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Revised Edition : January, 2015
Website : www.icai.org
Department/ Committee : Board of Studies
E-mail : bosnoida@icai.in
ISBN No. : 
Price : 
Published by : The Publication Department on behalf of The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi-110 002, India.
Typeset and designed at Board of Studies.
Printed by : 

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SYLLABUS

PAPER 2: STRATEGIC FINANCIAL MANAGEMENT

(One paper – Three hours – 100 marks)

Level of Knowledge: Advanced knowledge

Objective:
To apply financial management theories and techniques for strategic decision making.

Contents:
1. Financial Policy and Corporate Strategy
   Strategic decision making framework
   Interface of Financial Policy and strategic management
   Balancing financial goals vis-à-vis sustainable growth.

2. Project Planning and Capital Budgeting
   Feasibility study
   Cash flow Projections – Impact of taxation, depreciation, inflation and working capital
   Capital Budgeting Decisions - Certainty Equivalent approach, Evaluation of Risky Investment Proposals, Risk and Return analysis, Simulation and decision tree analysis, Sensitivity analysis, Capital Rationing, Adjusted Net Present Value, Replacement decisions, Application of Real Options in capital budgeting, Impact of inflation on capital budgeting decisions
   Preparation of Project Report
   Social cost benefit analysis.

3. Leasing decision including cross border leasing

4. Dividend Decisions
   Dividend theories, Determinants of dividend policies.

5. (a) Indian Capital Market including role of various primary and secondary market institutions
   (b) Capital Market Instruments
      Financial derivatives – stock futures, stock options, index futures, index options
Option valuation techniques: Binomial model, Black Scholes Option Pricing Model, Greeks – Delta, Gamma, Theta, Rho and Vega

Pricing of Futures – Cost of carry model

Imbedded derivatives

(c) Commodity derivatives

(d) OTC derivatives - Swaps, Swaptions, Forward Rate Agreements (FRAs), Caps, Floors and Collars.

6. Security Analysis

Fundamental analysis - Economic analysis, Industry analysis and Company Analysis

Bond valuation, Price Yield relationship, Bond Price forecasting – application of duration and convexity, Yield curve strategies

Technical Analysis – market cycle model and basic trend identification, different types of charting, support and resistance, price patterns, moving averages, Bollinger Bands, momentum analysis.

7. Portfolio Theory and Asset Pricing

 Efficient Market Theory – Random walk theory; Markowitz model of risk return optimization

 Capital Asset Pricing Model (CAPM)

 Arbitrage Pricing Theory (APT)

 Sharpe Index Model

 Portfolio Management - Formulation, Monitoring and Evaluation

 Equity Style Management

 Principles and Management of Hedge Funds

 International Portfolio Management.

8. Financial Services in India

 Investment Banking

 Retail Banking

 On Line Share Trading

 Depository Service.

9. (a) Mutual Funds: Regulatory framework, formulation, monitoring and evaluation of various schemes of Mutual funds, Money market mutual funds.

 (b) Exchange Traded Funds.
10. Money Market operations

11. (a) Foreign Direct Investment, Foreign Institutional Investment.

(b) International Financial Management

Raising of capital abroad - American Depository Receipts, Global Depository Receipts, External Commercial Borrowings and Foreign Currency Convertible Bonds

International Capital Budgeting


12. Foreign Exchange Exposure and Risk Management

Exchange rate determination, Exchange rate forecasting

Foreign currency market

Foreign exchange derivatives – Forward, futures, options and swaps

Management of transaction, translation and economic exposures

Hedging currency risk.

13. Mergers, Acquisitions and Restructuring

Meaning of mergers and acquisition, categories, purposes

Process of mergers and acquisition – Identification and valuation of the target, acquisition through negotiation, due diligence, post – merger integration

Legal and regulatory requirements

Merger and Acquisition agreement

Reverse merger

Potential adverse competitive effects of mergers

Corporate Takeovers: Motivations, Co-insurance effect, Cross-border takeovers, Forms of takeovers, Takeover defenses

Going Private and Other Control Transactions: Leveraged Buyouts (LBOs), Management Buyouts (MBOs), Spin Offs and Asset Divestitures

Corporate Restructuring : Refinancing and rescue financing, reorganizations of debtors and creditors, Sale of assets, targeted stock offerings, downsizing and layoff programmes, negotiated wage give-backs, employee buyouts.
A WORD ABOUT STUDY MATERIAL

Strategic Financial Management (SFM) is a blend of Strategic Management and Financial Management. It has acquired a critical significance now-a-days, due to recent surge in globalization and massive cross border flow of capital. The study of this subject opens new opportunities for Chartered Accountancy students. The paper stresses the importance of applying the knowledge and techniques of financial management to the planning, operating and monitoring of the finance function in particular as well as the organization in general.

Further, this paper not only focuses on these aspects at the domestic level but also at the international level as well.

This study material provides the concepts, theories and techniques relating to Strategic Financial Management and aims to develop the students’ ability in understanding the different concepts and their application in the real life situations.

The study material is divided into thirteen chapters. Further these chapters have been divided into three Modules. Latest developments in the field of finance including international finance have been incorporated in almost all the chapters. The study material also focuses on the decision making in an international context and it provides comprehensive coverage of important areas like foreign exchange market, derivatives, foreign exchange exposure, risk analysis and management, raising of capital abroad, mergers and acquisitions and portfolio management, capital budgeting and working capital management in a multinational context. Chapters have been organised in such a way so as to provide a logical sequence to facilitate easy understanding. A helpful feature in this study material is the addition of a number of illustrations in each chapter to help students to have a better grasp of the subject. For a quick grasp of the subject during examination days a summary has also been inserted in the end of each chapter. Numerous graphs and figures have also been added to make things more appealing. Some of the chapters also contain Glossary of terms used. This study material should be studied in combination of Practice Manual of SFM to practice more practical questions for better understanding of the subject.

They need to practice the practical problems thoroughly. Students are also advised to update themselves with the latest changes in the financial sector. For this they may refer to academic updates in the monthly journal ‘The Chartered Accountant’ and the Students ‘Newsletter’
published by the Board of Studies, financial newspapers, SEBI and Corporate Law Journal etc.

In case you need any further clarification/guidance, please send your queries at email-id: ashish.gupta@icai.in or write to the Director of Studies, The Institute of Chartered Accountants of India, A-29, Sector-62, Noida-201 309.

Happy Reading and Best Wishes!
SIGNIFICANT ADDITIONS/AMENDMENTS IN THIS EDITION

In this 2015 Edition, following additions have been made:
(a) Chapter 2 – Insertion of material on Capital Rationing.
(b) Chapter 5 – Thoroughly reviewed.
(c) Chapter 10 – Thoroughly reviewed.
(d) Chapter 11 – Thoroughly reviewed.
(e) Chapter 12 – A note on Nostro and Vostro along with an illustration has been incorporated.
(f) Chapter 13 – In addition to deletion of superfluous material, earlier Case Studies has been revised.
(g) Reaming Chapters – Minor corrections have been carried out to improve presentation and accuracy.
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- Chapter 7 - Portfolio Theory
- Chapter 8 – Financial Services In India
- Chapter 9 – Mutual Funds
- Chapter 10 – Money Market Operations

### MODULE-3
- Chapter 11 – Foreign Direct Investment (FDI), Foreign Institutional Investment (FII) and International Financial Management
- Chapter 12 – Foreign Exchange Exposure and Risk Management
- Chapter 13 – Mergers, Acquisitions & Restructuring

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