest rates and forward rates

LO13 Evaluate the relationships between foreign exchange spot rates, forward rates, and interest rates in related currencies in order to identify any arbitrage opportunities or mispricing in the rates quoted by market makers.

Indicative content which outlines the scope of learning expected:

- The Eurocurrency markets and their role in setting forward FX foreign exchange rates
- Arbitraging between the spot FX rate, interest rates and the forward FX rate
- Interest rate parity and implied forward rates
- Linking interest rates to FX transactions including the use of money market hedges

CASH AND LIQUIDITY MANAGEMENT

Unit two

RATIONALE FOR UNIT TWO

The challenging economic environment arising from the financial crisis of 2007-2008

has provided organisations with an added impetus to enhance the management of their liquidity position to ensure the ongoing viability of their businesses. It is the primary role of the treasurer to ensure the business always has sufficient liquidity to fund day-to-day commitments and also to ensure the efficient management of the cash which it holds.

By having in place effective cash forecasting systems, an organisation can ensure cash can be freed up to minimise borrowing costs or ensure that adequate funds are in place to cover any shortfalls.

However, the evolving role of a treasurer is much wider than that of designing and maintaining cash management structures. It also covers much broader responsibilities including establishing counterparty limits, raising funds to address liquidity imbalances and monitoring cash investment strategies.

INTRODUCTION TO UNIT TWO

This unit will cover the key concepts of cash and liquidity management. It will first address core terminology and concepts before moving on to investigate the benefits of cash flow forecasting. The unit will look at the principal payments and receipts of different businesses and will show how to determine which of these flows are discretionary and which are non-discretionary. It will explore the working capital cycle in detail looking at the impact that changes in assets and liabilities have on the liquidity position of a business.

It goes on to explore what considerations should be made when selecting short-term finance andthe key sources, including bank borrowing, commercial paper, alternative funding solutions and trade finance.

Finally, the unit will investigate the practical aspects of cash and liquidity management, including the structure of the cash management function, managing bank accounts, and the principles which treasurers should adopt when investing surplus cash.

OVERARCHING LEARNING OUTCOMES

On completing unit two you will be able to:

1. Explain the principles of cash, liquidity and working capital, the relationship between them and how cash moves through the business for cash forecasting and working capital management purposes.
2. Evaluate the implications of using bank borrowing, money markets, and selected international trade finance instruments in order to make appropriate recommendations for different commercial situations.
3. Select the most appropriate management solutions supported by appropriate calculations, including payments systems, in order to safeguard the organisation's cash and optimise its net interest expenses or income, while maintaining the organisation's operational flexibility.

All three sections carry equal weighting.

1 CASH, LIQUIDITY AND THE BUSINESS

1.1. Cash and liquidity fundamentals

LO1 Using the fundamentals of cash and liquidity, identify significant cash flows for the organisation, so that treasury can establish appropriate measures to manage liquidity and liquidity risk.

Indicative content which outlines the scope of learning expected:

- Key terminology in cash and liquidity management
- The difference between cash, profit and liquidity
- Headroom
- Impact of rapid changes on cash flow
- Key cash inflows and outflows of a business
- Cash flows in different types of businesses
- Liquidity risk

1.2. Cash flow forecasting and its benefits

LO2 Show how the advantages and disadvantages of cash flow forecasting can be used to optimise the liquidity of the organisation.

Indicative content which outlines the scope of learning expected:

- Practical use of cash flow forecasts
- Benefits of cash flow forecasting
- Improving and balancing reliability and scope against cost
- Discretionary and non-discretionary payments

1.3. Preparing cash flow forecasts

LO3 Prepare appropriate cash flow forecasts for the purposes of planning and managing liquidity.

Indicative content which outlines the scope of learning expected:

- Receipts and payments models
- Using financial statements for cash flow planning and management
- Integrating short and longer forecasts

1.4. The working capital cycle

LO4 Analyse the liquidity needs of the organisation by using the key stages of the working capital cycle so that treasury can put in place appropriate funding and investment structures.

Indicative content which outlines the scope of learning expected:

- Explain working capital and the operating cash cycle, using calculations of value and days
- Basic management techniques of trade payables
- Principles of managing receivables
- Prompt payment codes and directives
- Inventory management

1.5. The relationships between working capital and liquidity

LO5 Analyse, through the use of appropriate calculations, the impact of working capital changes on the cash and liquidity position of the organisation.

Indicative content which outlines the scope of learning expected:

- Impact of changing receivables terms
- Impact of changing payables terms
- Seasonality of sales
- Business disruptions
- Inventory changes and their effect on the liquidity position of a business
- Calculations required include receivables days, payables days and inventory days, and the impact of changing them on the organisation's cash requirements

2 KEY CONSIDERATIONS OF SHORT-TERM BORROWING

2.1. Bank borrowing

LO6 Evaluate the most appropriate short-term borrowing solution for a business using calculations where relevant and considering practical implications for different types of bank products.

Indicative content which outlines the scope of learning expected:

- Committed and uncommitted facilities
- Overdrafts
- Money market lines
- Bills of exchange
- Term loans
- Revolving credit facilities

2.2. Money markets and commercial paper

LO7 Discuss how money markets and commercial paper could be used as alternate sources of short-term finance in order to select the most appropriate short-term funding solutions, using appropriate calculations where relevant.

Indicative content which outlines the scope of learning expected:

- Primary and secondary money markets
- Money market terminology including bid and offer rates, official, reference and interbank rates
- Money market participants
- Domestic and international money markets
- Commercial paper
- Costs of issuing commercial paper
- US commercial paper and euro commercial paper
- Standby facilities
- Credit ratings for short-term borrowings

2.3. Intra-group funding and alternative funding solutions

LO8 Discuss the advantages and disadvantages of alternative funding solutions for an organisation to put in place the most appropriate funding to meet its needs.

Indicative content which outlines the scope of learning expected:

- Introduction to intra-group funding
- Key considerations in intra-group funding including ownership and parental support
- Sources of debt for subsidiaries
- Practical consideration of using intra-group funding
- Project finance
- Asset based finance
- Leasing

2.4. Financing international trade

LO9 Select appropriate sources of finance and risk management techniques to enable the organisation to trade internationally in a safe and cost-effective way.

Indicative content which outlines the scope of learning expected:

- Introduction to international trade finance
- Risk in international trade
- Payment in advance, documentary credit, documentary collection and open account
- Bank guarantees
- Government backed sources of export finance

3 AN INTRODUCTION TO THE PRACTICAL ASPECTS OF CASH MANAGEMENT

3.1. Cash management services provided by banks

LO10 Evaluate the most appropriate cash management services provided by banks to meet the needs of the organisation.

Indicative content which outlines the scope of learning expected:

- Duties and functions of a bank
- Types of bank account including current, deposit and currency accounts
- Documentation requirements
- Selecting a bank and the associated documentation requirements
- Selecting the most appropriate cash management solution

3.2. Payment systems

LO11 Identify the principal payment systems available and the basis on which they would be selected to support the organisation's operations in the most effective and cost-efficient way.

Indicative content which outlines the scope of learning expected:

- Availability, finality, value dating and float
- Clearing and settlement systems including net settlement and real time gross settlement systems
- Payment instruments including physical and electronic instruments
- Making international payments including the use of a correspondent bank, network bank or banking alliance
- SWIFT
- International bank account numbers

3.3. Cash management structures

LO12 Optimise net interest expense or income whilst safeguarding the operational flexibility and reputation of the organisation by differentiating between the cash management structures available.

Indicative content which outlines the scope of learning expected:

- Local compared with global cash management structures
- Notional pooling for credit and interest earning purposes
- Cash concentration including zero balance, target balance, threshold accounts and overnight sweeps
- Payment and collection factories
- Shared service centres
- Netting and in-house banks
- Use of appropriate calculations

3.4. Investing surplus cash

LO13 Select on the basis of advantages and disadvantages, and using appropriate calculations, the most appropriate market products that be used to optimise and safeguard surplus cash.

Indicative content which outlines the scope of learning expected:

- Internal uses and projects
- Linking cash investment to liquidity forecasting
- Key cash investment considerations such as security, accessibility, flexibility, maturity and yield
- Money market funds and commercial paper investment (ECP and USCP)
- Bank instruments
- Repos
- Credit risk
- Credit ratings for short-term investment products
- Simultaneous investment and borrowing

CORPORATE FINANCE
Unit three

RATIONALE FOR UNIT THREE

Corporate finance is the link between broad corporate strategy and the role of finance in delivering the organisation's objectives.

Due to its strategic nature and high profile, corporate finance is sometimes led by the finance director, with technical support from the treasurer. However, in many organisations, corporate finance has become the responsibility of the treasurer. This is particularly the case when minimal merger or acquisition activity is envisaged.

This unit will provide practical insights into the effective management of the key areas of corporate finance, namely: selection of appropriate projects in which the organisation should invest; raising the necessary finance in the best possible combination; and deciding whether to retain any surplus cash within the business or pay it out to shareholders.

INTRODUCTION TO UNIT THREE

The unit begins with an overview of the main capital markets, identifying the sources of finance available and assessing their benefits and drawbacks with a view to designing the best financing combination, known as optimal capital structure. It goes on to demonstrate how the application of investment appraisal techniques can be used to justify decisions whether to retain any surplus cash within the business or to pay it out to shareholders and, ultimately, how to maximise shareholders' wealth.

OVERARCHING LEARNING OUTCOMES

On completing unit three you will be able to:

1. Describe the main sources of capital for an organisation and their practical characteristics in order to be able to access these sources in a cost effective way and with an appropriate level of risk, thus maximising long-term shareholder wealth while safeguarding the assets, cash flows and operational flexibility of the organisation.
2. Discuss an appropriate capital structure for a given organisation and calculate the cost of capital using a range of appropriate practical models and techniques.
3. Select and apply a range of appropriate practical investment appraisal techniques, and thus support the maximisation of long-term shareholder wealth.

All three sections carry equal weighting.

1 CAPITAL MARKETS AND FUNDING

1.1. Financial markets

LO1 Discuss how financial markets can be used as a source of capital to support the organisation in successfully raising finance.

Indicative content which outlines the scope of learning expected:

- The nature of debt and equity markets
- Primary and secondary markets
- Public and private markets
- Key market participants
- Investor requirements including the relationship between risk and expected return
- Links between financial markets and the global economy
- Efficient market hypothesis

1.2. Equity

LO2 Analyse the benefits and drawbacks of equity as a source of long-term capital.

Indicative content which outlines the scope of learning expected:

- Equity markets and investors
- Concept of the organisation
- Fundamental differences between debt and equity
- Classes of share capital
- Benefits and drawbacks of equity
- Equity issuance including IPOs, placement and rights issues
- Investor relations
- Dividend policy
- Scrip issues and share splits
- Share buy backs

1.3. Debt capital markets

LO3 Evaluate the characteristics and suitability of the main sources of long-term funds which can be raised on debt capital markets as a source of capital.

Indicative content which outlines the scope of learning expected:

- Key characteristics of debt including the loan agreement, fixed or floating, tradability, seniority and security
- Introduction to key debt capital market instruments including straight bonds, discount and zero coupon bonds, private placements and medium term note programmes
- The international bond market
- The costs and processes of issuing debt
- The relationships between coupon rates, market yields and the price of traded debt
- The importance and determination of credit ratings in debt capital markets (high yield and high grade ratings)
- Covenants

1.4. Bank debt and alternative funding sources

LO4 Analyse the characteristics, benefits and drawbacks of bank borrowing as a source of long-term capital.

Indicative content which outlines the scope of learning expected:

- Introduction to bank lending
- Committed and uncommitted facilities
- Term loans, revolving credit facilities
- Bilateral and syndicated debt
- Cost of debt including stepped, ratchet or the use of pricing grids
- Bank relationship management and information requirements
- Risks of bank borrowing and disintermediation

2 CAPITAL STRUCTURE

2.1. The theory of capital structure

LO5 Evaluate the theory, and potential benefits of optimising capital structure in order to maximise shareholders' wealth.

Indicative content which outlines the scope of learning expected:

- The concept of an optimal capital structure
- Benefits of reducing the cost of capital
- Modigliani and Miller theory without tax
- Modigliani and Miller theory with tax
- Financial distress costs

2.2. Capital structure in practice

LO6 Explain the practicalities of implementing a capital structure in order to balance the financial risks and potential financial benefits of capital structure optimisation.

Indicative content which outlines the scope of learning expected:

- The trade-off between risk and expected cost
- Book values
- Market values
- When to use book values and when to use market values
- The theoretical optimal capital structure and the managerial optimal structure
- Market perception of the safe level
- Credit rating considerations

2.3. The cost of equity capital

LO7 Calculate the cost of equity by applying both the Capital Asset Pricing Model (CAPM) and the Dividend Growth Model (DGM) to establish the cost of equity capital.

Indicative content which outlines the scope of learning expected:

- Define the cost of equity
- The CAPM
- Applying the CAPM to calculate cost of equity
- The DGM
- Applying the DGM to calculate cost of equity

2.4. The cost of debt and the Weighted Average Cost of Capital (WACC), including tax relief

LO8 Calculate the after-tax cost of debt and the weighted average cost of capital.

Indicative content which outlines the scope of learning expected:

- Define the cost of debt
- Pre-tax cost of debt calculations
- After-tax cost of debt calculations
- WACC calculations
- Using WACC as a hurdle rate
- Using WACC as a discount rate
- Limitations and problems of calculating and using the weighted average cost of capital
- Alternate methods and using multiples

3 INVESTMENT APPRAISAL

3.1. Fundamental principles in investment appraisal

LO9 Using the capital investment process, calculate the potential benefit or loss resulting from a new project, acquisition or disposal.

Indicative content which outlines the scope of learning expected:

- The capital investment process
- Determining relevant cash flows
- Determining terminal values
- Discounted cash flow analysis

3.2. Further techniques in investment appraisal

LO10 Discuss the advantages and disadvantages of alternative techniques for investment appraisals.

Indicative content which outlines the scope of learning expected:

- Internal rate of return
- Limitations of internal rate of return
- Payback
- Capital rationing
- Profitability index
- Accounting rate of return
- Limitations of profitability index and accounting rate of return techniques
- Acquisition or disposal

3.3. Business valuation: Discounted Cash Flow (DCF) techniques

LO11 Apply DCF techniques used in evaluating the potential benefits of major financial decisions.

Indicative content which outlines the scope of learning expected:

- DCF methods
- The entity and the equity
- Entity and equity DCF methods
- Forecasting free cash flows
- Multi-period discounted cash flow methods with stable growth rates
- Multi-period discounted cash flow methods with variable growth rates

3.4. Business valuation: non-DCF methods and the use of surplus cash

LO12 Apply alternative accounts-based and multiples techniques used in evaluating the potential benefits of major financial decisions, and whether to pay out surplus cash to shareholders.

Indicative content which outlines the scope of learning expected:

- Non-DCF methods
- Net asset valuations
- Earnings multiples
- EBITDA multiples
- Other multiples
- Use of surplus cash and whether to retain it in the business or pay it out to shareholders

ETHICS, GOVERNANCE AND REGULATION IN TREASURY

Unit four

RATIONALE FOR UNIT FOUR

Recent history provides many examples of organisations that have failed due to weaknesses in governance or poor ethical behaviour and, as a result, the expectations of stakeholders, including investors, regulators and the public, have increased.

In addition, treasury operations have become more complex and integral to the success of the organisation. Therefore, treasury's activities need to be clearly defined, executed and monitored through the use of policies and procedures that are integrated into the organisation's risk management approach.

Treasury must also adhere to many complex regulatory requirements including reporting requirements, tax and governance. Accounting rules, tax and other legislation or regulation may affect the financial markets accessed by the organisation, the activities undertaken by treasury and how such activities are reported. To help them with this, treasurers must have the knowledge and skills necessary to be able to work effectively with IT specialists to develop and implement appropriate IT-supported solutions to practical problems, demands and opportunities.

INTRODUCTION TO UNIT FOUR

This unit will investigate the role of treasury policy, procedures and performance measures. It will also explore treasury reporting for a variety of organisations and treasury operations as well as analysing the framework and content of treasury policy documents. The purpose and principles of reporting measures, both internal and external, will be demonstrated. The unit addresses the construction of the main financial statements, and the key accounting regulations which impact on treasury operations. The key drivers for legislation and regulation of corporate governance and treasury operations and the wider organisation will be discussed.

The unit will also explore operational risk and control. Ethics, as applied to treasury, will encompass codes of practice from professional bodies such as the ACT, to provide a holistic insight into the ethical expectations of treasurers.

Finally, the unit establishes the IT system requirements needed to maximise the value added by treasury. It analyses a range of IT solutions for treasury management including security and controls, and how effective project management can successfully integrate IT systems into the treasury function.

OVERARCHING LEARNING OUTCOMES

On completing unit four you will be able to:

1. Explain the principles, importance and detailed application of treasury policy, procedures and reporting in order to support their development and implementation in practice.
2. Demonstrate how corporate governance and regulatory controls and policies apply to treasury and how they enable treasury functions to be carried out in an efficient and ethical manner.
3. Explain the fundamental principles of financial reporting and taxation relating to treasury in order to support the preparation and analysis of financial reports, tax analysis and financial and business analysis.
4. Assess and recommend appropriate IT solutions for differing treasury requirements and describe the project management steps required for successful implementation and security controls.

All four sections carry equal weighting.

1 TREASURY POLICY, PROCEDURES AND REPORTING

1.1. Treasury policy

LO1 Explain the meaning and importance of treasury policy, including the typical higher level contents of a treasury policy and the factors which impact the formulation of risk policy.

Indicative content which outlines the scope of learning expected:

- Parties involved in setting and approving treasury policy
- Risk policy statements and policies for financial and operational matters
- Typical contents of a treasury policy including policy objectives, risk measurement, benchmarking and permitted instruments
- Deriving treasury policy from company risk management policy
- Responsibilities for implementing the corporate risk policy including the board, the risk management committee and the treasurer

1.2. Treasury procedures and performance measurement

LO2 Develop core treasury procedures and key performance indicators in order to determine how treasury is adding value in managing financial risks and supporting the organisation achieve its objectives.

Indicative content which outlines the scope of learning expected:

- Relationship between treasury policy and treasury procedures
- Risk policies including liquidity risk, funding, currency risk, credit risk, interest rate risk and commodity risk
- Key treasury procedures including risk management and controls
- Internal procedures established to successfully implement risk management policy and minimise operational risk
- External relationships including bank account and dealing mandates
- Measuring treasury performance
- Key performance indicators

1.3. Treasury reporting and external relationships

LO3 Examine the purpose and principles of internal and external treasury reporting including operational risk, treasury performance and business reporting, in order to prepare appropriate and timely reports.

Indicative content which outlines the scope of learning expected:

- Risk management reporting systems, processes and typical reports
- Operational risk reporting
- Treasury performance reporting
- Business reporting including internally and externally
- Framework for reporting frequency
- Roles and responsibilities of the front, back and middle office

2 CORPORATE GOVERNANCE, ETHICS AND TREASURY CONTROLS

2.1. Corporate governance

LO4 Outline corporate governance structures and the allocation of responsibilities within those structures in order to comply with governance codes and regulations for the benefit of the organisation and wider stakeholders.

Indicative content which outlines the scope of learning expected:

- Corporate governance
- Governance regulation including Sarbanes-Oxley
- UK corporate governance code
- Other corporate governance codes
- Problems resulting from poor governance

2.2. Regulation

LO5 Explain the principal regulatory requirements that relate to treasury in order to comply with them and avoid financial penalties or reputational damage.

Indicative content which outlines the scope of learning expected:

- EMIR
- Dodd-Frank
- Basel III
- Financial offences
- Compliance with sanctions

2.3. Operational risk and control

LO6 Apply frameworks and control mechanisms in order to minimise organisational and treasury related risks.

Indicative content which outlines the scope of learning expected:

- Sources of operational risk
- Physical controls
- Authorisation controls and segregation of duties
- Dealing limits
- Supervision
- Management controls
- Staff recruitment and training
- Impact of treasury operational lapses

2.4. Ethics and the ACT's Ethical Code

LO7 Debate the ethical issues associated with treasury operations in order to develop policies based on best practice that could be embedded within the organisation to improve ethical standards and behaviours, including detailed knowledge and understanding of the ACT's Ethical Code.

Indicative content which outlines the scope of learning expected:

- Translating ethics into culture
- The ongoing ethical responsibilities of the treasurer
- Reflecting ethics within the treasury policy
- Whistleblowing
- Anti-fraud practices within treasury
- Anti-bribery and anti-corruption policies and procedures
- Fundamental principles of the ACT's Ethical Code
- Relationships, duties, gifts, services and hospitality
- Power of codes of conduct and penalties for failing to comply

3 FINANCIAL ACCOUNTING AND REPORTING FOR TREASURY

3.1. Introduction to financial statements

LO8 Explain the contents of the principal financial statements in order to contribute to their preparation in relation to treasury activities.

Indicative content which outlines the scope of learning expected:

- Key accounting systems and principles including double entry and accruals
- Statement of financial position
- Statement of profit or loss
- Statement of changes in equity
- Statement of cash flows
- Auditors' reports and notes to the accounts
- Relationship with auditors
- Importance of financial statements for stakeholder perceptions

3.2. Financial and business analysis

LO9 Undertake financial and non-financial analysis on a range of businesses in order to assess their viability and creditworthiness.

Indicative content which outlines the scope of learning expected:

- Performance ratios including Return on Capital Employed (ROCE), operating profit margin, asset turnover and return on equity
- Liquidity and solvency measures including current ratio, quick ratio, gearing and interest cover
- Shareholder ratios including earnings per share, price earnings ratio, dividend cover and dividend yield
- Interpreting and understanding the results and limitations of ratio analysis
- Non-financial analysis

3.3. Implications of international accounting standards for treasury

LO10 Examine the implications of international accounting standards and International Financial Reporting Standards (IFRS) for treasury.

Indicative content which outlines the scope of learning expected:

- Convergence of accounting standards
- Distributable reserves
- International accounting standards and IFRS
- Financial instruments recognition and measurement
- Hedge accounting

3.4. Tax and international tax planning

LO11 Assess the taxation of treasury transactions in order to assist in forecasting and managing the organisation's tax cash flows.

Indicative content which outlines the scope of learning expected:

- Direct and indirect taxes
- Relationship between tax and accounting
- Transfer pricing
- Thin capitalisation, withholding tax and double taxation
- Tax issues relating to treasury including cash management, pooling and netting, currency and interest rate management
- Repatriation of funds
- Tax advisors

4 TREASURY SYSTEMS

4.1. The role of technology

LO12 Determine the requirements of treasury in relation to IT software and systems in order to work effectively with IT specialists to improve the efficiency, effectiveness and reporting of treasury activity.

Indicative content which outlines the scope of learning expected:

- Treasury IT requirements
- Typical systems and software used by treasury
- Benefits of a dedicated treasury IT system including security, links to wider organisation IT systems, evidencing controls and audit trails
- Transaction processing systems
- Analysis and reporting systems and tools
- Compliance and control systems
- Spreadsheets and their limitations
- The treasury management system supporting treasury functions
- Workflow management
- Exception reporting

4.2. System security

LO13 Outline the needs of treasury relating to IT system security in order to work effectively with IT specialists to develop, implement and monitor appropriate controls.

Indicative content which outlines the scope of learning expected:

- Physical access controls
- System and network controls
- Application controls
- Monitoring usage and audit trails
- External controls

4.3. System selection

LO14 Evaluate treasury system alternatives in order to select one that fulfils the requirements of treasury and outline the key project management steps required for implementation.

Indicative content which outlines the scope of learning expected:

- Treasury system options including in house, off the shelf, bespoke and end user solutions e.g. Microsoft Excel
- Treasury system providers including TMS vendors, application service providers and ERP system vendors
- Defining treasury system requirements
- Treasury system selection
- Project management methodologies, for example Prince2, Agile, Waterfall and Six Sigma
- Implementation and training

RISK ANALYSIS AND MANAGEMENT
Unit five

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

RATIONALE FOR UNIT FIVE

Given the wide range of interrelated risks that an organisation faces, there is a growing need to run the risk management process in a holistic way in order to support the overall objectives of the organisation.

Given economic developments in recent years, a wide range of stakeholders including investors, lenders and regulators, are increasingly focused on how risks are managed, and as a result have become less tolerant of losses resulting from poor risk management.

Given their unique skill set, the role of a treasurer now frequently encompasses the management of a diverse range of financial risks, ranging from liquidity management and foreign exchange risk to pensions. The prominence and role of risk management has grown significantly over recent years and this unit will explore why good risk management is a critical function for any organisation.

INTRODUCTION TO UNIT FIVE

The unit will initially explore the nature of risk, and then investigate the broad range of approaches that organisations can take to deal with various financial risks.

The unit covers the process of identifying the key risks for which the treasury department has responsibility, and using a risk management framework, investigate how these risks are measured, managed and reported in practice to add value to the organisation.

OVERARCHING LEARNING OUTCOMES

On completing unit five you will be able to:

1. Explain the fundamental importance to an organisation of identifying and measuring the risks that it faces and the benefits of establishing a robust process for the management of risk.
2. Assess the role and responsibilities of treasury in managing the key financial risks which the organisation faces in order to protect it against potential losses.
3. Analyse the key practical techniques for the measurement, management and reporting of treasury risks to protect the organisation against losses and support the organisation and its stakeholders with relevant risk-related information.

All three sections carry equal weighting.

1 FUNDAMENTAL CONCEPTS OF RISK FOR TREASURY

1.1. Introduction to risk

LO1 Explain risk and the benefits of successful risk management in identifying events which could impact on the achievement of an organisation's objectives.

Indicative content which outlines the scope of learning expected:

- The difference between risk and uncertainty
- The relationship between risk and return
- Rewarded and unrewarded risks
- The benefits of effective risk management
- Enterprise wide risk management

1.2. General approaches to risk management

LO2 Analyse the main considerations which influence how an organisation manages risk in order to establish an appropriate risk management policy.

Indicative content which outlines the scope of learning expected:

- Financial, business, commercial and operational risks
- Risk management objectives
- Definitions and examples of risk appetite and risk tolerance
- Stakeholder attitudes to risk
- Risk acceptance, avoidance, transfer and diversification

1.3. Treasury risk management frameworks

LO3 Outline the key stages of the risk management process in order to establish a structured approach to managing risk within an organisation.

Indicative content which outlines the scope of learning expected:

- Prominent risk management frameworks such as the ACT risk management framework
- Principles and processes of risk identification
- Risk assessment including establishing frequency, probability and risk mapping
- Risk evaluation including value at risk and scenario planning
- Risk responses including avoidance, acceptance and hedging
- Transferability of risks
- Risk reporting
- Principles of hedging including reasons for hedging, internal hedging and external hedging

1.4. Risk measurement tools and techniques

LO4 Apply basic risk measurement techniques, including qualitative measures, in order to establish the materiality of risks to the organisation.

Indicative content which outlines the scope of learning expected:

- Introduction to statistics including mean, expected value, standard deviation, probability and distributions
- Sensitivity analysis
- Scenario analysis
- Simulation including Monte Carlo analysis
- Value at Risk
- Other techniques including ratio analysis

2 TREASURY RISKS AND HEDGING INSTRUMENTS

2.1. Sources of risk

LO5 Evaluate the main sources of risk which a treasury department must manage and how these may challenge an organisation.

Indicative content which outlines the scope of learning expected:

- Risk classifications
  - Commercial risks
  - Financial risks including financial market risk, liquidity risk, credit risk, counterparty risk and pension risk
  - Operational risks
- Interactions between risks and links to Enterprise Risk Management (ERM)
- Alternative risk classification including internal or external, committed or uncommitted and short-term or long-term

2.2. Treasury risk checklist

LO6 Explain the main types of risk for which a treasury department is responsible for formulating appropriate risk management strategies.

Indicative content which outlines the scope of learning expected:

- Interest rate risk
- Foreign exchange rate risk including pre-transaction, transaction, translation and economic risk
- Commodity risk
- Liquidity and funding risk including adhering to the terms of existing debt and raising new funds
- Counterparty risk arising from commercial and financial transactions
- Operational risk
- Political and event risk
- Reputational risk
- Relationship management

2.3. The use of fixing instruments in risk management

LO7 Apply fixing instruments to manage common treasury financial risks in order to protect against potential adverse financial market movements.

Indicative content which outlines the scope of learning expected:

- A comparison of over the counter and exchange traded mechanisms
- Benefits and drawbacks of fixing instruments, including opportunity costs
- Characteristics of futures contracts including initial and variation margins
- Spot and forward foreign exchange contracts
- Forward rate agreements
- Swaps including interest rate, cross currency and swap documentation

2.4. The use of financial options to manage risk

LO8 Apply standard financial options to manage common treasury risks in order to protect the organisation from adverse financial market changes.

Indicative content which outlines the scope of learning expected:

- Option types and principles, including calls, puts, American and European options
- Purchasing and writing options
- Option premiums
- Strike price
- Outcomes at the maturity of options
- Benefits and drawbacks of option instruments

3 PRACTICAL APPLICATIONS FOR RISK MANAGEMENT

3.1. Short-term interest rate risk management

LO9 Apply techniques used to manage short-term interest rate risk to protect the organisation from unfavourable financial market movements.

Indicative content which outlines the scope of learning expected:

- Principles of hedging short-term interest rate risk with forward rate agreements
- Forward rate agreement quotations and terms
- Settlement conventions and outcomes for forward rate agreements
- Interest rate guarantees
- Hedging interest rate risk with options
- Interest rate risk hedge evaluation

3.2. Long-term interest rate risk management

LO10 Apply techniques used to manage long-term interest rate risk in order to manage the risk of potential adverse financial market movements.

Indicative content which outlines the scope of learning expected:

- Principles of interest rate swaps
- Interest rate swap quotations
- Hedging using interest rate swaps
- Yield curves and valuing swaps
- Interest rate options including caps, floors and collar
- Swaptions
- Hedge evaluation

3.3. Foreign exchange risk management

LO11 Apply techniques used to manage a range of foreign exchange exposures to protect the organisation from foreign exchange market fluctuations.

Indicative content which outlines the scope of learning expected:

- Internal techniques for managing foreign exchange risks including matching and invoicing in home currency
- Spot and forward transactions
- OTC markets
- Cross currency swaps
- Currency options including call, put and collars
- Evaluating hedging techniques put in place

3.4. Practical risk management

LO12 Assess the key considerations and issues which treasury must take into account when formulating and communicating appropriate risk management strategies to support the organisation and its stakeholders.

Indicative content which outlines the scope of learning expected:

- Explicit links to the organisation's objectives
- The structure of the risk management function including the role of treasury, the audit and risk committee and chief risk officer
- Regulations and best practice on risk disclosure including communicating with stakeholders
- Key principles of managing in a downturn including dealing with market volatility and liquidity problems
- Disaster recovery planning
- Black swans
- Tax and accounting implications

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 operational level.

Strategic Level
Managerial Level
Operational Level
Tactical Level

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