ACT Practice Paper

Certificate in Treasury – MicroCredentials
Debt management & international trade

Practice Paper

Practice paper for the Certificate in Treasury – MicroCredential – Corporate finance (DM)

Based on the syllabus assessed from 07 October 2025.

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 DM MicroTest. It contains a practice assessment for the specified MicroTopic as well as practice answers.

Ideally, you should have completed the majority of your studies for DM before attempting this practice paper. You should allow yourself 60 minutes to complete the exam. You should then review your performance to identify areas of weakness on which to concentrate the remainder of your study time.

Although the practice paper in this guide is typical of a DM assessment, it should be noted that it is not possible to test every single aspect of the Learning Outcomes in any one particular assessment. To prepare properly for the MicroTest, you should make full use of the tuition options where available and read as widely as possible to ensure that all Learning Outcomes have been covered.

Assessment technique: DM

The best approach to multiple choice assessments is to work methodically through the questions.
You should not spend too much time on any one question. If you cannot make up your mind, you should leave the question, flagging it to come back to later.

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 incorrect response to a correct response could make the difference between passing and failing.

Assessment information

The DM assessment consist of 23 questions, split into sections A, B and C; and is worth a total of 50 marks.

DM MicroTest specification:

Section	Number of questions	Marks available	Question format
Section A	10 Multiple Choice questions (MCQs) and 5 Multiple Response questions (MRQs).	15	This section will test a cross-section of knowledge to achieve breadth of syllabus coverage.
Section B	1 mini scenario with 5 accompanying MCQs.	5	This section will test a cross-section of knowledge to achieve breadth of syllabus coverage.
Section C	3 longer form questions.	30	This section will be based on mini-scenarios common to practice. Questions will test knowledge, analysis, application and justification as appropriate.
Total	23	50	

Under exam conditions, 60 minutes is allowed for the DM MicroTest.

When you take your actual MicroTest, 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.

Questions

SECTION A

Section A is made up of 10 Multiple Choice questions and 5 Multiple Response questions and is worth a total of 15 marks.

10 Multiple Choice questions: 10 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:

A company issues USD50m commercial paper at a discount rate of 1.8% for 181 days.

How much would the company receive?

Options

A* USD49,547,500.

B USD49,551,558.

C USD49,557,647.

D USD50,456,632.

Mark/Score: 1

2 Question Text:

An investor purchases a discount bond with a face value of GBP10,000 and a maturity of 2 years. What market price does the investor pay if the market rate of return is 3.25% per annum?

Options

A 10,661

B 650

C 9,350

D* 9,380

Mark/Score: 1

3 Question Text:

What is the value of a 5%, five year bond with annual coupons and face value equal to GBP100, if the current yield to maturity is 5%?

Options

A* GBP100.

B GBP105.

C GBP92.80.

D GBP95.

Mark/Score: 1

4 Question Text:

Revolving Credit Facility (RCF) fees include:

Options

A* margin over a floating reference rate and commitment fees.

B margin over a fixed rate plus uncommitted fees.

C floating reference rate plus commitment fees.

D margin over a floating reference rate only

Mark/Score: 1

5 Question Text:

In international trade, which of the following risks do exporters face?

Options

A Money tied up in payables.

B* Credit risk of the customer.

C Dependence on the supplier

D Risk of late delivery of goods or poor quality.

Mark/Score: 1

6 Question Text:

Which of the following international trade payment arrangements is most preferential for an importer?

Options

A Documentary collection.

B Letter of credit.

C* Open account.

D Payment in advance.

Mark/Score: 1

7 Question Text:

A bank loan with an eight year term has the following interest rate structure: EURIBOR + 30 basis points for 4 years, EURIBOR + 50 basis points for two years and EURIBOR + 80 basis points for two years.

Which one of the following describes this structure?

Options

A A pre-agreed drawdown schedule.

B* A stepped margin.

C A ratchet.

D A financial covenant.

Mark/Score: 1

8 Question Text:

Which of the following securities earns its entire return on redemption?

Options

A Straight bond.

B* Zero coupon bond.

C Government bond.

D Junk bond.

Mark/Score: 1

9 Question Text:

Which of the following facilities is most likely to be transferable by the lender?

Options

A Bilateral debt facility.

B Overdraft facility.

C Revolving credit facility.

D* Syndicated debt facility.

Mark/Score: 1

10 Question Text:

Which of the following describes a Eurobond? A bond:

Options

A denominated in any currency and issued in the Eurozone.

B denominated in Euros and issued in the Eurozone.

C denominated in GBP and issued in London.

D* denominated in USD and issued outside the USA.

Mark/Score: 1

11 Question Text:

Which **TWO** of the following are advantages of a revolving credit facility (RCF) compared to an uncommitted bank line?

An RCF:

Options

A* is a committed facility and hence there is certainty of funding.

B is an uncommitted line requiring less management administration time.

C* is more flexible as liquidity needs can be better matched to the business.

D provides an alternative source of funding diversification.

E usually has a fixed rate of interest and so funding costs are certain.

Mark/Score: 1

12 Question Text:

Which THREE of the following are characteristics of the domestic US commercial paper (USCP) market?

Options

A* Market returns are quoted at a discount rate.

B Market returns are quoted on a yield basis.

C The day convention used for issues is 365 days.

D* The maximum tenor for USCP is shorter than that available for Euro commercial paper.

E* The secondary market is very liquid.

Mark/Score: 1

13 Question Text:

Which **TWO** of the following are characteristics of factoring?

Options

A It is a form of asset backed financing where the receivables are sold to a SPV.

B It is mainly used by large companies as a method of financing their working capital.

C* The receivables are sold and debts can be on a non-recourse basis.

D The sale of the receivables is on a confidential basis and the company retains control of the sales ledger.

E* The sales ledger is managed by the factoring agent.

Mark/Score: 1

14 Question Text:

Which **TWO** of the following are typical characteristics of a straight bond?

Options

A All return is earned on redemption.

B Convertible to equity.

C* Coupon paid on regular dates.

D* Nominal value of the bond repaid on a specified date.

E Sold to investors at a price below face value.

Mark/Score: 1

15 Question Text:

Which **THREE** of the following are typical characteristics of a Medium Term Note programme?

Options

A Full legal documentation required on each issue.

B Issues are only in US Dollars (USD).

C* Issues can use fixed or floating rates.

D* Pricing supplement sets out the terms of each issue.

E* Programmes have a credit rating.

Mark/Score: 1

SECTION B

Section B consists of 1 case study based scenarios, each 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 307-6

The Swiss company **Sandy Markets** (SM) has a EUR100m revolving credit facility with a syndicate of banks in place. The commitment fee on this facility is 50 basis points. The facility is drawn 70% during an interest calculation period of 100 days. SM agreed with its partners that the RCF cannot be transferred without SM's consent. SM forecasts that the facility will be fully drawn over the next five years.

SM has an outstanding bond which matures in two years. It is now evaluating whether it should arrange additional bank borrowing to refinance the bond or issue another bond. SM's bond holders are focused on the return while SM's banking partners are mainly interested in capital preservation. SM's main concern is flexibility and very little restrictive covenants to not increase reporting requirements. If it has surplus cash, it would like to repay its debt early. Borrowing requirements for SM are forecast to fluctuate widely. SM’s treasurer has not been satisfied with the cost of debt in the past, since it was perceived as too high.

16 Question Text:

How much does SM pay as a commitment fee?

Options

A EUR41,095.89

B* EUR41,666.67

C EUR 95,890.41

D EUR97,222.22

Mark/Score: 1

17 Question Text:

Which of the following is correct for SM's syndicated RCF compared to a bilateral facility?

Options

A Negotiating syndicated loan terms is easier.

B The RCF bears the risk that SM ends up with an unknown bank.

C The RCF loan document is shorter.

D* Under SM's current forecast, no commitment fee is due.

Mark/Score: 1

18 Question Text:

Which of the following sources of debt, if any, is the most appropriate for SM?

Options

A A Eurobond.

B* A higher RCF.

C A term loan.

D None.

Mark/Score: 1

19 Question Text:

What can SM do to decrease its cost of debt?

Options

A Increase gearing.

B Negotiate a higher debt/EBITDA covenant.

C Negotiate a lower interest cover covenant.

D* Post security.

Mark/Score: 1

20 Question Text:

Which of the following do SM's banking partners require on a periodic basis?

Options

A A listing.

B Prospectus.

C* Published financial statements.

D Roadshows.

Mark/Score: 1

SECTION C

Section C is made up of 3 case study questions and is worth a total of 30 marks.

3 longer form questions: 3 x 10 mark questions.

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

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.

<u>**Case Study C205-2**</u>

Company Fosytts is exporting goods to company Everlyin, located in a foreign country. Fosytts has previously insisted on payment being made in advance but Everlyin is now seeking to pay by documentary credit instead.

21 Question Text:

Section C - Case Study 205-2a

Identify **THREE** risks faced by a company that is involved in international trade as a buyer.

(3 marks)

Mark/Score: 3

22 Question Text:

Section C - Case Study 205-2b

Explain why Everlyin might prefer to make the payment using a documentary credit and why Fosytts is likely to resist such a change.

(3 marks)

Mark/Score: 3

23 Question Text:

Section C - Case Study 205-2c

Explain the role of the issuing bank in the payment made by Everlyin to Fosytts using a documentary credit.

(4 marks)

Mark/Score: 4

Case Study C307-3

You work for the **Beverly Hotel Group** (BHG), a publicly quoted company based in the United States which operates several hotels in North America.

BHG has steady revenue streams and very low cyclicality because of several complementary programmes that attract guests throughout the year.

BHG currently uses just two relationship banks, which provide committed facilities. It has a multicurrency committed revolving credit facility (RCF) of USD100m in place which matures in four years' time. The group is comfortably meeting its borrowing covenants and has plenty of headroom.

BHG's management is currently considering the issuance of its first asset-backed corporate bond next year to raise cash for a planned expansion into Germany. All costs for the expansion have to be paid in EUR, so it is considering the issue of a foreign bond. BHG currently has an investment grade rating.

BHG's cashflow forecasts indicate a core debt requirement in the order of EUR250m will be required over a five-year period. Interest cover capacity is forecast to be limited over the next two years as a result of timing differences between BHG incurring capital expenditure and its new revenue streams building up.

24 Question Text:

Section C - Case Study 307-3a

Explain the nature of a foreign bond and how this could be tailored to meet BHG's new debt requirement.

(4 marks)

Mark/Score: 4

25 Question Text:

Section C - Case Study 307-3b

Explain **THREE** factors which would influence the spread on BHG’s planned bond issuance.

(6 marks)

Mark/Score: 6

Case Study C307-5

Victual Herbs (VH) is a UK-based listed consumer healthcare company. It has a high investment-grade rating, strong investor relations and a growing product portfolio. VH has steady cashflows in different currencies.

Currently, VH's only floating rate debt is a GBP500m revolving credit facility (RCF) which is 20% drawn. It also has a straight bond of GBP500m in issue.

VH plans to raise an additional GBP150m debt to fund new research and development programmes (R&D). Its treasurer is therefore considering how to meet this requirement.

VH has an interest rate policy which stipulates that the company should maintain 25% of floating rate debt and 75% of fixed-rate debt. The treasurer prefers not to use derivatives to change the interest rate profile.

The treasurer is considering the two products shown in the table below to meet its immediate need to raise additional debt.

Product	Coupon
Straight bond	3.25%
Term loan	Reference rate + 50 basis points

The treasurer is also seeking advice on whether a medium-term note (MTN) programme would make sense to meet additional borrowing needs in the future.

This is because VH might have recurring borrowing requirements, ranging from GBP150m to GBP300m, to fund additional projects commencing in five years.

26 Question Text:

Section C - Case Study 307-5a

Recommend and justify whether the straight bond or the term loan would provide the most appropriate solution for VH.

(4 marks)

Mark/Score: 4

27 Question Text:

Section C - Case Study 307-5b

Discuss whether an MTN programme would be appropriate to meet VH's possible borrowing needs commencing in five years' time.

(6 marks)

Mark/Score: 6

Case study mark scheme

Case study C205-2

2a	Identify three risks faced by a company that is involved in international trade as a buyer.	3 marks
2b	Explain why Everlyin might prefer to make the payment using a documentary credit and why Fosytts is likely to resist such a change.	3 marks
2c	Explain the role of the issuing bank in the payment made by Everlyin to Fosytts using a documentary credit.	4 marks **Total: 10 marks**
2a	**Mark Scheme** Risks for an international trade buyer/importer: • Harder to assess the credit risk of a foreign supplier. • Credit and political risk on country. • Credit risk on banks used to process payment. • Quality and timeliness of receipt to goods	1 mark per point (up to 3 marks)
2b	Everlyin would prefer a documentary credit as it has greater reassurance that it will receive the goods. However, it still has no assurance that the goods are acceptable. Payment is made against correct documentation rather than acceptable quality of goods. Fosytts would prefer payment in advance so that payment is received as early as possible.	1mark per point (3 marks)
2c	The issuing bank: • Issues the documentary credit on instruction from Everlyin. • Inspects the documents under the documentary credit and approves payment. • Charges Everlyin's bank account with the cost of the goods. • Pays Fosytts after inspecting the documents. **Syllabus refs:**	1 mark per point (4 marks) **Total: 10 marks**

Case study C307-3

Q3a **Q3b**	Explain the nature of a foreign bond and how this could be tailored to meet BHG's new debt requirement. Explain three factors which would influence the spread on BHG's planned bond issuance.	4 marks 6 marks **Total: 10 marks**
Q3a	Foreign bond A foreign bond is a bond issued by a foreign borrower into a country's domestic market in that market's currency. • BHG wants to issue debt in EUR. It can issue a foreign bond in EUR in Germany. • Foreign bonds can be issued like straight bonds. BHG has steady revenue streams, low cyclicality and a supporting multicurrency revolving credit facility in place. A foreign bond with semi-annual or annual coupon payments is recommendable. • Maturity of the bond should be five years. In two years, BHG forecast to receive revenue streams from its hotels in Germany. This gives BHG enough time to repay the principal and fixed interest at the end of year five in EUR. NB: Candidates could make other points relevant to the scenario and credit should be awarded for reasonable answers.	1 mark for definition 1 mark per bullet point (maximum 4 marks)
Q3b	**Credit rating** BHG has an investment grade rating. This is favorable and reduces the credit spread payable. **Security** The bond is asset backed. This adds security to the lenders and decreases the risk. Thus, it reduces the credit spread. **Covenants** BHG has headroom on credit facility covenants. This gives them a lot of flexibility to accept tighter covenants on the bond and thus, reduces credit spread. **Liquidity** The bond market in Frankfurt is large and very liquid. This has a favorable effect on the credit spread of BHG's bond.	1 mark per title (maximum 3 marks) 1 mark per explanation (maximum 3 marks)

	Market conditions When the economy is growing, lenders are more likely to invest in bond issuances. It is easier for BHG to borrow under good economic conditions, credit spreads are probably a bit lower. **Maturity** BHG wants to borrow for five years which is relatively short. The shorter maturity, the lower the risk. This has a positive impact on BHG's credit spread. **Size of the bond** The size of BHG's bond is relatively small. It has strong earnings and headroom with covenants. This should have a positive impact on the spread. **NB: Candidates could make other points relevant to the scenario and credit should be awarded for reasonable answers.** **Syllabus refs:**	**Total: 10 marks**

<u>Case study C307-05</u>

Q1a **Q1b**	Recommend and justify whether the straight bond or the term loan would provide the most appropriate solution for VH. Discuss whether an MTN programme would be appropriate to meet VH's possible borrowing needs commencing in five years' time.	4 marks 6 marks **Total: 10 marks**
Q1a	• VH has an interest rate policy in place which requires 25% floating rate debt and 75% fixed rate debt. • VH has a GBP500m RCF (floating interest rate) which is 20% drawn, and a GBP500m straight bond (fixed interest rate). This is a current mix of 16.70% floating and 83.30% fixed. • If it enters into a GBP150m term loan (floating interest rate), it breaches policy. The split would be 33.33% floating and 66.66% fixed. • VH must issue a straight bond with a fixed coupon to not breach its interest rate policy.	1 mark 1 mark 1 mark 1 mark

Q1b	**Advantages** MTN programmes are set up by larger investment-grade corporates to benefit from opportunistic funding and raise debt in the capital market quickly. The key advantage to VH of MTN programmes is that there is no requirement to produce a complete set of legal documents each time it wishes to raise additional debt in the capital markets. Interest for MTN programmes may be on a floating or fixed rate basis. This helps VH in managing its interest rate policy. MTNs may be interest-bearing, deeply discounted or zero-coupon securities. VH can align its cashflows with the interest due dates. MTNs can be issued in a wide range of currencies. VH might need to borrow in another currency than GBP in the future, given it has steady cashflows in different currencies. VH has potential borrowing needs in the range of GBP150m to GBP300m starting in five years' time. The amounts are sufficiently high enough to justify the set-up of an MTN programme. **Disadvantages** An MTN programme needs maintenance, and VH would need to consider whether the costs and legal implications of this maintenance are worthwhile, particularly as its future borrowing needs are uncertain at the current time and are five years away. **Holistic marking – full marks awarded for sensible explanations tied back to the case study.** **Syllabus refs:**	(maximum 4 marks) 1 mark 1 mark 1 mark 1 mark 1 mark 1 mark 1 mark (maximum 6 marks) **Total: 10 marks**

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