

# The Licensing Examination for Securities and Futures Intermediaries

## Paper 11 Corporate Finance

### Syllabus

#### Topic 1: Overview of the corporate finance industry

- 1 What is corporate finance?
  - Intermediation
  - Characteristics of financial markets
  - Securities
  - Equity and debt
  - Hybrids
  - Derivatives
  - Types of financial markets
  - Trading systems
  - Quality control in international securities markets
  - Liquidity in securities markets
  - Globalization of financial markets
- 2 Types of organization
  - Sole proprietor
  - Partnership
  - Unincorporated joint venture
  - Companies
  - Government and semi-government agencies
  - Other exotic types of incorporated entity
- 3 Problems faced by the finance industry
  - Problems and pitfalls in the finance industry
  - Ethics
  - Corporate governance
  - The finance industry, auditing and accounting

#### Topic 2: Accounting and financial statement analysis

- 1 Background
  - Accounting assumptions and principles
  - Accrual accounting—working examples
  - Accounting standards—local and international
  - Accounting guidelines
  - Risk disclosure
- 2 Reading and understanding financial statements
  - What is the reader looking for?
  - Statement of accounting principles
  - Statement of financial position
  - Current vs. non-current
  - Classification of non-current assets
  - Spreading non-current assets over their useful life
  - Income statement
  - Notes to the financial statements
  - Creditors, accruals, provisions and contingencies
  - Shareholders' equity: capital, reserves and retained earnings
  - Segment reporting
  - Related-party transactions
- 3 Are financial statements and financial accounts adequate?
  - Cosmetic accounting
  - Context
- 4 Using this information
  - Ratio analysis
  - Cash-flow analysis
- 5 Special topics in accounting
  - Accounting for business combinations
  - Accounting for asset securitization
  - Accounting for derivatives and hedging activities
  - Foreign currency translation

6 Putting it all together: financial analysis

### Topic 3: Principles of corporate finance

- 1 Basic principles
  - Uncertainty and risk
  - The time value of money
  - Risk and return
  - Interest and discount
  - Cost of capital
  - Alternative methods of calculating the cost of equity
  - Financial leverage and capital structure
  - Taxation
- 2 Capital budgeting
  - The decision process
  - Generation of investment proposals
  - Initial screening of proposals
  - Capital budgeting process
  - Detailed analysis of projects under consideration
  - Working capital
  - Selection and approval
- 3 Application of these principles
  - Alternative methods and considerations in reevaluating investment proposals
  - Structuring the finance
  - Building a corporate finance structure to suit a company's needs
- 4 Corporate collapse
  - Causes of corporate collapse
  - Warning signals of failure
  - Trajectories of failure
  - Identifying the appropriate strategy for dealing with collapse
  - Implementing strategies for management of non-performing equities and non-performing loans
- 5 Infrastructure finance

- Assessing potential infrastructure projects
- Project participants
- Types of infrastructure financing risks and their allocation or mitigation
- Structuring infrastructure finance

6 General principles of conduct in corporate finance

### Topic 4: Equity financing

- 1 Capital needs of companies
  - The financing cycle of a company
- 2 Forms of equity financing
  - Ordinary shares
  - Special features of Hong Kong and PRC markets
  - Preference shares
  - Non-voting shares
  - Other products
  - Options
  - Concerns about stock options
  - Warrants
  - Hybrids
- 3 Considerations in devising equity structures
  - Taxation
  - Family shareholdings
  - Maintenance of control
  - Financing considerations
  - Rights issues
  - Incentives
- 4 The capital-raising process
  - Prospectus
  - Advisers to issuers
  - Underwriting
  - Vetting and approval by the SEHK
  - Marketing the float
  - Allocation of shares
  - Listing date and thereafter
- 5 Venture capital
  - Start-up and early-stage financing

- Key characteristics
- Linkages between cash flow analysis and venture capital financing
- Other types of venture capital financing
- Sources of repayment

- 6 Corporate governance and its role in equity financing
- Definition of corporate governance
  - Asian corporate governance
  - Strengthening corporate governance

### Topic 5: Debt financing

- 1 Characteristics of debt
- Short-term vs. long-term
  - Secured vs. unsecured
  - Credit foncier vs. bullet repayment
  - Intermediation vs. debt securities
- 2 Types of debt financing
- Conventional bilateral loans
  - Multilateral facilities
  - Commercial paper
  - Medium-term lending
  - Bonds
  - Convertible bonds
  - Asset-based finance
  - Securitization
- 3 Process of approval of loans
- 4 Determining the appropriate debt structure
- Debt service capacity
  - Fixed or floating
  - Drawn or stand-by
  - Taxation
  - On-balance sheet or off-balance sheet
  - Domestic or international sources of funding
  - Public or private funding
- 5 International debt markets

- What international markets are available?
- Why use international markets?
- Who are the investors?

- 6 Securitization
- Benefits of securitization
  - Potential pitfalls of securitization
  - Development of securitization markets
  - Range of assets capable of being securitized

- 7 Managing debt
- Monitoring and management
  - Annual review

### Topic 6: Business valuation

- 1 Essential principles
- Purpose of valuation
  - Investment objectives of clients
  - Professional valuation vs. ad hoc/kerbside valuations
  - Disclosure of valuation methodology and assumptions
  - Valuation at a point in time
- 2 Valuation techniques
- Undiscounted valuation
  - Discount valuation
- 3 The company and its industry
- Understanding the industry in which a company operates
  - Understanding the business environment
  - Understanding the industry-specific competitive pressures
  - Identifying changes to the competitive environment
  - Assessing sustainability
  - Focus of management team
- 4 Pricing issues by “new economy” companies
- Implications of “new economy” multiples

- 5 Valuation of business under special situations
- Takeovers
  - Mergers
  - Liquidations
  - Market downturns
  - Boom valuations, bubble valuations and changed bases of valuation

**Topic 7: Mergers and acquisitions**

- 1 Overview of mergers and acquisitions
- Motives
  - Social and economic implications
  - The players
  - Ethical issues
- 2 Structuring a takeover
- The mechanics of a takeover
  - Takeover strategies
  - Legal issues
- 3 The target
- Choosing the appropriate strategy
  - Pre-emptive versus reactive defensive strategies
- 4 Directors' duties in a takeover

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