



CHARTERED INSTITUTE FOR  
SECURITIES & INVESTMENT

# Corporate Finance Technical Foundations

Effective from 11 April 2023

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## Objective of the examination

The objective of the examination is to ensure that candidates have a basic knowledge of the technical aspects of carrying out corporate finance business, including preparing and analysing financial statements, the methodology of raising capital, business valuation techniques and a range of corporate transactions.

The examination will test candidates' knowledge and understanding of the following elements:

- Quantitative Methods for Corporate Finance
- Financial Statements Analysis
- Capital Structure
- Introduction to Business Valuations
- Corporate Transactions
- Corporate Finance Documentation

Candidates should ensure that they have sufficient understanding of the use of a calculator to undertake the calculations required in this syllabus.

## Syllabus structure

The unit is divided into **elements**. These are broken down into a series of **learning objectives**.

Each learning objective begins with one of the following prefixes: **know**, **understand** or **be able to calculate**. These words indicate the different levels of skill to be tested.

- **know** requires the candidate to recall information such as facts, rules and principles
- **understand** requires the candidate to demonstrate comprehension of an issue, fact, rule or principle
- **be able to calculate** requires the candidate to be able to use formulae to perform calculations

## Candidate Update

Candidates are reminded to check the 'Candidate Update' area of the Institute's website ([cisi.org/candidateupdate](http://cisi.org/candidateupdate)) on a regular basis for updates that could affect their examination as a result of industry change.

## Examination Specification

Each examination paper is constructed from a specification that determines the weightings that will be given to each element. The specification is given below.

It is important to note that the numbers quoted may vary slightly from examination to examination as there is some flexibility to ensure that each examination has a consistent level of difficulty. However, the number of questions tested in each element should not change by more than two.

<b>Examination specification</b>		
<b>50 multiple-choice questions</b>		
<b>Element number</b>	<b>Element</b>	<b>Questions</b>
1	Quantitative Methods for Corporate Finance	7
2	Financial Statements Analysis	9
3	Capital Structure	8
4	Introduction to Business Valuations	9
5	Corporate Transactions	10
6	Corporate Finance Documentation	7
<b>Total</b>		<b>50</b>

## Assessment Structure

Assessment is a one hour examination of 50 multiple choice questions.

Candidates sitting the exam by Computer Based Testing may have, in addition, up to 10% additional questions as trial questions that will not be separately identified and do not contribute to the result. Candidates will be given proportionately more time to complete the test.

## Summary Syllabus

### **Element 1 Quantitative Methods for Corporate Finance**

- 1.1 Financial mathematics
- 1.2 Discounted cash flows

### **Element 2 Financial Statements Analysis**

- 2.1 Basic principles
- 2.2 Statement of financial position/balance sheet
- 2.3 Statement of Comprehensive Income
- 2.4 Statement of Cash flows
- 2.5 Financial statements analysis

### **Element 3 Capital Structure**

- 3.1 Components of capital structure
- 3.2 Equity capital
- 3.3 Debt capital
- 3.4 The cost of capital

### **Element 4 Introduction to Business Valuations**

- 4.1 Equity value and enterprise value
- 4.2 Stock market, transaction and break-up values
- 4.3 Asset-based valuations
- 4.4 Dividend-based valuations
- 4.5 Earnings-based valuations
- 4.6 Cash-based valuations

### **Element 5 Corporate Transactions**

- 5.1 Acquisitions and disposals
- 5.2 Private equity and debt-financed transactions
- 5.3 Quoted equity transactions

### **Element 6 Corporate Finance Documentation**

- 6.1 For General purposes
- 6.2 Buying and selling
- 6.3 Loan and security
- 6.4 Public companies

## **Element 1 Quantitative Methods for Corporate Finance**

### **1.1 Financial mathematics**

On completion, the candidate should:

- 1.1.1 understand how to measure the risk and return of investments
- 1.1.2 be able to calculate the expected and average return on investments
- 1.1.3 be able to calculate the degree of variability of investments using the variance and standard deviation of returns
- 1.1.4 be able to calculate the covariance of investments
- 1.1.5 understand the concept of the correlation of investment returns
- 1.1.6 Understand the correlation co-efficient of investments

### **1.2 Discounted cash flows**

On completion the candidate should:

- 1.2.1 be able to calculate the present value (PV) and net present value (NPV) of future multiple cash flows using the discounting formula
- 1.2.2 understand the internal rate of return (IRR) for a series of multiple cash flows

## **Element 2 Financial Statements Analysis**

### **2.1 Basic principles**

On completion the candidate should:

- 2.1.1 understand the purposes of financial statements and their limitations
- 2.1.2 understand the requirements for companies and groups to prepare accounts in accordance with applicable accounting standards including IFRS and US GAAP
- 2.1.3 know the purpose of IFRS and the objective of harmonisation of accounting standards

- 2.1.4 understand the differences between group accounts and company accounts and why companies are required to prepare group accounts
- 2.1.5 understand the concepts of goodwill and minority interests and their significance for a company's financial position
- 2.1.6 know the additional narrative reporting requirements of companies and what these must include

## **2.2 Statement of financial position/balance sheet**

On completion the candidate should:

- 2.2.1 know the purposes of the statement of financial position, its format and main contents
- 2.2.2 understand the concepts of depreciation and amortisation
- 2.2.3 understand the differences between authorised and issued share capital, capital reserves and retained earnings
- 2.2.4 know how loans and indebtedness are included within a statement of financial position

## **2.3 Statement of Comprehensive Income**

On completion the candidate should:

- 2.3.1 know the purposes of the statement of comprehensive income, its format and main contents
- 2.3.2 understand the differences between income from ordinary activities and other items included in comprehensive income
- 2.3.3 understand the differences between capital and revenue expenditure

## **2.4 Statement of Cash flows**

On completion the candidate should:

- 2.4.1 know the purposes of the statement of cash flows and its format as set out in International Accounting Standard 7 (IAS7)



- 2.4.2 understand the differences between profit and cash flow and their separate implications for a business
- 2.4.3 understand the concepts of free cash flow, earnings before interest, tax, depreciation, and amortisation (EBITDA) and net operating profit after tax (NOPAT)
- 2.4.4 understand the difference between enterprise cash flow and equity cash flow including the concept of cash flow available for debt service (CFADS)

## **2.5 Financial statements analysis**

On completion the candidate should:

- 2.5.1 understand the following key ratios:
  - profitability ratios (gross profit and operating profit margins)
  - return on capital employed
  - return on equity
  - liquidity (including quick ratio and current ratio)
- 2.5.2 be able to calculate the following key ratios:
  - gross profit margin
  - operating profit margin
  - return on capital employed
  - return on equity
  - liquidity (including quick ratio and current ratio)
- 2.5.3 understand the following financial gearing ratios:
  - debt to equity ratio
  - net debt to equity ratio
  - net debt to EBITDA
  - interest cover
- 2.5.4 be able to calculate the following financial gearing ratios:
  - debt to equity ratio

- net debt to equity ratio
- net debt to EBITDA
- interest cover

2.5.5 understand the following investors' ratios:

- earnings per share
- diluted earnings per share
- price earnings ratio (both historic and prospective)
- enterprise value to EBIT
- enterprise value to EBITDA
- dividend yield
- dividend cover
- price to book

2.5.6 be able to calculate the following investors' ratios:

- earnings per share
- diluted earnings per share
- price earnings ratio (both historic and prospective)
- enterprise value to EBIT
- enterprise value to EBITDA
- dividend yield
- dividend cover
- price to book

### **Element 3 Capital Structure**

#### **3.1 Components of capital structure**

On completion the candidate should:

3.1.1 understand the elements of capital structure and the seniority ranking of equity and debt instruments

### **3.2 Equity capital**

On completion, the candidate should:

3.2.1 know the typical characteristics of ordinary shares including:

- voting rights
- rights to dividends
- rights to participate in a surplus on winding up

3.2.2 know the typical characteristics of preference shares including:

- redeemable preference shares
- cumulative preference shares
- convertible preference shares

3.2.3 understand the meaning of the terms “listed” and “quoted” in relation to a company's shares

### **3.3 Debt capital**

On completion, the candidate should:

3.3.1 know the typical characteristics of and differences between the main types of debt including:

- bank overdrafts and revolving credit facilities
- loans
- bonds
- convertibles
- zero coupon bonds
- contingent convertible bonds

3.3.2 know the typical characteristics of the following alternative ways of debt financing:

- invoice factoring
- asset-based lending
- finance leasing

- sale and leaseback agreements

- 3.3.3 know the difference between fixed-rate and floating-rate interest
- 3.3.4 understand the difference between a fixed and a floating charge
- 3.3.5 understand the difference between senior and subordinated debt
- 3.3.6 understand the difference between par and premium redemption
- 3.3.7 understand the yield to maturity of bonds
- 3.3.8 understand the tax treatment of interest for the issuer of debt
- 3.3.9 understand that debt can be quoted or unquoted
- 3.3.10 understand the key factors in the pricing of debt

### **3.4 The cost of capital**

On completion, the candidate should:

- 3.4.1 understand the meaning of the weighted average cost of capital
- 3.4.2 be able to calculate the weighted average cost of capital
- 3.4.3 know that the cost of equity is equal to the expected rate of total return on shares
- 3.4.4 understand what beta measures in relation to equities
- 3.4.5 know that the expected rate of total return on shares can be estimated using the capital asset pricing model (CAPM)
- 3.4.6 be able to calculate the expected return using the CAPM formula
- 3.4.7 be able to calculate the present value of a bond (three-year)

## **Element 4 Introduction to Business Valuations**

### **4.1 Equity value and enterprise value**

On completion the candidate should:

- 4.1.1 understand the distinction between equity value and enterprise value
- 4.1.2 understand the use, advantages and disadvantages of enterprise value

4.1.3 know the differences between public and private companies with respect to the availability and reliability of company information, including the typical sources of such information

4.1.4 know the various responsibilities of public and private companies to make information available or respond to information requests

## **4.2 Stock market, transaction and break-up values**

On completion the candidate should:

4.2.1 understand the distinction between market, transaction and break-up (liquidation) values of a business

4.2.2 know how to calculate the market value of a quoted company

## **4.3 Asset-based valuations**

On completion the candidate should:

4.3.1 understand the use of asset-based valuations

4.3.2 know the limitations of asset-based valuations

## **4.4 Dividend-based valuations**

On completion the candidate should:

4.4.1 understand the use of dividend-based valuations

4.4.2 be able to calculate a valuation of a business using dividend valuation models

4.4.3 understand the limitations of dividend-based valuations

## **4.5 Earnings-based valuations**

On completion the candidate should:

4.5.1 understand the use of an earnings-based valuation

4.5.2 be able to calculate the equity value of a business using the P/E ratio

- 4.5.3 be able to calculate the enterprise value of a business using EBIT and EBITDA comparative multiples
- 4.5.4 understand the limitations of earnings-based valuations
- 4.5.5 understand how to compare the market values of companies in similar sectors by use of measures such as price / earnings (P/E) ratios, EBIT and EBITDA multiples

#### **4.6 Cash flow-based valuations**

On completion the candidate should:

- 4.6.1 understand the use of cash flow-based valuations
- 4.6.2 understand the limitations of internal rate of return (IRR) and discounted cash flow (DCF)
- 4.6.3 know how to calculate
  - enterprise free cash flow
  - NOPAT
  - EBITDA
- 4.6.4 understand the key elements that need to be addressed in a cash flow-based valuation
  - historical analysis
  - forecasting
  - calculating a terminal value
  - identifying an appropriate discount rate using the weighted average cost of capital
- 4.6.5 be able to calculate a simple cash flow-based valuation

### **Element 5 Corporate Transactions**

#### **5.1 Acquisitions and disposals**

On completion the candidate should:

- 5.1.1 know the key types of acquisition or disposal and their motivations

- listed or private
- hostile or recommended
- owner / manager exit
- existing / continuing / new management participation

5.1.2 understand how acquisitions are typically financed and by whom

5.1.3 know the key features of and differences between a trade sale and a spin-off

5.1.4 be able to calculate proceeds to holders of ordinary shares in a trade sale or corporate exit

5.1.5 know the difference between an asset sale and share sale

## **5.2 Private equity and debt-financed transactions**

On completion the candidate should:

5.2.1 know the definition of private equity

5.2.2 know the key features of and differences between:

- a management buy-out (MBO)
- a management buy-in (MBI)
- a leveraged buy-out (LBO)
- a leveraged buy-in (LBI)
- a buy-in management buy-out (BIMBO)
- an institutional buy-out (IBO)
- a public to private (PTP)

5.2.3 understand the key terms and phrases typically used in private equity and debt transactions:

- debt / equity ratio
- gearing / leverage ratios
- capital structure i.e. types of shares and their rights (e.g. dividend, liquidation preference, redemption conversion, anti-dilution, pre-emption, voting)

- ratchets
- investment hurdles
- drag and tag provisions
- good leaver / bad leaver
- 'pay to play'
- bridge finance
- burn rate
- capitalise
- carried interest
- co-investment
- mezzanine debt
- down / follow-on round
- founder shares

5.2.4 understand the types of investment and the funding components of a typical:

- trade sale
- MBO / MBI
- PTP

5.2.5 understand the principles applied in determining the levels / ratios of equity and debt that may be available in such transactions

### **5.3 Quoted equity transactions**

On completion the candidate should:

5.3.1 know the main types of investor and their mandate to invest in either or both of quoted and unquoted shares:

- pension funds
- insurance companies



- collective investment schemes (including open-ended funds and closed-ended funds)
- venture capital investors (including Venture Capital Trusts in the UK)
- directors / employees
- private individuals
- family offices
- hedge funds

5.3.2 understand the roles of the professional advisors in an IPO

- reporting accountants
- sponsors
- nominated advisers (NOMADs)
- underwriters
- lawyers
- PR consultants
- independent experts

5.3.3 understand why a company may choose to raise additional capital via:

- a rights issue
- a placing
- a placing and open offer

5.3.4 understand the basic mechanics (including the options available to a shareholder and role of any underwriters) of:

- a rights issue
- a placing
- a placing and open offer

5.3.5 understand the pricing of secondary issues

5.3.6 be able to calculate the theoretical ex-rights price and nil paid rights price

- 5.3.7 understand the effect of clawback by qualifying shareholders under a placing and an open offer
- 5.3.8 understand how the book-building and pricing process works
- 5.3.9 understand secondary market liquidity and its importance
- 5.3.10 understand the consequences of equity issuance on corporate control

## **Element 6 Corporate Finance Documentation**

### **6.1 For General purposes**

On completion the candidate should:

- 6.1.1 understand the purpose and scope of a non-disclosure agreement (NDA)
- 6.1.2 understand the purpose and scope of an engagement letter
- 6.1.3 understand the meaning, purpose and scope of representations, warranties and indemnities
- 6.1.4 understand the purpose of a disclosure letter
- 6.1.5 understand the use of vendor protection clauses
- 6.1.6 understand the purpose and scope of a shareholders' agreement

### **6.2 Buying and selling**

On completion the candidate should:

- 6.2.1 understand the purpose and key contents of an information memorandum
- 6.2.2 understand the purpose of a letter of intent and heads of agreement
- 6.2.3 understand the purpose of an exclusivity agreement
- 6.2.4 understand the purpose of comfort letters and side letters
- 6.2.5 understand the purpose of hold harmless letters
- 6.2.6 understand the purpose and scope of a sale and purchase agreement

### **6.3 Loan and security**

On completion the candidate should:

- 6.3.1 understand the concept of taking security
- 6.3.2 understand the purpose and scope of a term sheet
- 6.3.3 understand the purpose and scope of a loan agreement and conditions precedent
- 6.3.4 understand what guarantees, indemnities and covenants are in the context of a debt transaction
- 6.3.5 understand the purpose, scope and limitations of loan representations and warranties
- 6.3.6 understand the purpose of an inter-creditor agreement

### **6.4 Public companies**

On completion the candidate should:

- 6.4.1 understand the purpose and scope of subscription / placing agreements
- 6.4.2 understand the purpose and scope of underwriting agreements
- 6.4.3 understand the purpose of verification notes
- 6.4.4 understand the purpose and scope of a prospectus or admission document
- 6.4.5 understand the purpose and scope of financial due diligence and accountants' reports
- 6.4.6 understand the purpose and scope of a legal due diligence report
- 6.4.7 understand the purpose and scope of a competent person's or independent expert's report
- 6.4.8 understand the purpose and scope of a public takeover offer document
- 6.4.9 understand the purpose and scope of a shareholder circular