



LEARNING

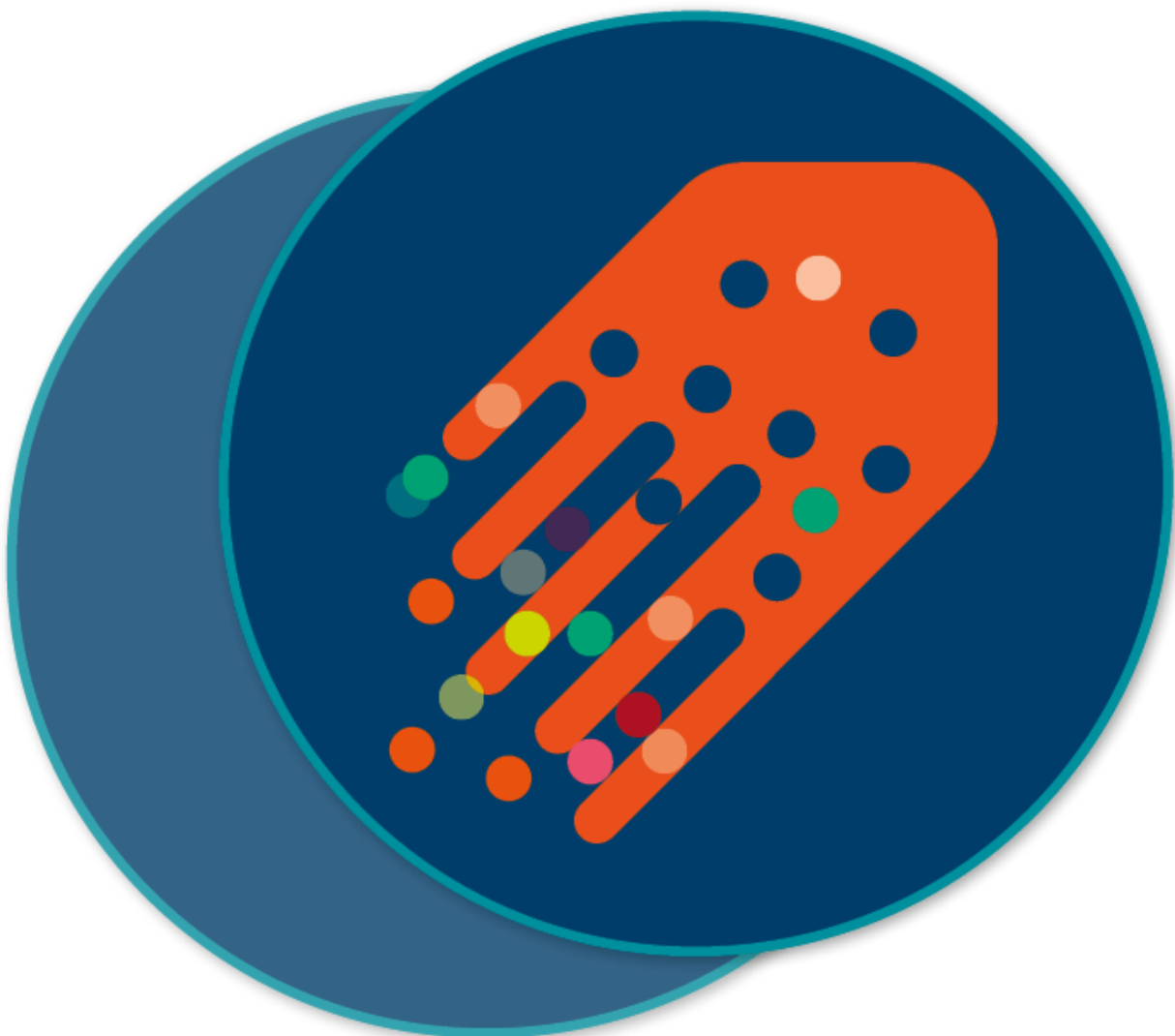


ACT Practice Paper

Certificate in Treasury – MicroCredentials

Treasury Policy and Regulation

Practice Paper



Practice paper for the Certificate in Treasury – MicroCredential – Treasury policy and Regulation (TPR)

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 TPR 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 TPR before attempting this practice paper. You should allow yourself 90 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 TPR 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: TPR

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 TPR assessment consist of 22 questions, split into sections A, B and C; and is worth a total of 40 marks.

TPR MicroTest specification:

Section	Number of questions	Marks available	Question format
Section A	15 Multiple Choice questions (MCQs) and 10 Multiple Response questions (MRQs).	25	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	5 longer form questions.	50	This section will be based on mini-scenarios common to practice. Questions will test knowledge, analysis, application and justification as appropriate.
Total	35	80	

Under exam conditions, 90 minutes is allowed for the TPR 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 15 Multiple Choice questions and 10 Multiple Response questions and is worth a total of 25 marks.

15 Multiple Choice questions: 15 x 1 mark questions.

10 Multiple Response questions: 10 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 responses to an identified risk event demonstrates the most risk tolerant approach?

Options

- A* Accept and retain.
- B Accept and reduce.
- C Avoid.
- D Accept and transfer.

Mark/Score: 1

2 Question Text:

Which of the following pairs of duties would it be appropriate to segregate between a front and back office?

Options

- A Confirming the deal with the counterparty and authorising settlement.
- B Initiating and authorising settlement via an appropriate bank account.
- C Authorising the position and deal execution.
- D* Analysis of the exposure and settlement of the proposed transaction.

Mark/Score: 1

3 Question Text:

A back-office team within the treasury function is usually responsible for:

Options

- A*** ensuring that all deals are within the internal limits for each counterparty set by the board.
- B** deciding the most appropriate response to the risks identified.
- C** analysing positions to understand the magnitude of the risks faced.
- D** executing proposed transactions with banks at the best price.

Mark/Score: 1

4 Question Text:

Non-compliance penalties for Sarbanes-Oxley are focused on the:

Options

- A*** chief executive officer and the chief financial officer.
- B** company's legal counsel.
- C** regulator.
- D** treasurer.

Mark/Score: 1

5 Question Text:

A key requirement of European Market Infrastructure Regulation is that:

Options

- A corporate governance changes must be reported daily.
- B*** corporate treasuries must report all derivatives trading in detail.
- C impairment of financial assets must conform to certain standards.
- D Pillar 2 capital add-ons must be incorporated.

Mark/Score: 1

6 Question Text:

In the context of European Market Infrastructure Regulation, 'clearing' is defined as the process of:

Options

- A direct dealing and tailoring of financial contracts between counterparties.
- B ensuring that sufficient collateral is held by counterparties within a 24-hour window.
- C resolving disputed transactions within five business days.
- D*** transmitting, reconciling and confirming payment orders of securities prior to settlement.

Mark/Score: 1

7 Question Text:

Under International Accounting Standards, once an exposure or position is offset by using a derivative, it is referred to as:

Options

- A*** a hedged item.
- B a vanilla trade.
- C an exposure.
- D an indirect tax.

Mark/Score: 1

8 Question Text:

A parent company has a subsidiary which operates in a foreign jurisdiction. The subsidiary has to pay a dividend to the parent.

Which tax consideration would affect the amount received by the parent?

Options

- A Capital tax.
- B Foreign Entity Capitalisation tax.
- C Income tax.
- D* Withholding tax.

Mark/Score: 1

9 Question Text:

Which of the following is a typical penalty for a member of an industry association who fails to comply with its ethical code?

Options

- A Criminal prosecution.
- B* Expulsion.
- C Monetary fine.
- D Naming in the national press.

Mark/Score: 1

10 Question Text:

A policy document states:

Options

- A a narrow application of detail and changes frequently.
- B a narrow application of detail and changes infrequently.
- C* an overall plan and changes infrequently.
- D information relevant only to the board and changes frequently.

Mark/Score: 1

11 Question Text:

Controls within treasury procedures address how:

Options

- A daily tasks will be performed.
- B financial risk management policy will be implemented.
- C* operational risk management policy will be implemented.
- D third party relationships are to be managed and controlled.

Mark/Score: 1

12 Question Text:

The use of spreadsheets for treasury transaction management has been raised as a significant control weakness of company reporting under the requirements of:

Options

- A Basel III.
- B Dodd-Frank.
- C* Sarbanes-Oxley.
- D the UK Corporate Governance Code.

Mark/Score: 1

13 Question Text:

Ultimate responsibility for determining and approving treasury policy lies with the:

Options

- A chief financial officer.
- B*** main board.
- C treasurer.
- D treasury staff.

Mark/Score: 1

14 Question Text:

Which of the following statements about the principles of Sarbanes-Oxley (SOX) is true?

SOX:

Options

- A*** increases the governance role of corporate management, accountability in reporting financial results and maintenance of sound internal controls.
- B is a system designed to protect the interests of external auditors and professional advisors when providing financial reporting advice.
- C is only relevant to Japan and is called J-SOX.
- D provides protection for middle and back-office staff.

Mark/Score: 1

15 Question Text:

What guidance is given to treasury staff by ACT's ethical code regarding gifts, services and hospitality?

Options

- A Board approval should be obtained for any gift that is not immaterial.
- B They can be accepted in the usual course of business.
- C They should never be accepted.
- D* They should never be accepted if judgement or loyalty might be affected or might appear to be affected.

Mark/Score: 1

16 Question Text:

Which of the following are disadvantages of a decentralised treasury structure?

Select **ALL** that apply.

Options

- A Lack of capacity to undertake speculative treasury operations.
- B Lack of local autonomy can effect local banking knowledge and relationships.
- C* Similar treasury tasks will be replicated across group subsidiaries.
- D The need to deploy sophisticated treasury systems across the organisation.
- E* A lack of economies of scale in banking services.

Mark/Score: 1

17 Question Text:

Which of the following are advantages of a cost centre approach to treasury?

Select **ALL** that apply.

Options

- A It encourages innovation within the treasury team.
- B* It aims to minimise the impact of financial volatility on treasury operations.
- C It allows treasury risk to be managed with a view to adding value.
- D It allows treasury to monitor the market when trading is advantageous.
- E* It allows commercial decisions to be taken with reasonable certainty.

Mark/Score: 1

18 Question Text:

Which **TWO** of the following tasks would fall under the remit of cash management responsibilities in treasury?

Options

- A Managing large supplier terms and conditions.
- B Sourcing funds efficiently from private and public markets.
- C* Optimising the use of surplus funds.
- D Assisting with the organisation's risk management policies.
- E* Monitoring bank account balances to give transparency over funds held.

Mark/Score: 1

20 Question Text:

Which of the following are ways in which treasury can support its aim of preserving cash and financial assets?

Select **ALL** that apply.

Treasury can:

Options

- A centralise its operations at head office.
- B*** promote a culture of sound financial practice.
- C ensure it realises a synergy of expertise in the centre.
- D*** manage the financial risk of the organisation.
- E ensure it only borrows funds from domestic banks.

Mark/Score: 1

21 Question Text:

Which **TWO** of the following are definitions of ethical culture?

Options

- A A formal process which dictates how a group of individuals must act together.
- B*** A guide to staff on how they should conduct themselves.
- C*** A moral code of conduct that an organisation applies both internally, and in its dealings with others.
- D A moral code which must be documented to be effective.
- E A set of personal beliefs, values and principles that influence the behaviour of individuals.
- F An acceptance that different individuals may have different principles.

Mark/Score: 1

22 Question Text:

Which **THREE** of the following do Basel III regulations cover in an attempt to reduce the risk of bank failures?

Options

- A* Capital adequacy.
- B* Contingency planning.
- C Counter terrorism funding.
- D* Liquidity.
- E Money laundering.
- F Sanctions.

Mark/Score: 1

23 Question Text:

Which of the following are fundamental principles governing the conduct of a member of the ACT?

Select **ALL** that apply.

Options

- A Capital adequacy.
- B* Confidentiality.
- C* Courtesy and consideration.
- D* Independence.
- E* Integrity.
- F* Professional competence.

Mark/Score: 1

24 Question Text:

Which **THREE** of the following obligations does EMIR impose?

Options

- A* The clearing obligation.
- B* The margin obligation.
- C The settlement obligation.
- D* Reporting and record keeping.
- E The currency obligation.

Mark/Score: 1

25 Question Text:

Treasury procedures collated into a treasury manual address which of the following?

Select **ALL** that apply.

Options

- A* Risk management.
- B* Controls.
- C* Internal operations.
- D Key performance indicators.
- E The role of the risk management committee.

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 410-12-4

International Treasury Monthly (ITM) is a highly regarded online magazine for corporate treasurers. Each month it focuses on a wide range of highly relevant and topical issues. Its lead article this month is about EMIR (European Market Infrastructure Regulation) and its implications for treasury. It also includes an interesting report this month on how the Sarbanes-Oxley Act has impacted major organisations, their policies and frameworks of management. This month's edition includes a special feature supplement comprising an update from the Financial Action Task Force (FATF) containing a range of measures that can be taken by all organisations, which includes a case study on Major Conglomerate Group (MCG). MCG is a UK-based manufacturing group with subsidiaries in Germany, France, and the United States. MCG uses commodity derivatives (EUR1m), credit derivatives (EUR1.5m), interest rate swaps to hedge EUR2.4bn in floating-rate euro debt, and FX forwards to hedge forecasted annual US dollar sales of EUR600m. All derivatives are entered into strictly for hedging purposes, with reporting delegated to its relationship bank. As a company listed on the New York Stock Exchange, MCG is subject to SOX compliance. After an internal review revealed weaknesses in treasury spreadsheet controls, MCG strengthened its framework by implementing segregation of duties between deal execution and settlement. MCG also introduced dual authorization for payments exceeding USD250,000 within its Treasury Management System (TMS).

26 Question Text:

This month's ITM lead article is most relevant to readers who use which of the following?

Options

- A Debt.
- B* Derivatives.
- C Equity.
- D Technology.

Mark/Score: 1

27 Question Text:

This month's report focuses on which of the following?

Options

- A Business ethics.
- B*** Corporate governance.
- C Organisational culture.
- D Performance monitoring.

Mark/Score: 1

28 Question Text:

The special feature supplement relates specifically to which of the following?

Options

- A Cyber-crime.
- B Fraud.
- C Identity theft.
- D*** Money laundering.

Mark/Score: 1

29 Question Text:

Under EMIR, MCG is classified as:

Options

- A*** NFC +.
- B** FC.
- C** CCP.
- D** NFC –.

Mark/Score: 1

30 Question Text:

Which derivative category triggered MCG's mandatory central clearing requirement?

Options

- A** Credit derivatives.
- B*** Interest rate swap.
- C** FX forwards.
- D** Commodity derivatives.

Mark/Score: 1

SECTION C

Section C is made up of 5 case study questions and is worth a total of 50 marks.

2 longer form questions: 5 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.

Section C - Case Study 101-1

You work as a treasury manager for budget airline Cheapflight plc (CF).

Following the appointment of a new treasurer, CF's board has recently given its approval in principle for commodities trading, with the aim of the treasury department managing fuel costs more effectively.

The new strategy is being implemented during a period of transition for the treasury department, which currently consists of just the treasurer and you as a treasury manager.

The new treasurer has been given additional responsibilities by the board, so will no longer have the time to be involved personally in the treasury dealing process. As a result, approval has been given to recruit two new members of staff to support you with the process in the future, as the number of trades undertaken will increase significantly because of the new commodities trading strategy.

You are now determining the best structure to deliver the new trading policy effectively. The treasurer has left you to decide which activities that make up the dealing process should be assigned to the new members of staff when they join the team.

Currently you execute CF's treasury deals with external counterparties and record them in the treasury management system (TMS). The TMS initiates payments once the treasurer has authorised them. You also provide the accounting entries to the central finance team in relation to the deals.

You are willing to retain or change any of these current processes as you establish the new structure.

31 Question Text:

Section C - Case Study 101-1a

Recommend and justify a new structure for the commodity trading process that will utilise the new staff most effectively.

(7 marks)

Mark/Score: 7

32 Question Text:

Section C - Case Study 101-1b

Outline **THREE** key objectives you would wish to achieve as a result of restructuring CF's treasury team.

(3 marks)

Mark/Score: 3

Section C - Case Study 102-2

Your treasury manager has substantial surplus USD funds to invest and has identified two different investments which they wish to research further before making a final investment decision. They have provided you with the following details of the two investments:

- a deposit account with a nominal annual yield of 3.0%, paying interest quarterly
- a 60-day discount instrument quoted at a nominal annual discount rate of 2.95%.

The treasury manager has asked you which of these two alternatives will provide the best annual effective rate of return, as that information will be a key part of their eventual decision.

33 Question Text:

Section C - Case Study 102-2a

Calculate the annual effective rate of return for the deposit account.

Show your workings

(2 marks)

Mark/Score: 2

34 Question Text:

Section C - Case Study 102-2b

Calculate the annual effective rate of return for the 60-day discount instrument.

Show your workings

(3 marks)

Mark/Score: 3

35 Question Text:

Section C - Case Study 102-2c

Recommend to your manager the best alternative for the investment, based on return alone.

Show your workings

(1 mark)

Mark/Score: 1

36 Question Text:

Section C - Case Study 102-2d

Explain briefly **TWO** other relevant factors you would mention to your manager which could impact on the eventual investment decision, regardless of the rate of return.

(4 marks)

Mark/Score: 4

Section C - Case Study 103-3

You are working in the foreign exchange (FX) team within your organisation’s treasury department. You have been asked to support a new team member who is learning how to undertake spot transactions. The global nature of your organisation means that transactions are required in a range of currencies.

The new team member has been asked to find an applicable rate for a forthcoming transaction which will involve the purchase of Hong Kong Dollars (HKD) and the sale of Swiss Francs (CHF).

The new team member is uncertain as to how to proceed because they cannot find a quote for this currency pair. They have therefore asked for your help, having established the following:

Currency Pair	Bid Price	Offer Price
USD/HKD	7.7514	7.7515
USD/CHF	0.9177	0.9180

37 Question Text:

Section C - Case Study 103-3a

Explain to your colleague how an appropriate spot rate for this currency pair would be established in practice.

(3 marks)

Mark/Score: 3

38 Question Text:

Section C - Case Study 103-3b

Calculate the spot exchange rate for the CHF/HKD deal.

Show your workings

(4 marks)

Mark/Score: 4

39 Question Text:

Section C - Case Study 103-3c

Explain to your colleague the impact on the spread for currency deals like these, compared to commonly traded currency pairs.

(3 marks)

Mark/Score: 3

Section C - Case Study 101-4

You work as a treasury analyst in a UK-based housing association, Street House plc (SHP) and have just attended a board meeting where the need for SHP to formulate a new interest rate management policy was discussed.

You were asked to make notes about the key points discussed and the next step is for you to prepare a draft interest rate management policy document based on what was discussed. The draft policy document will be presented to the board for final approval.

At the meeting you recorded the following points:

- SHP has a large amount of debt secured on its property portfolio and much of it is charged at floating rates
- the chief financial officer (CFO) stated that as a risk averse company, SHP is keen to limit its exposure to floating interest rate volatility by ensuring in future that approximately 80% of its overall interest cost is fixed for each financial year
- the CFO will require monthly updates relating to SHP's floating rate exposure and be advised immediately by exception if the level of fixed debt falls below 70% of the total
- this strategy would be in line with those of its competitors but should be reviewed regularly
- treasury will be required to manage this risk by using plain vanilla financial instruments limited to GBP25m per trade Corrective action would be expected where a variance of 5% above or below the 80% target is identified
- specified treasury officers will have responsibility for implementing the new policy exclusively through SHP's chosen relationship banks
- the board will require a quarterly update and will review the policy annually.

40 Question Text:

Section C - Case Study 101-4

Describe how you will include the information you gathered at the meeting within the key contents sections of the draft interest rate management policy document you have been asked to prepare.

(10 marks)

Mark/Score: 10

Section C - Case Study 101-5

Hola Communications (HC) is a growing telecommunications provider based in Brazil. HC has a number of different business units in three continents. HC has a heavy reliance on bank debt financing and is concerned about the increasing cost of financing as interest rates rise. Due to HC's rapid growth, and in order to manage the company's risks, the treasury department has grown organically out of the finance function. The treasurer has created a treasury risk management policy which sets out a broad scope of financial risk management for the treasury department. At its last meeting, the HC board reviewed this policy and determined that the policy could benefit from more detail. The board has requested that the treasurer creates a best-practice risk policy. As part of this review the board has also requested that the key performance measure of risk appetite, and appropriate ratios to measure this, is included within the policy in order to achieve its stated mission and strategic objectives.

41 Question Text:

Section C - Case Study 101-5a

Describe SIX elements that should be included in the best practice treasury risk policy HC's board has requested.

(6 marks)

Mark/Score: 6

42 Question Text:

Section C - Case Study 101-5b

Describe the risk appetite measure requested by the board and **TWO** financial ratios that can be used to measure this for HC's policy.

(4 marks)

Mark/Score: 4

Case study mark scheme

<p>C1a</p>	<p>Mark Scheme</p> <p>Ideally the department should be split into a front and back-office environment and specific aspects of the commodity trading deal cycle should be placed within two separate types of role clearly defined as such. A typical treasury transaction process has the following steps in bold below, grouped as shown:</p> <table border="1" data-bbox="375 633 1072 882"> <tr> <td rowspan="3" style="text-align: center;">Front Office</td> <td style="text-align: center;">Identification of the position</td> </tr> <tr> <td style="text-align: center;">Pre-dealing authorisation</td> </tr> <tr> <td style="text-align: center;">Dealing</td> </tr> <tr> <td rowspan="3" style="text-align: center;">Back Office</td> <td style="text-align: center;">Confirmation</td> </tr> <tr> <td style="text-align: center;">Settlement (often dual authorised)</td> </tr> <tr> <td style="text-align: center;">Accounting</td> </tr> </table> <p>As the more experienced member of the team, it may make sense for the TM to retain the identification of the position but a new recruit could be deployed in the front office to complete the pre-authorisation and dealing activities, with the final front office part of the process being to input the deal to a treasury management system.</p> <p>This deal input may initiate a payment. However, a new recruit could be deployed in the back office to confirm trades with counterparties and settle the deal by authorising the payment. Finally, the back-office recruit would be responsible for accounting for the transactions in CF's accounting systems.</p>	Front Office	Identification of the position	Pre-dealing authorisation	Dealing	Back Office	Confirmation	Settlement (often dual authorised)	Accounting	<p>½ mark for each of the stages identified in the treasury transaction life cycle – 3 marks</p> <p>1 mark for accurately identifying both groupings of front and back-office roles</p> <p>1 mark each for explaining the elements of the process that the treasury manager should retain, and which should be reallocated to each of the two new recruits – 3 marks</p>
Front Office	Identification of the position									
	Pre-dealing authorisation									
	Dealing									
Back Office	Confirmation									
	Settlement (often dual authorised)									
	Accounting									
<p>C1b</p>	<p>Treasurers deal with large sums of money on a daily basis and the key operational risks to manage are those of fraud and error. Segregation of duties is usually achieved by the split of the treasury into front office and back office which is a key management control designed to reduce the risk of error or fraud.</p> <p>Segregation of duties is sometimes referred to as the 'duality' or 'four eyes' principle. The objective is to involve at least 2 people in the life of a single deal, from initiation, through transacting, to settlement and reporting in order to minimise the risk of fraud, which would require collusion on a large scale to be successful, and undetected errors slipping through.</p>	<p>1 mark each for explaining the elements of the process that the treasury manager should retain, and which should be reallocated to each of the two new recruits – 3 marks</p> <p>1 mark for each of the concepts highlighted – 3 marks</p> <p>Total 10 marks</p>								

C2a	<p>Calculations as follows:</p> <ul style="list-style-type: none"> Convert to periodic yield; $[0.03 \times (3/12)] \times (365/360) = 0.007604167$ Convert to EAR; $(1 + 0.00760417)^4 - 1 = 0.03077$ (3.077%) 	2 marks
C2b	<p>Calculations as follows:</p> <ul style="list-style-type: none"> convert to periodic discount; $0.0295 \times (60 / 360) = 0.0049167$ per 60 days convert periodic discount to periodic yield as follows; $0.0049166 / (1 - 0.0049167) = 0.0049410$ per 60 days convert to EAR; $(1 + 0.0049410)(365/60) - 1 = 0.03044$ (3.044%). 	3 marks
C2c	<p>As the discount instrument has a lower EAR than the deposit account (3.044% compared to 3.077%) then the recommendation should be to invest in the deposit instrument.</p>	1 mark
C2d	<p>The relevant factors are:</p> <ul style="list-style-type: none"> risk – better returns are usually offered because the investor is willing to accept a higher degree of risk. The alternative suggested needs to be reviewed to ensure that the level of risk is acceptable to the organisation; i.e. is the bank/organisation offering the investment sufficiently trustworthy and reputable to ensure the funds invested are as safe as they would be with a bank/organisation offering lower rates of return maturity – consideration needs to be given as to when the funds might be required. In this scenario, the discount instrument offers a higher return and a shorter maturity date than the deposit account, so maturity isn't a consideration; however in many circumstances a higher return is only achievable by accepting a longer maturity. In those circumstances maturity becomes an issue because liquidity has to be foregone for longer and this might create operational issues. 	4 marks
		Total: 10 marks

Case study 103-3

<p>C3a</p>	<p>The process required is to enter into a cross-currency deal. This process enables appropriate rates to be calculated for less common currency pairs. As most currencies traditionally are quoted against the USD, it is possible to use USD as a basis for calculations.</p> <p>Two transactions take place behind the scenes, involving trades with USD. For example, to handle the CHF/HKD deal, deals involving (i) the sale of HKD and the purchase of USD and (ii) the sale of USD and the purchase of CHF would take place. The USD transactions would take place behind the scenes at the bank and would not be visible to the customer.</p>	<p>3 marks</p>
<p>C3b</p>	<p>Calculations as follows:</p> <ul style="list-style-type: none"> as USD is on the same side of each currency pair, quotes are cross divided as follows: $\frac{\text{USD}/\text{HKD}}{\text{USD}/\text{CHF}} = \text{CHF}/\text{HKD}$ <p>BID OFFER $\frac{\text{USD}/\text{HKD}}{\text{USD}/\text{CHF}} = \frac{7.7514}{0.9180} = 8.4438$ </p> <p>Crossed over – bigger number first $\text{=CHF}/\text{HKD} \quad 8.4438 \quad 8.4467$ </p> <ul style="list-style-type: none"> as the requirement is to sell CHF, the bid price is applicable, i.e. 8.4438. 	<p>4 marks</p>
<p>C3c</p>	<p>The impact of a cross-currency deal is to increase the spread between the bid and offer prices quoted; the reason being that the market maker is effectively undertaking two transactions to meet the customer requirements rather than just one, leading to more costs.</p>	<p>3 marks</p> <p>Total: 10 marks</p>

Case study 101-5

<p>Q2a</p>	<p>For each type of risk, the treasury policy should contain and explain:</p> <ul style="list-style-type: none"> • risk management objectives • what the risk is and why it is being managed, taking into account the company’s risk appetite • risk measures to be used in measuring risk and risk management performance • benchmarking routines • the delegation of responsibility for managing risk • actual procedures to be followed • risk targets and limits based on an acceptable level of risk • performance reporting and feedback mechanisms. 	<p>1 mark each for each element of the policy (max 6 marks)</p>
<p>Q2b</p>	<p>Risk appetite is the appropriate measure. It is the residual amount of risk remaining after application of risk mitigation techniques.</p> <p>Risk appetite can be measured in a number of different ways for example by financial ratios. Two that are appropriate given the company’s high leverage and concern about rising interest costs are:</p> <ul style="list-style-type: none"> • a maximum leverage/gearing ratio (the level of borrowings compared to shareholders’ funds) • a minimum interest cover ratio (the number of times earnings or cashflow, which will be defined, exceeds interest expense). 	<p>2 marks for explanation of risk appetite.</p> <p>1 mark each for example ratios (max 2 marks)</p> <p>Total: 10 marks</p>

ACT (Administration) Limited

10 Lower Thames Street

London

EC3R 6AF

www.treasurers.org

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