

ACT PRACTICE PAPER

**Certificate in International
Cash Management**

Practice paper for the Certificate in International Cash Management (CertICM)

Based on the syllabus assessed from 16 March 2026.

Introduction

This practice paper has been produced by the Awarding Body at the Association of Corporate Treasurers (ACT) to assist students in their preparation for the CertICM assessments. It contains a practice exam as well as practice answers.

Ideally, students should have completed the majority of their CertICM studies before attempting this practice paper. Students should allow themselves 120 minutes to complete the exam. They should then review their performance to identify areas of weakness on which to concentrate the remainder of their study time.

Although the practice exam in this guide is typical of a CertICM assessment, it should be noted that it is not possible to test every single aspect of the syllabus in any one particular exam. To prepare properly for the examination, candidates should make full use of the tuition options where available and read as widely as possible to ensure that the whole syllabus has been covered.

Assessment technique: CertICM

This paper is a professional paper that as well as testing theory expects application to practice at an operational level.

The best way to approach written assessments is to work methodically through the questions. Candidates should not spend too much time on any one question if you are struggling to think of an adequate answer. Remember you can flag any question to come back to later should you want to continue your way through the exam.

When all of the questions have been answered, it is prudent to use any remaining time to go through each question again, carefully, to double-check that nothing has been missed. Altering just one response could make the difference between passing and failing.

Please ensure you show your workings within your answer when prompted as this means there are marks available for the workings out. You will be able to make rough workings on a piece of paper during the exam and on screen should you wish to, however these will not count towards your final mark.

Assessment information

The CertICM assessment consist of 64 questions, split into sections A, B and C; each assessment is worth a total of 100 marks.

CertICM assessment test specification:

Section	Number of questions	Marks available	Question format
Section A	20 Multiple Choice questions (MCQs) and 10 Multiple Response questions (MRQs).	30	This section will test a cross-section of knowledge to achieve breadth of syllabus coverage.
Section B	30 MCQs based on mini scenarios (1 scenario with 5 accompanying MCQs)	30	This section will test knowledge, analysis, application and justification as appropriate.
Section C	4 longer form questions	40	This section will be based on mini-scenarios common to practice. Questions will test knowledge, analysis, application and justification as appropriate.
Total	64	100	

Under exam conditions, **2 hours** (120 minutes) is allowed for the CertICM assessment.

When you take your actual exam, you will be sitting online using your own PC/Laptop. You have access to an online scientific calculator, but for the purpose of this test, you may use a non-programmable scientific calculator. There is a formula sheet located on page 31 that will also be accessible during your online assessment.

In order for you to determine how well you have performed, exemplar answers are listed at the end of this paper. There are also references to the relevant Learning Outcomes if you need to revisit the associated material.

Please note that an asterisk (*) is used to indicate all correct answers (keys) for MCQs and MRQs in the practice assessment.

Questions

SECTION A

Section A is made up of 25 Multiple Choice questions and 5 Multiple Response questions and is worth a total of 30 marks.

25 Multiple choice questions: 25 x 1 mark questions.

5 Multiple response questions: 5 x 1 mark questions.

The purpose of this section is to test a cross-section of knowledge to achieve breadth of syllabus coverage.

1 Question Text:

Which of the following is the most important core task performed by treasury?

Options

- A** Achieving operational efficiencies.
- B** Bank account structuring.
- C*** Managing financial risk.
- D** Reporting.

Mark/Score: 1

2 Question Text:

Which of the following bank reporting formats best facilitates automated account receivable reconciliation?

Options

- A** Excel spreadsheets of cash balances from each group subsidiary.
- B** Month-end reported cash balances from each group reporting unit.
- C** MT940 end-of-day files from each group bank.
- D*** Standard format XML statements from each group bank.

Mark/Score: 1

3 Question Text:

When using exponential smoothing on a moving average forecast, an ' α ' of 0.2 indicates that:

Options

- A** a high smoothing constant is needed to adjust the forecast.
- B** a strong trend continues to affect cash flows.
- C*** recent cash flows have been anomalous.
- D** there is a seasonal pattern to cash flows.

Mark/Score: 1

4 Question Text:

'Leading and lagging' intercompany transactions can be used as a tool to:

Options

- A** automate the consolidation of cash balances.
- B** improve the accuracy of cash flow forecasts.
- C*** manage restricted cash balances.
- D** reduce the value of payments operating through ACH systems.

Mark/Score: 1

5 Question Text:

A SWIFT MT 101 message type is used for which of the following purposes?

Options

- A** A balance report.
- B** A confirmation of debit.
- C*** A request for transfer.
- D** An advice of cheque(s).

Mark/Score: 1

6 Question Text:

'Conditions precedent' in a loan agreement are:

Options

- A** assurances relating to the past and present condition of the borrower.
- B** requirements for the borrower to report to the lender any material adverse changes in the **business**.
- C** restrictions on the borrower imposed by the lender throughout the lending term.
- D*** terms the borrower must meet prior to drawdown.

Mark/Score: 1

7 Question Text:

Which type of risk is primarily created by regulatory and political barriers in global treasury operations?

Options

- A*** Availability risk by restricting the legal movement of cash across borders.
- B** Cost risk by increasing the tax leakage on intercompany transactions.
- C** Visibility risk by limiting access to bank reporting systems.
- D** Fiduciary risk by breaching directors' duties to local stakeholders.

Mark/Score: 1

8 Question Text:

Which of the following is a feature of cash concentration pooling?

Options

- A** Credit or debit positions of participants are always visible on their bank accounts.
- B** Interest debited or credited to each participant is characterised as bank interest.
- C*** Participants' funds are co-mingled in a master account managed by treasury.
- D** The legal title to funds always remains unaffected.

Mark/Score: 1

9 Question Text:

Which of the following is the primary purpose of dual authorisation within treasury payment controls?

Options

- A*** To reduce fraud risk by requiring independent approval prior to release of payments.
- B** To speed up payment processing by removing manual review steps.
- C** To allow system administrators to be able to override standard approval workflows.
- D** To centralise all payment initiation within local finance teams.

Mark/Score: 1

10 Question Text:

Which of the following is a direct legal implication of using physical cash pooling within a corporate group?

Options

- A*** The creation of interest-bearing intercompany loans between subsidiaries and the header entity.
- B** The elimination of transfer pricing requirements for internal funding arrangements.
- C** The permanent retention of cash balances within local subsidiary and parent company accounts.
- D** The avoidance of legal documentation relating to internal cash movements.

Mark/Score: 1

11 Question Text:

Within a typical treasury management system (TMS) transaction workflow process, which step immediately follows deal confirmation in the matching system?

Options

- A** Approval.
- B** Limits check.
- C** Payment initiation.
- D*** Settlement generation.

Mark/Score: 1

12 Question Text:

Which of the following is the primary objective of liquidity stress testing within treasury management?

Options

- A*** To assess how long the organisation can meet obligations under severe financial conditions.
- B** To predict the most likely future cash-flow outcomes under normal business conditions.
- C** To optimise returns from surplus cash investments during stable market conditions.
- D** To eliminate the need for bank provided committed credit facilities and buffers.

Mark/Score: 1

13 Question Text:

Which of the following best describes the correct hierarchy that should be used in treasury when making short-term investment decisions?

Options

- A*** Security first, followed by liquidity, and then yield.
- B** Yield first, followed by liquidity, and then security.
- C** Liquidity first, followed by yield, and then security.
- D** Yield first, followed by security, and then liquidity.

Mark/Score: 1

14 Question Text:

Which of the following best explains how Direct Debits (DD) can improve working capital efficiency for a company? It:

Options

- A*** enables the company to control the timing of customer collections, stabilising inflows.
- B** allows the company to delay supplier payments, without compromising vendor relationship.
- C** accelerates cash settlement at the point of sale, without requiring any customer authorisation process.
- D** eliminates the risk of non-payment by customers, so it is a totally risk-free option for the company.

Mark/Score: 1

15 Question Text:

Which of the following best explains the role of non-bank providers (fintechs) within the financial ecosystem that supports cash management? They:

Options

- A*** deliver innovative, technology-driven solutions that improve payment speed, cost efficiency, and user experience.
- B** provide full banking services, including credit provision and access to central bank clearing systems.
- C** replace traditional banks entirely by offering deposit protection and comprehensive regulatory coverage globally.
- D** operate independently of banking infrastructure and manage settlement without reliance on bank partners.

Mark/Score: 1

16 Question Text:

Revaluations resulting from the translation of currency balances will typically need to be accounted for in the:

Options

- A** balance sheet.
- B** cash flow statement.
- C*** income statement.
- D** statement of shareholders' equity.

Mark/Score: 1

17 Question Text:

Which of the following best describes the purpose of thresholds in a KPI framework? They:

Options

- A*** define acceptable performance levels that trigger escalation and corrective action when breached.
- B** provide additional data inputs to improve the accuracy and timeliness of performance calculations.
- C** identify which treasury systems should be used to generate and validate performance measurement outputs.
- D** allocate responsibility for monitoring performance levels across treasury and finance teams.

Mark/Score: 1

18 Question Text:

Which of the following E-invoicing methods is most appropriate for business-to-consumer transactions?

Options

- A*** Electronic Bill Presentment and Payment (EBPP).
- B** Electronic Invoice Presentment and Payment (EIPP).
- C** Evaluated Receipts Settlement (ERS).
- D** Paid on Production (POP).

Mark/Score: 1

19 Question Text:

In Africa, the MPesa system is:

Options

- A** a digital currency.
- B** a messaging service.
- C*** a mobile payments tool.
- D** an online insurance company.

Mark/Score: 1

20 Question Text:

Which of the following actions is an organisation most likely to take first when considering ways to improve visibility of its cash balances?

Options

- A*** An audit of its bank accounts.
- B** A large-scale closure of bank accounts.
- C** An implementation of SWIFT reporting.
- D** A rationalisation of its bank relationships.

Mark/Score: 1

21 Question Text:

Intercompany payments managed centrally, are settled through a:

Options

- A*** netting centre.
- B** procurement centre.
- C** re-invoicing centre.
- D** clearing centre.

Mark/Score: 1

22 Question Text:

The unique feature of a 'dematerialised' letter of credit is that it has been issued:

Options

- A*** in an electronic rather than paper-based format.
- B** in a non-domestic currency.
- C** with an additional guarantee from a second bank.
- D** with a cancellation option for the issuing bank.

Mark/Score: 1

23 Question Text:

In a USD cash sweeping arrangement between companies whose functional currency is GBP, FX gains or losses would be reported in the:

Options

- A*** income statements of the account owner and the header account owner.
- B** balance sheets of the account owner and the header account owner.
- C** balance sheet of the account owner only.
- D** income statement of the header account owner only.

Mark/Score: 1

24 Question Text:

The impact of which of the following taxes is the most important to consider when arranging a cross-border intercompany royalty payment?

Options

- A*** Withholding tax.
- B** Import duty.
- C** Value-added tax.
- D** Stamp duty.

Mark/Score: 1

25 Question Text:

Which of the following is an example of 'disruptive innovation' which enables peer-to-peer lending using smart contracts?

Options

- A*** Decentralised finance.
- B** Challenger banks.
- C** Big data technology.
- D** Machine learning.

Mark/Score: 1

26 Question Text:

Which of the following are regarded as preventive internal controls within a treasury operating framework?

Select **ALL** that apply.

Options

- A*** Separation of transaction initiation, approval and settlement responsibilities.
- B** Periodic matching of internal cash records and external bank statements.
- C*** Requirement for two independent approvals for high-value payment releases.
- D** Post-event investigation of reconciliation differences by internal audit.
- E** Retrospective review of policy breaches during annual control assessments.

Mark/Score: 1

27 Question Text:

Which **TWO** of the following features support automatic cash application within a receivables process?

Options

- A*** A Unique customer vIBAN for each payer.
- B** Physical cheques received through postal delivery.
- C*** Structured payment references within ISO 20022.
- D** Manual remittance advices sent by email.
- E** Customer payment matching using payer name only.

Mark/Score: 1

28 Question Text:

Which **TWO** of the following systems directly interface with the corporate's treasury dealing counterparties?

Options

- A*** Confirmation matching systems.
- B** Electronic balance reporting (EBR) systems.
- C** Electronic bank account management (eBAM) systems.
- D** Market information systems.
- E*** Money market fund (MMF) portals.

Mark/Score: 1

29 Question Text:

Which **THREE** of the following processes are specific to building a range forecast?

Options

- A*** Analysis of risks and opportunities within the business unit cashflows provided.
- B*** Assessment of the likelihoods of outcomes projected by business unit cashflows.
- C*** Production of a statistical probability curve based on different predictions for cashflow outcomes.
- D** Calculation of a 'single point' cashflow forecast.
- E** Application of working capital ratios onto a projected sales forecast.
- F** Apportionment of the total forecast cashflows in a period into individual business unit cashflows.

Mark/Score: 1

30 Question Text:

Which **THREE** of the following are quantitative measures of treasury departmental performance?

Options

- A*** Accuracy of cash forecasting.
- B*** Timely process completion.
- C*** Subsidiaries' participation in intercompany netting.
- D** Provision of valued advice.
- E** Efficiency of staff.
- F** Development of bank relationships.

Mark/Score: 1

SECTION B

Section B consists of 6 case study-based scenarios, containing 5 multiple choice questions (MCQs), **worth 1 mark each**, relating to the case study.

These questions are all single response MCQs.

Section B will focus on smaller sections of the syllabus and requires more depth of knowledge and application to practice.

Section B – Case Study 101

Fable Group (FG) is a large multinational corporate, headquartered in Hong Kong, which trades in multiple geographies and currencies, as follows:

- SGD in Singapore
- HKD in Hong Kong
- USD in United States
- CNY in China.

FG runs a multilateral netting process quarterly for all its subsidiaries for intercompany trade payments only. Unfortunately, the netting process is often fraught with invoice disputes, leading to delays. The finance director has posed two questions to the cash manager about the netting process; firstly, whether it is possible to include intercompany dividends and royalty payments into the process; and secondly, whether the netting frequency is optimal for the group.

The treasury team is due to refinance HKD76m bank debt for a further six-month (182 days) term. The team is comparing the cost of external bank market funds to the cost of borrowing USD10m from FG's US subsidiary by executing a foreign exchange (FX) swap. The US subsidiary is holding a significant cash surplus in a non-interest-bearing bank account.

FG has been offered a new HKD bank loan at a margin of 1% over the 0.5% central bank rate on a 365-day year basis. Available foreign exchange rates have been quoted as follows:

- USD/HKD spot rate: 7.6000
- USD/HKD 6-month forward rate: 7.7000

The cash manager has also arranged a meeting with FG's small finance team based in China to discuss the following two issues:

- 1) An intercompany dividend payment to be made in CNY between a resident and non-resident account maintained in China. The cash manager advised that the payment amount must match the exact dividend declared but expects a smaller amount to reach the beneficiary account due to the fees that need to be paid to compensate the bank for central bank reporting of the transaction.
- 2) The Chinese business has requested that FG's treasury approve the receipt of customer mobile wallet payments. The proposal is that a corporate wallet would be set up to receive customer payments. The cash

manager has refused to approve the payment method for the time being but is prepared to reconsider this decision if it can be shown that the wallet could be integrated into the local enterprise resource planning (ERP) system.

31 Question Text:

In response to the finance director's first question, the cash manager should advise that it is possible to include:

Options

- A*** both dividend and royalty payments.
- B** dividend payments only.
- C** neither dividend nor royalty payments.
- D** royalty payments only.

Mark/Score: 1

32 Question Text:

In response to the finance director's second question, the cash manager is most likely to recommend changing the frequency of netting to:

Options

- A** annually.
- B*** monthly.
- C** semi-annually.
- D** weekly.

Mark/Score: 1

33 Question Text:

Which of the following statements about the comparative costs of refinancing the maturing debt is true?

Options

- A** Borrowing from the US subsidiary is HKD431,562 cheaper than external bank funding.
- B** Borrowing from the US subsidiary is HKD568,438 cheaper than external bank funding.
- C*** External bank funding is HKD431,562 cheaper than borrowing from the US subsidiary.
- D** External bank funding is HKD568,438 cheaper than borrowing from the US subsidiary.

Mark/Score: 1

34 Question Text:

Which type of bank fee is the cash manager expecting to affect the intercompany dividend payment?

Options

- A** Account maintenance fees.
- B** Commissions in lieu of exchange charges (CILEs).
- C*** Lifting fees.
- D** Turnover charges.

Mark/Score: 1

35 Question Text:

The cash manager has currently refused to approve mobile wallet receipts in China due to concerns about the:

Options

- A** cost of payment execution.
- B** finality of payments.
- C** speed of payment execution.
- D*** visibility of payments.

Mark/Score: 1

Section B – Case Study 102

Owen and Frank (OF) is a US-based private international project management firm that works with government clients to secure infrastructure financing for the purpose of international development. All of its clients are in developing markets with currency controls. OF bids on projects and once a bid has been won, revenue is generated by meeting certain agreed milestones throughout the project.

The cash manager of OF has produced a distribution model of how income is earned through the lifecycle of a typical project as follows:

Revenue pattern - weeks after start effect

<u>Weeks</u>	<u>% revenue</u>
1	2
2	5
3	7
4	1
5	14
6	21
7	36
8	14

Revenue pattern for a project - month of the year effect

<u>Month of the year</u>	<u>% revenue</u>
January	3
February	1
March	0
April	-2
May	2
June	3
July	0
August	-3
September	-3
October	-3
November	-3
December	-3
	4

A project worth USD430,876 has been won, so the cash manager is planning to use the following combined distribution model to forecast OF's revenue pattern:

<u>Week commencing</u>	<u>Weeks after project start date</u>	<u>Month</u>	<u>% Revenue</u>	<u>Revenue forecast</u>
23-Jun	1	June		
30-Jun	2	June		
07-Jul	3	July		
14-Jul	4	July		
21-Jul	5	July		
28-Jul	6	July		
04-Aug	7	August		
11-Aug	8	August		

The biggest cash outflow for OF is payroll, which is highly variable each month. The cash manager has implemented a speciality forecasting system for payroll, which can automate repetitive manual tasks leading to more timely data for treasury reporting.

OF has access to SWIFT and only works with banks that are SWIFT enabled. All cash balance reporting is automated through the interface with its enterprise resource planning (ERP) system. The treasurer has calculated that reducing the daily minimum cash reserve OF holds in its treasury current account could result in annual savings of approximately USD40,000. The cash manager has advised the treasurer that a large minimum cash reserve is necessary to cover any unexpected outflows from the treasury account. This is needed due to poor visibility of large transactions.

OF has a large, trapped cash balance in Nigeria denominated in the local currency (NGN). The Central Bank of Nigeria (CBN) places regulatory restrictions on financial flows, but permits intercompany trade payments. The cash manager has been asked to find appropriate ways to reduce OF's NGN balance.

36 Question Text:

What percentages of the total project income are forecast to be earned in week 1 and week 2 respectively?

Options

- A** 2% and 5% respectively.
- B** 4% and 12% respectively.
- C*** 5% and 8% respectively.
- D** 6% and 15% respectively.

Mark/Score: 1

37 Question Text:

What is the project income forecast for week 8?

Options

- A*** USD47,396.
- B** USD54,834.
- C** USD60,323.
- D** USD73,249.

Mark/Score: 1

38 Question Text:

What feature of the newly implemented payroll forecast system will be most beneficial to OF?

Options

- A** Data analytics.
- B** Data visualisation tools.
- C** Machine learning.
- D*** Robotic process automation (RPA).

Mark/Score: 1

39 Question Text:

Which of the following types of intercompany payments could be considered for settlement in NGN?

Options

- A** Dividends.
- B** Loans.
- C*** Royalty charges.
- D** Share buy-backs.

Mark/Score: 1

40 Question Text:

Which of the following technologies could best help OF's treasury realise the USD40,000 annual cost saving? The implementation of:

Options

- A** Application Programming Interfaces (APIs).
- B** electronic banking platforms.
- C** host-to-host communications.
- D*** SWIFTgpi.

Mark/Score: 1

Section B – Case Study 103

Special Packaging Group (SP) is a cardboard box manufacturer based in the Netherlands. SP retails its boxes to small businesses across the whole of Europe and invoices in a range of currencies (EUR, PLN, CZK and CHF) but its functional currency is EUR.

SP has four bank accounts in its trading currencies which are notionally pooled in the Netherlands with SP's treasury team managing the pool header account. This allows access to a EUR3m pool overdraft facility. The pooling arrangement documentation imposes a single account overdraft limit of EUR7m and a gross overdrawn limit across all accounts of EUR10m. Intraday limits are set at EUR20m.

Despite efforts to promote electronic payments, SP still receives a large number of customer payments by cheque, including those in foreign currency (FCY). SP has requested that its bank 'negotiate' all future FCY cheque payments. The bank has agreed to this on a 'with recourse' basis.

SP is currently negotiating a contract with a new supplier of packaging in Sweden. The supplier has suggested documentary collection as the method of transferring title and making payment, but SP is concerned about the costs and added administration involved with trading in this way. The cash manager has advised the Swedish supplier that SP would prefer to use the same method as it uses for its longstanding contracts with other suppliers, which involves settling invoices 30 days after goods are shipped and delivered.

SP's cash flow forecast for 31 July is showing that a number of large payments and receipts are due, as follows:

EUR '000s	31 July Opening balances	Payments	Receipts	31 July End of day balances
Treasury account	214	0	565	779
Account 1	(450)	(1,415)	0	(1,865)
Account 2	5,907	0	4,309	10,216
Account 3	(6,487)	(976)	1,445	(6,018)
Account 4	(132)	(4,887)	546	(4,473)
Notional Pool balance	(948)	(7,278)	6,865	(1,361)

It is now 2 July and the treasurer has asked the cash manager for a funding strategy for the forecast deficit on 31 July. As the deficit is only due to be temporary, the cash manager plans on utilising the pool overdraft facility. In advance of this date, though, the cash manager will request a temporary extension to the pool overdraft limits, as required.

SP is forecast to generate sustained surplus cash balances in the latter part of the year, so the cash manager is currently drawing up a new investment policy for inclusion in the treasury policy. The cash manager's policy addresses credit risk and liquidity risk, but the treasurer is unhappy that a third key

investment risk has not been addressed within the first draft of the new policy. The cash manager has agreed to add further content to the policy in this regard for further review.

41 Question Text:

Which of the following is treasury achieving with its cheque strategy? It is:

Options

- A eliminating default risk.
- B* enhancing liquidity.
- C managing its interest rates
- D transferring counterparty exposure.

Mark/Score: 1

42 Question Text:

Which of the following methods of trade settlement would SP prefer to use with its Swedish supplier?

Options

- A Avalisation.
- B Cash in advance.
- C Letter of credit.
- D* Open account.

Mark/Score: 1

43 Question Text:

Which of the following is a feature of the cash manager's funding strategy for 31 July?

Options

- A*** The bank can demand repayment at will.
- B** The bank may charge fees for early repayment.
- C** The bank will charge interest based on the prevailing rate on the repayment date.
- D** The bank will expect repayment on a pre-agreed date.

Mark/Score: 1

44 Question Text:

Which of SP's agreed overdraft limits will need to be extended on 31 July?

Options

- A** Gross overdraft limit and single account overdraft limit.
- B*** Gross overdraft limit only.
- C** Intraday limit only.
- D** Single account overdraft limit and intraday limits.

Mark/Score: 1

45 Question Text:

Which of the following is the third **KEY** risk omitted by the cash manager in the first draft of the new treasury policy?

Options

- A** Counterparty risk.
- B** Currency risk.
- C*** Interest rate risk.
- D** Transaction risk.

Mark/Score: 1

Section B – Case Study 8

The consolidated balance sheets of **Arena Torena** (AT) contain the following information:

	Two years ago (GBP'000)	Last year (GBP'000)
Assets		
Plant and equipment	2,000	2,300
Vehicles	1,500	1,800
Total non-current assets	3,500	4,100
Current assets		
Cash and cash equivalents	3,452	3,765
Marketable securities	2,900	4,356
Inventories	1,022	1,076
Accounts receivable	2,774	2,895
Total current assets	10,148	12,092
Total assets	13,648	16,192
Current liabilities		
Accounts payable	1,811	1,913
Short-term debt	1,092	1,117
Taxes payable	1,012	928
Total current liabilities	3,915	3,958

AT is considering an investment in a six-month certificate of deposit. The treasurer is checking with the accounting team which asset classification would apply.

AT's treasurer is researching invoice financing solutions and has discovered that different options exist. If AT proceeds, the treasurer does not wish to increase the company's reported gearing and has also discussed how the derecognition implications of IFRS9 can be avoided with AT's accounting team.

It is now 31 July and the accounting team is reviewing how AT will need to report its non-current liabilities in future based on the Accounting Standards Board's clarification of what constitutes 'a right to defer settlement'. AT's reporting period ends on 31 December.

AT has a multi-bank revolving credit facility (RCF) which it arranged on 2 February last year for a four-year term. The RCF was classified as a non-current liability in last year's accounts. The credit facility documents require compliance reporting annually from date of inception.

AT is domiciled for tax purposes in the UK and earns GBP400,000 on a global basis, which counts as its domestic income. This income includes USD30,000 its subsidiary company generated from operations in the US. The tax rate in the UK is 25% and the tax rate in the US is 15%. The GBP/USD exchange rate is 1.4000.

A tax treaty is in place which allows AT to use the overseas tax it pays to offset and reduce the amount of tax due in the UK.

46 Question Text:

Which of the following figures included in AT's balance sheet for last year represents the asset(s) with the best liquidity?

Options

- A** GBP1,076.
- B** GBP2,300.
- C** GBP2,895.
- D*** GBP4,356.

Mark/Score: 1

47 Question Text:

How would the investment the treasurer is considering be classified?

Options

- A** Account receivable.
- B** Cash equivalent.
- C*** Marketable security.
- D** Non-current asset.

Mark/Score: 1

48 Question Text:

When would AT need to confirm compliance with the credit facility conditions each year from now on?

Options

- A** 2 February only.
- B** 31 December only.
- C*** Both 31 December and 2 February.
- D** Both 31 July and 31 December.

Mark/Score: 1

49 Question Text:

What advice should the accounting team have given the treasurer regarding the invoice financing solution?

Options

- A*** AT should avoid paying the financing costs and financing should be on a non-recourse basis.
- B** AT should avoid paying the financing costs and financing should be on a recourse basis.
- C** AT should pay the financing costs and financing should be on a non-recourse basis.
- D** AT should pay the financing costs and financing should be on a recourse basis.

Mark/Score: 1

50 Question Text:

Which of the following shows AT's Quick Ratio for the previous financial year?

Options

A* 2.78

B 3.06

C 2.33

D 2.59

Mark/Score: 1

Section B – case study 204

Jubba Bubba (JB) is a Canadian children's snack producer, which has been acquired by a large US food group, Lawler Hills (LH). LH wants to understand how onerous it would be for JB to change banking provider in order to leverage LH's preferential banking fees. JB has a bank agnostic connectivity solution in place, so making changes should be straightforward.

LH has a strict security policy in place that JB now needs to comply with. LH requires the use of digital signatures and expects a strict regime for segregation of duties to be in place. It also sends test phishing emails regularly to find out how employees deal with these. LH has asked JB's treasury to suggest a benchmarking key performance indicator (KPI) that would satisfy its policy regarding the use of the test phishing emails.

The acquisition of JB by a publicly listed US corporate has meant a change in the company's corporate governance requirements. JB must now comply with Sarbanes Oxley (SOX) legislation. JB is advising all of its external stakeholders of the impact that SOX will have upon it, starting with those most impacted.

LH is also undertaking a review of all its ethical policies in light of the changing group structure and will publish its updated policies by the end of the year.

51 Question Text:

Which of the following methods of connectivity does JB currently have?

Options

- A** Bank proprietary software.
- B** Electronic banking platform.
- C** Host-to-host.
- D*** Third party aggregator.

Mark/Score: 1

52 Question Text:

Which of the following types of risk is LH primarily addressing with its security policy?

Options

- A** Counterparty risk.
- B** Financial risk.
- C** Geo-political risk.
- D*** Operational risk.

Mark/Score: 1

53 Question Text:

Which of the following KPIs is most likely to satisfy LH's policy requirements for benchmarking JB's treasury performance in relation to the phishing emails?

Options

- A** Number of employee queries regarding the test phishing emails.
- B*** Percentage test phishing email pass rate compared to the other finance teams.
- C** Target pass rate of the test phishing emails.
- D** Time taken to respond to the test phishing emails.

Mark/Score: 1

54 Question Text:

Which of the following of JB's external stakeholders is most likely to be advised first about the impact of SOX regulation?

Options

- A*** Auditors.
- B** Derivative banks.
- C** Money market funds.
- D** Technology providers.

Mark/Score: 1

55 Question Text:

Which of the following will be included in LH's current policy review?

Options

- A*** Anti-corruption policy.
- B** Bank relationship management policy.
- C** Dividend policy.
- D** Finance policy.

Mark/Score: 1

Section B – case study 206

Amro Amani (AA), a company headquartered in Dubai, is implementing a treasury management system (TMS). AA has asked the TMS supplier to provide support relating to the mapping of system access rights to ensure best practice is being applied. The TMS supplier has proposed that AA sets up access rights as groups based on the roles of treasury staff.

The first interface AA is setting up in the new TMS is with its existing 360T platform.

Regarding business continuity, AA has been reassured by its supplier in writing about the required level of availability that the new TMS will deliver. The supplier will also provide back-up data centres and appropriate support services.

AA's TMS provider has advised that its next TMS update will include capability to handle all major decentralised cryptocurrencies. This is of interest to AA as it has started to accept trades in some of these.

As a separate initiative, AA is seeking a technological solution to improve its cashflow forecasting accuracy.

56 Question Text:

Which of the following is an advantage of the proposed approach to access rights?

The approach will allow:

Options

- A** a greater degree of customisation.
- B*** flexibility for personnel changes.
- C** systems administrators to be dispensed with.
- D** systems outages to be overridden easily.

Mark/Score: 1

57 Question Text:

Which of the following system types is being set up in the new TMS first?

Options

- A** Cashflow forecasting system.
- B** Enterprise resource planning system.
- C** Money market fund portal.
- D*** Multi-bank dealing platform.

Mark/Score: 1

58 Question Text:

What has been provided to AA in writing to provide reassurance about its business continuity?

Options

- A** Dealing mandate.
- B** Digital certificate.
- C** Disaster recovery plan.
- D*** Service level agreement.

Mark/Score: 1

59 Question Text:

Which of the following currencies is due to be included in the next TMS update?

Options

- A*** Ethereum.
- B** Fiat currency.
- C** The Digital Yuan.
- D** The Sand Dollar.

Mark/Score: 1

60 Question Text:

Which of the following is most likely to help AA with its forecasting objective?

Options

- A*** Artificial intelligence.
- B** Blockchain.
- C** Decentralised finance.
- D** Documentary collection.

Mark/Score: 1

SECTION C

Section C is made up of 4 case study questions and is worth a total of 40 marks.

4 longer form question: 4 x 10 mark question.

Please note that some questions may be broken into sub-questions (for example a,b,c).

Questions will be based on mini-scenarios common to practice. Questions will test knowledge, analysis, application and justification as appropriate to level descriptors.

Please ensure you open and read the associated Case Study information before answering the question. This can be found above the answer box.

Case Study – P1-C1

Healthcare Providers Ltd. (HP), which is listed on the Singapore Stock Exchange, is a provider of medical support and consultancy services to healthcare businesses in South East Asia.

HP's functional currency is SGD, but it has to trade in three currencies and in three countries because it has:

- a subsidiary in Singapore with SGD bank accounts. SGD is a freely convertible currency
- a subsidiary in Thailand with THB bank accounts. The Bank of Thailand has recently relaxed all currency restrictions on THB
- a joint venture (JV) with Thai Health, based in Thailand and trading in THB
- a subsidiary in Malaysia trading in MYR. The Bank Negara Malaysia (the central bank for Malaysia) has imposed currency controls on MYR.

In addition, the Singapore-based parent company has a domestic SGD bank account and a non resident THB bank account in Thailand. Due to currency controls, the parent company is not able to open a MYR bank account.

HP had two bank accounts in Singapore with negligible deficit balances, but HP is completing a 100% acquisition in Singapore of a company called Gold Care (GC). GC has three bank accounts in SGD, one of which has a very large surplus cash balance. The other two have small surpluses.

In Thailand, HP has six bank accounts. Two of the bank accounts are associated with the JV and have large surplus balances. The remaining four accounts belong to the local subsidiary and have small cash surpluses.

In Malaysia, there are three bank accounts, each with a small cash surplus.

HP is refinancing its current borrowings with a new SGD-denominated revolving credit facility (RCF) with an initial term of four years, financed by its four relationship and cash management banks in its home market. These large banks offer a full suite of cash management solutions.

The RCF will fund the entire acquisition payment for GC and will also be used for liquidity management and cash headroom purposes going forward. Before finalising the lending agreement, the banks that will provide the RCF have requested a cash flow forecast from HP, using the pro forma statement method.

The RCF refinancing has fallen at a difficult time during the COVID-19 pandemic and the borrowing cost of the new RCF is much higher than the maturing one. As a result, the treasurer has asked the cash manager to utilise all internal funds to reduce the level of RCF borrowing, as this will be a more cost-effective solution for HP.

Question C1a

Discuss the potential cash management solutions and limitations that the cash manager should be aware of when optimising HP's internal cash balances to reduce RCF borrowing.

Mark/Score: 5

Question C1b

Explain why HP's banks have requested a pro forma statement forecast and how they might use this in its assessment of HP's borrowing request.

Mark/Score: 5

Case Study – P1-C2

Connex Bus (CB) is a large and sophisticated bus and coach travel company domiciled in the Netherlands, which serves much of western Europe. CB has recently acquired a bus travel provider in Morocco called MorBus.

The plan is for CB to leverage its technology and expertise in digital platforms to grow the MorBus business and improve its profit margins.

An onboarding plan has been developed. All relevant information relating to MorBus is being integrated into CB's own treasury systems. CB uses a treasury management system (TMS) which provides all the functions a treasurer would typically expect to manage workflow effectively.

In future Morbus will follow CB's policies and procedures, but its local treasury team in Morocco will continue to trade external deals, using their local banks and local knowledge.

The first priority for CB's treasury is to onboard MorBus' new and existing derivative trades into its TMS so that the counterparty limits of the newly combined group can be calculated and a check undertaken to ensure compliance with policy.

The two-person treasury team in Morocco will be able to define its own treasury transaction workflows within the TMS for its commodity (diesel) and FX deals, which it trades over the phone.

Due to the larger size of the combined business, CB's treasury team has proposed to the finance director that they get direct access to the SWIFT system to facilitate both business and treasury payments. The finance director has agreed to review the business case.

Question C2a

Explain how the treasury team based in Morocco might use CB's TMS effectively in the future.

Mark/Score: 5

Question C2b

Explain the characteristics, cost structure and process of the SWIFT system and the benefits it would bring to CB's enlarged business.

Mark/Score: 5

Case Study – P2-C3

Guard Advisors (GA) is an Indian investment firm which is seeking expansion opportunities in Southeast Asia, most notably through a new venture in Thailand, which will be called GA Thailand.

In order to provide its full range of services, GA Thailand needs to be established and become regulated by the Bank of Thailand.

GA is investigating the tax implications for any future profits that could be made from its new venture. The tax team has confirmed that India and Thailand have a tax treaty (double taxation agreement) in place and are investigating which of the three types of treaty it is.

As part of its customer service, GA provides regular updates to its customers on key financial trends. Its latest update is an information document, based on the academic writing of Andreas Antonopoulos, about three types of cryptocurrencies:

1. Money of the People
2. Money of the Government
3. Money of the Corporation.

Question C3a

Explain the purpose of a tax treaty and the **THREE** types of treaty GA's tax team are investigating.

Your explanation must include the type of treaty the tax team would prefer.

Mark/Score: 5

Question C3b

Describe the information GA is likely to include within its latest customer update.

Mark/Score: 5

Case Study – P1-C4

Fresh and Quick (FQ) is a large supermarket chain in the United States with annual group revenues in excess of USD10bn.

FQ recently updated its medium and long-term cash flow forecasts, which it used to determine the size and duration of its upcoming funding requirements. As a result, FQ has issued the following US Commercial Paper (CP):

FQ's funding manager has also agreed a new committed facility with three banks to meet FQ's longer term cash requirements.

Face value	Dealer charges
Term	91 days
Discount rate	2.8500%
Credit enhancement costs	0.3800% on the face value
Dealer charges	0.1000%

There are two financial covenants included in the new committed facility documentation:

- 'Net Debt' must not exceed a maximum of four times 'Earnings Before Interest, Tax, Depreciation and Amortisation' (EBITDA)
- 'Earnings Before Interest and Tax' (EBIT) must be maintained at a minimum level of five times interest paid.

The funding manager has asked FQ's cash manager to include these financial covenants in future cash flow forecasts and treasury reports.

Question C4a

Calculate the annualised all-in cost of FQ's recent CP issue.

Mark/Score: 5

Question C4b

Explain why FQ's banks included the two financial covenants in its committed facility documentation and why it is important for FQ's cash manager to be aware of them.

Mark/Score: 5

Case Study – Mark scheme

C1a	Syllabus refs: Unit 1:1.1 LO1; Unit 2:2.2 LO6	HP has available internal funds that could be used to reduce its external borrowings on the new RCF and be more cost-effective than borrowing on the RCF. As HS's functional and funding currency is SGD, optimal available cash balances should be converted into SGD so that they can be used to repay SGD borrowings on the RCF. Firstly, looking at the SGD balances: post-acquisition of GC, HP will have five SGD bank accounts. It can be assumed that, once consolidated, there will be a surplus balance in SGD, as one of the GC accounts has a very large cash balance offsetting the negligible deficit balances mentioned. A pooling solution would work best for SGD, with the parent company account as the master/header account. Physical or notional pooling could be considered for these accounts depending on what is available in country and from its cash management bank. Once the surplus is swept or pooled to the master, the balance could be used to reduce RCF borrowings. Secondly, looking at the THB balances: all of the THB bank accounts are in surplus, so there is a benefit to optimising these funds. The parent company non-resident bank account should be used as a master/header account for a physical or notional pool to consolidate the local balances. Once the THB balances are consolidated, treasury could execute an FX swap to convert the THB into SGD. These funds would then be used to reduce RCF borrowings. LIMITATIONS It is most likely that the THB large surplus balances in the JV will not be available for HS to use to reduce debt. Most JV agreements mean that the bank accounts are ring-fenced for JV purposes only. There is no cash management solution available to make use of these funds. The small MYR balances are also not available for HS to use to reduce borrowings. While a local cash management structure could be implemented, the funds could not be converted into SGD, as the parent company does not have a MYR account. The currency controls mean that FX trading will not be available. These funds are unlikely to be available for HS to reduce debt.
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C1b		The pro forma statement method is a strategic long-term cash forecast (covering periods of one to five years) and is based on projected income statements and balance sheets. It is normally derived from the corporate budgeting and planning system, usually looking ahead at expected sales patterns. The banks have requested a pro forma cash flow forecast to determine the financial sustainability of HP, which is vitally important to them as they are considering long-term lending (four years). The banks may have introduced more stringent lending criteria due to the fact that the RCF refinancing has fallen at a difficult time during the COVID-19 pandemic when bank liquidity may be affected. The banks will also be keen to see how the challenging economic conditions may affect HP's sales patterns in the longer term and to ensure that HP's income forecasts are updated to reflect the impact of the pandemic. Once the pro forma forecast has been prepared, it can be used to test different scenarios, which will be very useful for the banks. HP and the banks can use the forecast to test the scale of borrowing that HP will need and determine the most appropriate size of loan. The forecast will then demonstrate by projecting income statement and cash flows how HP's positive cash flows can be used to repay the loan.
C2a	Syllabus refs: Unit 4:4.3 LO17; Unit 3:3.1 LO9	The recommended 'best practice' treasury transaction workflow is as follows: Deal input – Approvals – Confirmation – Settlement generation – Payment initiation. Deal input The TMS must record all transactions performed by the locally based treasury team. Transactions will need to be input directly into the system, as deals are completed on the telephone. Depending on the TMS capabilities, it is recommended that the following be done at deal input stage: • competitive quotes for performance analysis purposes • check the deal against counterparty and other limits used by treasury • produce all the cash flows resulting from the deal (such as flows at the start or maturity of the transactions, or periodic flows such as interest)

		• initiate actions for events such as rate sets, or option expiry dates, for the relevant dates • pass the deal through the work-flow which is set up for the transaction type/amount/dealer • create the entries needed to record the transaction in the books of account • log hedge relationships required to satisfy the accounting requirements for obtaining hedge accounting treatment. Approval It is normally recommended that all transactions and payments must be authorised by someone other than the originator, but as the team in Morocco is so small, this may not be possible. If time zones allow, it would be good practice for the CB treasury team to approve deals. If not, the best solution would be for systems to be set up so that transactions outside of predetermined limits cannot be entered into the TMS. This would reduce the need for approvals if not logistically possible. Confirmation The TMS should produce confirmations in either letter format or, more usually for high volume treasuries, a file produced in the format required by the confirmation matching system. Settlement generation The TMS stores information about the firm's own settlement instructions and those of its counterparties (part of its 'static data'). These are usually allocated automatically to each transaction based on the type of transaction and currency. The TMS permits cash flows to be netted and/or split, either manually or automatically according to rules which have been defined. Payment initiation Once settlement instructions have been checked, the payment file can be produced in the format appropriate for the Morocco team.
C2b		The characteristics of the SWIFT system are that it provides: • standardised message formats for all transactions • high security - using 'public key infrastructure' (PKI) • high availability – zero 'downtime' • operations centres and regional processors.

		The process is: • data from the sending user is sorted and immediately despatched to receiving banks. The system transmits data, not funds. Member banks still need a correspondent bank to settle financial transactions. The cost is: • one-off membership fee • annual fixed fee • per item charges which reduce as volumes increase • SWIFT infrastructure and systems costs • member internal infrastructure and systems costs. The advantages to CB are all the efficiencies it brings, which will be helpful for the combined business. As the acquisition plan is around leveraging technology, the following will be useful: • standard message formats facilitate automated handling and STP • fast and secure • beneficiary bank gets speedy receipt of messages • reduced errors.
C3a	Syllabus refs: Unit 5:5.2 LO21; Unit 6:6.3 LO24	Tax treaties (also known as double taxation agreements) are a set of bilateral agreements between two countries that set out the taxation rights of each country in respect of tax charged in the other. They are designed to facilitate international trade. When a company receives income from an overseas territory that has been taxed at the local level, there are three options in dealing with the potential for double taxation: 1. If the tax treaty calls for participation exemption (which prevents the same income from being taxed twice), the income may not be taxed again at the shareholder level. For GA this would be the most preferable tax treaty as it would result in the smallest tax liability on profits earned in Thailand. 2. The overseas tax is used to offset and reduce any domestic tax liability, i.e., the amount of the tax already paid reduces the amount of the tax due at home by an equal or percentage amount. This deduction in taxes would present a smaller tax saving compared to the participation exemption treaty for GA. 3. The overseas tax may simply be allowed as a tax deduction against the domestic tax liability, i.e., the tax paid overseas

		is used as a deduction against domestic income, reducing taxable income. The income in question could be profits of a foreign branch of the company itself, or a payment received from another company resident in the other territory (for example, a dividend, a royalty, or an interest payment). For GA, this would be the least preferable type of tax treaty, as profits earned in Thailand would not reduce the local tax bill as much as the other two options.
C3b		<u>Money of the People</u> Examples include Bitcoin and Ethereum. These are fully decentralised cryptocurrencies. They are open, borderless, neutral and censorship resistant. Decentralised cryptocurrencies are maintained and improved by a core developer group which governs by consensus. It is this consensus that maintains the integrity of the currency and reduces the risk of fraud. <u>Money of the Government</u> Central Bank Digital Currencies (CBDC) are still in their infancy, but these are most similar to fiat currencies, but in digital form. Central banks could reduce financial service delivery costs and boost transactional efficiency by issuing a cryptocurrency. These currencies would have the most benefits in countries where citizens have difficulty accessing traditional banking channels. <u>Money of the Corporation</u> Corporate currencies are at proposal stages within huge tech company headquarters. As an example, Facebook has been considering the development of its own cryptocurrency. Consumer-facing but controlled cryptocurrency use is also emerging through PayPal, who declared in 2020 that they would allow transactions in Bitcoin on their platform. The caveat is that coins cannot be deposited or withdrawn, but they are facilitating instant settlement cross border.

C4a	Syllabus refs: Unit 1:1.4 LO4; Unit 3:3.3 LO11	Issue costs $= \text{FV} \times (\text{discount \%} + \text{enhancement \%} + \text{dealer \%}) \times (\text{days/year basis})$ $= \text{USD}40,000,000 \times ((0.0285 + 0.0038 + 0.001) \times (91/360))$ $= \text{USD}40,000,000 \times 0.0084175$ $= \text{USD}336,700.00$ Issue proceeds = FV – discount amount $= \text{USD}40,000,000 - (\text{USD}40,000,000 \times 0.0285 \times (91/360))$ $= \text{USD}40,000,000 - \text{USD}288,166.67$ $= \text{USD}39,711,833.33$ The annualised all-in cost is calculated as follows: = $\frac{\text{total issue costs}}{\text{issue proceeds}} \times \frac{\text{year basis}}{\text{Days}}$ $= \frac{\$336,700}{\$39,711,833.33} \times \frac{360}{91} = 0.0335416$ $= 3.35\%$
C4b		The financial covenants in FQ's committed facility documentation are clauses that commit FQ to operate within pre-defined financial constraints. The net debt/EBITDA covenant is a leverage covenant setting out a maximum level of debt, relative to earnings. In this case the proxy used is earnings before interest, tax, depreciation and amortisation (EBITDA). This means net debt cannot exceed four times EBITDA. The EBIT/Interest paid covenant is a cover-ratio or coverage covenant requiring FQ to maintain a minimum level of earnings (EBIT) relative to interest paid. The interest paid will usually include all debt servicing costs. If FQ breached a financial covenant, it would likely constitute an event of default meaning FQ would have to renegotiate its terms with the banks well before there is a serious risk of insolvency. This means the banks can have an early warning system if FQ's financial situation deteriorates. The cash manager must make sure that measuring and ensuring compliance with financial covenants is not too onerous a task. The cash manager should regularly review covenant compliance and monitor forecast compliance to highlight any potential problems. This is particularly important when performing stress tests as compliance with banking covenants and the availability of credit facilities are critical factors.

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