ACT EXAMINATION PAPER

Diploma in Treasury Management (AMCT)

Unit 2: Risk management for treasury

November 2025

This is a past paper for Unit 2 of the Diploma in Treasury Management (AMCT)

Based on the syllabus assessed from 1 August 2022.

INTRODUCTION

This past paper has been produced by the Awarding Body at the Association of Corporate Treasurers (ACT) to assist students in their preparation for the Diploma in Treasury Management assessments. It is important to highlight that the answers provided in this paper are not exhaustive and that any other reasonable answers would be awarded marks where necessary in a marked assessment. It contains a past exam for the specified unit as well as past answers. Ideally, students should have completed the majority of their Diploma in Treasury Management studies for Unit 2 before attempting this past paper.

Students should allow themselves 180 minutes to complete the exam plus an additional 25 minutes reading time. They should then review their performance to identify areas of weakness on which to concentrate the remainder of their study time. Although the past exam in this guide is typical of a Diploma in Treasury Management 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 students 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

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

The best way to approach written assessments is to work methodically through the questions. You 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 AND TEST SPECIFICATION

The Diploma in Treasury Management assessments for units 1 and 2 each have four written questions, of which you must answer three, and will involve a pre-seen case study workbook that is released no later than two weeks prior to the assessment date. The papers will be split into sections A and B and can be made up of either one case study or two case studies; each unit exam is worth a total of 100 marks. For the purpose of this past paper the questions follow each case study.

Diploma in Treasury Management assessment test specification:

Section	Amount of questions	Marks available
Section A	One case study based question	50
Section B	Three shorter case study based questions, of which candidates chose to only answer two	25 marks each
Total	**3**	**100**

Under exam conditions, **3 hours** (180 minutes) is allowed for the Diploma in Treasury Management assessments plus an additional 25 minutes reading time.

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 past paper, you may use a non-programmable scientific calculator.

In order for you to determine how well you have performed, sample mark schemes are provided after each question. Please note that these are mark schemes only and not model answers. They provide lists of points that are expected to be covered within answers, although the content of your answers must be much more detailed (satisfying the command word used in the question, for example

‘analyse’). As with all mark schemes, the content is indicative only, i.e. the lists of points featured are not exhaustive. It is highly likely that there are other perspectives and, provided these are valid and supported fully, marks would be awarded for these in a live exam. There are also references to the relevant Learning Outcomes if you need to revisit the associated material.

SECTION A

ONE long form question worth 50 marks based on a pre-seen case study. This question should test knowledge, analysis, application insight, evaluation and justification as appropriate to level descriptors. This is a professional paper and application to practice should be at 'management' level.

Total available for Section A: 50 marks

QUESTION 1: CASE STUDY

MedTech Health Care (MHC) is a German based manufacturer and global supplier of advanced medical equipment components and surgical instruments, including surgical kits, microchips for medical devices, diagnostic sensors, and CT scanner components.

Currently MHC's manufacturing facilities are in India. MHC leverages cost-efficient production capabilities while maintaining high-quality standards aligned with international regulatory requirements. MHC has a market edge over its competitors as it supplies quality products at lower cost.

MHC supplies its electrical and surgical equipment to major healthcare markets across the United States, Europe and the Asia-Pacific regions. It operates in three major currencies: EUR, USD and INR. Listed on the Frankfurt Stock Exchange, MHC has a market capitalisation of approximately EUR 1.2bn and is recognised for its innovation, precision engineering, and global reach in the MedTech sector.

Euro '000	**2024**	**2023**
Revenue	664,000	595,000
Cost of sales	295,000	264,000
Gross profit	**369,000**	**331,000**
Administrative cost	128,000	105,000
Distribution cost	92,000	84,000
Operating profit	**149,000**	**142,000**
Interest received	2,800	1,150
Forex gain	1,200	900
Interest paid	(53,400)	(44,500)
Forex loss	(3,990)	(2,880)
Profit before tax	**95,610**	**96,670**
Tax 30%	(28,683)	(29,001)
Net profit	**66,927**	**67,669**
Depreciation	6,000	5,000
EBITDA	**155,000**	**147,000**

Treasury features

Regions	Revenue %	Revenue currencies	Cost currencies
USA	35%	USD	USD
Europe	20%	EUR	EUR
Asia Pacific/Other	20%	USD & EUR	USD
India	25%	INR	USD

MHC generates revenue in three currencies i.e. USD, EUR and INR, but 80% of its costs are incurred in USD. While core manufacturing is based in India, capital equipment for manufacturing is imported, with most transactions denominated in USD due to global sourcing.

MHC does not hedge its balance sheet exposures; it employs a rolling 12-month hedging strategy to manage foreign currency cash flows on a continuous basis. With USD maintaining its strength against the INR, any further appreciation of the USD could lead to significant currency devaluation of the INR in its key manufacturing location.

Cash flows hedged	Minimum %	Maximum %
1 - 3 months ahead	80%	100%
4 - 6 months ahead	70%	90%
7 - 9 months ahead	50%	80%
10 - 12 months ahead	30%	60%

MHC's production facilities in India are exposed to financial risk due to an EUR loan obtained from a German bank under a corporate guarantee issued by the MHC's headquarters. The manufacturing facility in India will generate the funds to repay the loan from its operations as it contributes to 25% of the total revenue.

As per the loan agreement, MHC's interest cover (EBIT (operating profit)/interest expense) has been agreed at 3.0 in the loan agreement. The treasurer chose a floating rate for a long-term loan of four years as it was lower than a fixed rate loan by 150 basis points and it was expected that the floating interest rate will remain stable at 5% over the course of the loan. The total value of the loan is EUR890m for both years.

New manufacturing facility in Vietnam

MHC is planning to set up its second manufacturing facility in Vietnam to leverage its cost advantage further and diversify the manufacturing facilities. The estimated cost of building the new manufacturing facility is VND5bn (Vietnamese Dong). MHC expects to have built and have the facility operational in six months' time. As per the regulations of Vietnam, MHC can only buy the VND from a local bank at spot rates.

MHC has approached its lead bank in Germany for a non-deliverable forward contract (NDF) to buy the VND to build the facility. The spot rate at the time of the deal was set at EUR/VND = 12,760 to buy VND5bn.

USA tariffs and foreign exchange risk

In early 2025, the United States imposed a 15% tariff on selected medical electronic components imported from Asia, including those from India and Vietnam, citing strategic technology protection concerns. The imposition of tariffs also encourages production by local brands. Whilst the USA government is promoting the manufacture of products locally, local manufacturers will take time to compete with MHC's highly specialised products at its given sale price.

At the same time, the USD appreciated sharply against the EUR and INR driven by rising interest rates and global market uncertainty. This combination of trade tariffs and adverse currency movements is expected to increase manufacturing costs and reduce profitability. Preliminary estimates indicate that the dual impact of a 15% tariff and 10% currency volatility could materially affect MHC's net profit and equity position in the calendar year 2025.

The following sensitivity analysis illustrates the impact that a 10% appreciation or depreciation on profit before tax at the financial year ends 2023 and 2024.

- MHC's reporting currency EUR against the USD.
- MHC's functional currency INR against the USD.

Sensitivity of forex movement	Impact on FY profit (Loss) in EUR'000	
	2024	2023
10% appreciation of EUR relative to USD	1,800	1,600
10% depreciation of EUR relative to USD	(2,000)	(1,800)
10% appreciation of USD relative to INR	(2,400)	(2,100)
10% depreciation of USD relative to INR	1,250	950

Management hedging consideration

MHC maintains a public listing. Management is evaluating multiple strategies that can reduce the impact arising from foreign exchange volatility while it retains its market competitive position.

Management is considering:

- pricing strategies that may involve partially absorbing additional costs as a result of US tariffs, while passing on the remainder to customers to preserve competitiveness. This strategy includes passing all or none of the additional cost on to customers
- various foreign exchange hedging strategies to enhance resilience against currency and policy shocks, particularly in light of its exposure to USD-linked costs and foreign currency loans
- effective liquidity management at all units across its operational units in India and Vietnam is also under active review to ensure adequate buffer capacity and operational flexibility in an increasingly volatile environment.

QUESTION 1

a.	Evaluate the effectiveness of MHC's foreign currency risk management approach.	12 marks
b.	(i) Calculate the net cost to MHC for the NDF assuming the spot rate in six months' time is EUR/VND 11,480. (ii) Discuss why the NDF contract was a suitable choice in this case.	6 marks 5 marks
c.	Evaluate the hedging strategies currently under consideration by management. Recommend and justify the most appropriate hedging strategy for MHC.	10 marks
d.	Assume the floating interest rate for the MHC EUR890m loan has increased from 5% during 2023 to 6% during throughout 2024 due to a rise in inflation. Calculate and comment on the change in interest cover before and after the interest rate change in light of the covenant agreed. You are required to show your workings.	5 marks
e.	Evaluate the non-financial risks that could occur as a result of the tariffs in the scenario.	12 marks
		Total: 50 marks

	Mark scheme Q1a	
	• MHC is exposed to forex risk as there is a mismatch between revenue and currency exposure. 80% cost is in USD while revenue stream is only up to 50% leaving almost 30-35% exposure. • There is a possibility of Pre transaction risk, for instance if MHC is signing any contract with new customers, it will incorporate the current pricing based on cost and profit margins. However, the forex movement along with tariff hit is yet uncertain leaving MHC exposed to pre transaction risk. • Any adverse movement in USD against INR and EUR can expose MHC to post transaction risk as the sales are made in multiple currencies and the customers are at diversified locations. • The new tariffs can also result in further forex exposure. For INR-denominated imports, MHC must now pay more in USD terms for the same volume, inflating procurement costs. • The MHC income statement for both years reflects foreign exchange (forex) losses that exceed forex gains, indicating an overall net exposure to adverse currency movements. This repeated pattern suggests that the current forex risk management strategies may be ineffective or insufficiently applied	1 mark for each valid and complete point

	• The balance sheet is not hedged while cash flows are hedged for near term with maximum protection up to twelve months. • If MHC exports from its Eurozone operations, revenue conversion to USD weakens, reducing margins from those sales. • The combined effect of tariffs and adverse exchange rate movements significantly erodes MHC's gross margins and net profit. Based on preliminary estimates, this dual impact could materially lower earnings and potentially reduce retained earnings, thereby weakening the equity position on the balance sheet for FY 2025. • The EUR-denominated loan, when serviced through INR-based cash flows without hedging, exposes MHC to a direct and material forex risk. With EUR showing strength and macroeconomic volatility on the rise, MHC faces increased debt servicing costs that can further squeeze margins and reduce financial stability at the entity level. • The mismatch between the overall loan value and the assets financed introduces a risk of erosion in net equity. This can threaten the long-term viability of the business, especially if the forex losses continue or the asset base depreciates compared to the liability in EUR terms. The recent EUR loan to fund the new facility further amplifies this risk by introducing exposure to the illiquid VND-EUR currency pair, highlighting a growing vulnerability in the capital structure. • There are no hedging strategies in place therefore the volatility will keep MHC exposed to forex risk. It is recommended that MHC explore hedging instruments such as forward contracts or cross-currency swaps or restructure the loan to align repayment obligations with INR to mitigate this risk. • This risk can directly expose MHC to earnings ratios and covenants agreed in the loan documents, any breach to the covenants can deteriorate the credit rating of MHC. • MHC sensitivity analysis shows significant impact with a 10% increase or decreases in forex volatility.	**Total marks: 12**
	Q1b	
	(i) **At the time of the deal**: EUR/VND= 12,760 to buy VND 5bn and sell EUR 391,850 **In six months', time**: EUR/VND= 11,480 hence MHC arranges to buy the VND 5bn locally at a cost of EUR 435,540 (5b/11,480) MHC receives EUR 43,690 (435,540 – 391,850) from its bank under the NDF **Net cost for MHC** is 435,540 -43,690 =391,850 (ii) • VND can only be bought from a local bank at spot rate. • EUR is not freely convertible into VND in offshore markets. NDF was selected as the appropriate hedging instrument. In this case VND is a	6 marks

highly illiquid currency. NDF is helpful in hedging controlled or illiquid currencies.

- This contract allowed MHC to lock in exchange rates for future VND cash flows (such as capital expenditure, local salaries, and vendor payments) while settling the difference in EUR at maturity
- The hard currency is paid at unwinding the value of the contract.
- It protects MHC's EUR-denominated funding from adverse currency fluctuations.
- Reduces volatility in conversion costs related to project-related expenditure in Vietnam.
- Maintains financial certainty in cross-border investment planning despite the VND being a restricted currency.

5 marks

Total marks: 11

Q1c

Pricing strategies

- The increased cost as a result of tariffs can impact on the ROCE and operating profit margins. This needs careful analysis to adjust the pricing strategies.
- Incremental price adjustments can help in customer retention and the acceptance of inflated prices
- MHC has an edge over its competitors for providing the best quality at the lowest cost, this can be managed by signing contracts on an annual basis and any significant impact can be tailored in renewal.

Various forex hedging strategies

- Maintain the currency of debt and interest in proportion to expected future cash flows.
- Hedge external foreign exchange risk on transactions denominated in other currencies above certain levels. (define thresholds of each currency)
- Forward Contracts / NDFs: For predictable cash flows (scheduled loan repayments or import payments), MHC can use forward contracts or NDFs to lock in exchange rates, particularly for INR/USD and VND/EUR exposure. This reduces uncertainty and enables accurate budgeting
- Cross currency swaps: For foreign currency-denominated loans (e.g., Euro loan serviced from India in INR), MHC can enter into a cross-currency swaps or create a synthetic domestic loan structure. This aligns debt service with the revenue base, reducing currency mismatch risk.

1 mark for each strategy recommended

Effective liquidity management at all units

- Establish a local currency loan from local banks at the manufacturing facility. A short-term revolving loan facility can help in managing its working capital.
- Adopt rolling 13-week cash forecasts at each unit, stress-testing under currency depreciation and tariff escalation scenarios. This helps pre-empt liquidity shortfalls and ensures proactive funding decisions, especially for working capital needs.
- Natural hedging is the suitable choice for MHC specially at the manufacturing facilities (current in India and the new in Vietnam).

Total marks: 10

Q1d

Assuming that the floating interest rate for the MHC EUR 890m loan has increased from 5% during 2023 to 6% during 2024 due to a rise in inflation, calculate and comment on the change in interest cover before and after the interest rate change in light of the covenant agreed.

3 marks for the calculation and 2 marks on the comment

EUR' 000	**2024**	**2023**
Loan	890,000	890,000
Interest Rate	6%	5%
Operating Profit	149,000	142,000
Interest Expense	53,400	44,500
Profit before tax	95,610	96,670
Interest cover	2.79	3.19

- The interest cover agreed in the loan agreement has been breached. A rise in interest rate has caused the profit before tax to decrease.
- The covenant breach can trigger the call back of the loan, downgrade of credit rating and reduction in earnings per share.
- For 2024 MHC can obtain a waiver from its bank and going forward either this ratio can be renegotiated, or MHC can closely monitor to avoid any breach.

Total marks: 5

Q1e

- **Volume risk:** The risk that sales volumes may decline due to higher prices or reduced customer demand following tariffs or currency-driven cost increases.
- **Margin risk:** The risk of declining profit margins resulting from the inability to fully pass increased input or tariff costs to customers.
- **Strategic risk:** The risk that external policy shifts (e.g. tariffs, FX volatility) may spoil long-term investment or market expansion plans.

2 marks for each valid point

	• **Competition risk:** The risk of losing market share to competitors who can better absorb costs or localise production in response to trade barriers. (There is protentional local brand risk as USA is encouraging local production) • **Product risk:** The risk that key products may become less attractive or obsolete due to pricing changes, regulatory shifts, or technological disruption. • **Reputation risk:** Tariffs may disrupt long-term strategic planning by delaying market entry, expansion, or product launches due to increased costs and uncertainty, potentially eroding innovation, and first-mover advantage (this can also impact the new production facility in Vietnam) • **Regulatory or compliance risk**: With tariffs, there is a possibility that regulators in each country can impose new laws such as local compliance obligations that can result in penalties upon noncompliance. • **Political risk:** The recent proactive trading decisions specifically from the USA can also result in restrictions of imports or altered business terms with different countries or may even result in total termination of contracts. This mark scheme is not exhaustive – all valid points within answers will be awarded marks. **Syllabus refs: 2.2.1; 2.2.2; 2.2.3; 2.2.4; 2.3.4; 2.4.1(a); 2.4.1(b); 2.4.3**	**Total marks: 12**
		Total marks: 50

SECTION B – 50 MARKS

Answer TWO of the following THREE questions. (2 x 25 marks).

Questions test knowledge, analysis, application, insight, evaluation and justification as appropriate to level descriptors. This is a professional paper and application to practice should be at 'management' level. Candidates are expected to be able to synthesise knowledge from different elements of the syllabus rather than be tested on discrete areas.

Total available for Section B: 50 marks

QUESTION 1: CASE STUDY

Sakho Waya Kana (SWW) is a luxury fashion conglomerate based in Paris, France. It offers a range of high-end products including leather products, handbags, shoes, fragrance, premium garments and fashion accessories. SWW is a popular name in the fashion industry and is endorsed by fashion models and celebrities around the globe. SWW is best known for its shoes and handbags.

SWW manufactures its handbags and shoes in China, and its fragrance and fashion accessories are produced in France. SWW imports the premium garments from Bangladesh under a long-term contract agreed between both parties. All products are labelled as 'Made in France' before being released for sale, which makes SWW products more expensive in China compared to its attractive pricing in Europe.

SWW is listed on the Euronext Paris Stock Exchange with a current market capitalisation of EUR150bn. Over the past year, SWW has demonstrated stable operational growth, with an average year-on-year revenue increase of 8.7%. It operates in four regions covering North America, Europe, Middle East and East Asia (China).

The extract of financial information is as below:

EUR'000	**2024**	**2023**
Revenue	59,698	54,920
COGS	14,508	13,950
Gross profit	**45,190**	**40,970**
Operating exp	(13,250)	(12,740)
Operating profit	31,940	28,230
Interest expense	(3,713)	(3,570)
Foreign exchange gain	117	114
Profit before tax	28,345	24,774
Taxes	5,880	4,459
Net profit	22,465	20,315

Shares related information is as follows:

	2024	2023
Shares (number issued)	15,000,000	12,000,000
Earnings per share	1.49764	1.69292

The breakdown of the revenue is as below:

Region	Revenue 2024	Revenue %
North America	16,118	27%
Europe	7,761	13%
East Asia (China)	22,685	38%
Middle East	13,134	22%
	59,698	100%

Categories	Revenue %	Product specific revenue 2024
Luxury bags	39%	23,281
Shoes	22%	13,134
Premium clothing	21%	12,537
Fragrance	8%	4,776
Fashion accessories	10%	5,970
	100%	59,698

Exposure to manufacturing and sales price variances

In Q1 2025, SWW's profitability and market sentiment faced a significant setback after Chinese media and consumer supporting groups publicly disclosed the actual cost of manufacturing SWW luxury handbags within China, which was only 20% of the sale price of those bags in the global market. These disclosures exposed a striking difference between production costs and global retail prices, particularly after accounting for import taxes and brand markups raising ethical concerns over price justification.

As SWW is listed on the Euronext Paris Stock Exchange, the exposure led to increased investor investigations, sharp short-term volatility in SWW's share price, and negative press coverage across European and Chinese financial circles. This unexpected reputational risk triggered a downward revision in earnings expectations and increased pressure on SWW's treasury to manage FX volatility. This was especially in the RMB and EUR pair, with the Chinese market contributing 38% of total revenue. It showed early signs of a consumer backlash and declining demand. This case has highlighted the vulnerability of profitability to socio-political narratives in key markets and emphasised the strategic importance of aligning pricing transparency with long-term financial resilience.

Emerging marginal risk

The developing conflict between SWW senior management and its Chinese suppliers may trigger unauthorised sales of SWW products at heavily discounted local prices. Additionally, the social media backlash is pressuring the brand to adopt fairer and more transparent pricing policies at a global level. There is a growing risk of a grey market forming in China, threatening authorised distribution. If SWW luxury handbags are sold at much lower prices in China (either due to unauthorised supplier sales, discounts, or a grey market), then fewer consumers will buy the same handbags at official full prices through SWW's legitimate retail channels.

This is especially dangerous for luxury brands, where brand value is closely tied to price, exclusivity, and perception. With uncertainty over supplier relationships, a potential consumer backlash, and

possible shifts in sales volumes, SWW faces unpredictable cash flows, requiring enhanced liquidity management.

SWW has maintained an 'A' credit rating from Fitch over the past four years. Recent incidents have caused the downgrade of its rating to 'BBB' in the long term. The downgrade in the rating can expose SWW to further risks.

As a listed entity, SWW now faces increased pressure from equity investors who may demand higher returns or dividends to compensate for the perceived increase in investment risk. While SWW has historically retained a portion of its profits, a shift in shareholder sentiment could reduce its ability to reinvest earnings, thereby affecting long-term capital allocation and net profit margins. The downgrade may also limit SWW's flexibility in managing its payout policies.

In situations of heightened financial stress, suppliers may demand credit insurance at SWW's expense to mitigate counterparty risk. Similarly, banks might require collateral for various facilities including funding, forward foreign exchange contracts or restrict hedging to purchased options only, limiting SWW's ability to manage FX volatility effectively. These measures increase costs and reduce financial flexibility, increasing the importance of proactive liquidity and risk management.

Corporate governance

SWW's current corporate governance structure demonstrates significant gaps when measured against global best practices and ESG expectations. The board comprises 12 members, of whom three are women. Notably, six male board members are aged between 68 and 75. They are all based in the United States and primarily come from technical backgrounds with no direct experience in the fashion or luxury retail sector. This lack of industry-specific expertise and geographic diversity limits the board's strategic agility and its ability to respond to evolving market and consumer dynamics.

There have been criticisms from some shareholders regarding SWW's policies related to board composition and leadership diversity. These concerns highlight the need for ongoing review of governance frameworks to ensure they meet evolving stakeholder expectations and regulatory requirements. In addition, gaps in governance reporting have been noted, including limited disclosure on the criteria for board appointments, diversity metrics, and the evaluation of board performance. Such gaps raise questions about transparency and accountability, which may influence investor perceptions and confidence in the company's leadership. Currently, there is no dedicated resources responsible for ensuring the implementation and monitoring of corporate governance.

ESG concerns

From an environmental standpoint, SWW faces additional ESG risk exposure through its garment supplier in Bangladesh. The supplier has been found to be non-compliant with global environmental waste management standards, with waste reportedly being discharged directly into surrounding fields and recyclable materials improperly dumped instead of reused. Given Bangladesh's already stressed environmental conditions and rising temperatures, these practices raise serious sustainability concerns and expose SWW to reputational and regulatory risks.

QUESTION 1

a.	Analyse the financial and operational risks that could materially affect the profitability and financial stability of SWW in light of recent developments in its key markets.	10 marks
b.	Discuss how the deterioration in SWW's credit strength heightens margin risk and the treasury considerations for preserving financial flexibility in such scenarios.	8 marks
c.	Evaluate the gaps in SWW's corporate governance and ESG practices and recommend improvements to enhance effectiveness in these areas.	7 marks
		Total: 25 marks

Mark Scheme

Q1a

Financial risks

- **Foreign exchange risk**
  SWW derives 35% of its revenue from China, RMB's volatility against the EUR presents a material translational and transactional exposure.
- **Interest rate risk:**
  The recent shift of credit downgrade from A to BBB by Fitch reflects heightened financial and reputational uncertainty. This may result in an increase in the cost of future borrowings. It may also affect SWW's ability to pursue aggressive expansion or stock buybacks, impacting shareholder value.
- **Revenue & margin compression**
  The price disparities have triggered a backlash about the brand. This can lead to lower demand of the products resulting an impact on price and profitability margins.
- **Counterparty risk**
  SWW may face counterparty risk. The Chinese supplier may refuse to supply to SWW in response to the recent developments or can demand more competitive and transparent pricing.
- **Liquidity risk**
  The immediate response has shown a lower demand for SWW products that can impact the liquidity position in the short-term impacting negatively on working capital.

Operational risks

- **Supply chain conflict**
  There could be supply disruption to core products (handbags and shoes) considering the ongoing conflicts between SWW and its Chinese supplier.
- **Regulatory or legal risk:**

(Recommended: maximum of 5 marks for financial risks and maximum 5 marks for operational risk)

Country regulators can impose restrictions over pricing disparities. There could be legal disputes as well.

- **Reputational damage:**
  SW is already facing a social media backlash and negative press coverage.
  Buyers will be more conscious when buying the SWW products, impacting their willingness to buy.
- **Operational risk:**
  Over reliance on a single geography, increasing exposure to political, labour, and trade risks.

Total marks: 10

Q1b

Margin risks:

- The downgrade of SWW's credit rating from A to BBB reflects heightened operational and reputational concerns. It can affect overall net profit margins by increasing borrowing costs and intensifying shareholder pressure for higher dividends. These factors collectively reduce retained earnings and constrain operational flexibility.
- The downgrade of credit rating will lead to increased costs of borrowing making finance costs higher for SWW.
- Following a downgrade, banks and trade counterparties may demand additional collateral or higher fees for facilities such as guarantees, LCs, or loans. These added costs reduce financial flexibility and compress net margins through elevated facility charges and administrative burdens.
- Suppliers and contract manufacturers may reduce credit terms or raise prices if SWW shows signs of operational disruption, liquidity strain, or weakening trade performance. This perceived counterparty risk could lead to shorter payment periods, upfront payments, or credit insurance costs, all of which may pressure gross margins by increasing input costs and accelerating cash outflows
- Shareholder confidence may decline following the downgrade, potentially reducing management's operational flexibility. While dividends can be avoided in periods of stress, equity investors may expect a stronger recovery path or increased return over time to justify their investment. This dynamic can constrain long-term reinvestment and strategic risk taking, especially for SWW being publicly listed and can face reputational pressure.

Treasury considerations:

- Due to the reputational crisis and potential margin pressure, SWW may face strain on operating cash flows. Treasury should prioritise strong liquidity management by maintaining cash buffers, securing flexible working capital lines, and preparing contingency funding plans to manage potential revenue disruption or supplier-related cash demands.

(Recommended: maximum 4 marks for marginal risk impact and maximum 4 marks for treasury recommendations)

- In uncertain situations, stress testing must be conducted on regular basis to analyse the risk exposure and mitigation techniques can be applied accordingly.
- Maintain active dialogue with credit rating agencies to provide visibility into strategic response actions and financial governance
- SWW must -coordinate with internal stakeholders to ensure that any pricing resolution aligns with SWW's working capital strategy and liquidity planning.

Total marks: 8

Q1c

Corporate governance

- Diversify the board with members of different age groups. The members must be relevant to industry specific experience.
- Increase the diversity by appointing more female. There should be a percentage set for male and female ratio at board level.
- Being a public listed, comprehensive pay structure should be on merit and experience regardless of the gender.
- There should be a defined female representation in a senior management role (add quota).
- Introduce inclusive leadership programs and succession planning for underrepresented groups.
- Use KPI's such as board diversity ratio, turnover of key employees, employee satisfaction scores to measure governance health.
- There should be a dedicated Corporate Governance department responsible for identifying and addressing governance gaps, bridging communication between the board, management, and investors, and ensuring transparency and timely disclosure of all relevant information
- Enhancing transparency around board selection processes, increasing diversity across leadership levels, and regularly assessing board effectiveness could support SWW in strengthening governance standards. Addressing these areas is also important in maintaining investor confidence and positioning the company well for future growth opportunities.

ESG performance

- No CRS framework or ESG reporting is in place.
- Conduct third-party audits of all critical suppliers and require corrective action plans where violations are found.
- Establish an ESG subcommittee at the board level to oversee performance, risk mitigation, and reporting.
- Publish an annual ESG/Sustainability Report aligned with global frameworks disclosing targets and progress.

1 mark for each valid point.

- Engage regularly with investors, regulators, and NGOs to maintain transparency and accountability.
- Implement ESG KPI's such as waste management percentage, percentage of resource training and safeguarding the local environment.

This mark scheme is not exhaustive – all valid points within answers will be awarded marks.

Syllabus refs: 2.1.2; 2.1.3; 2.2.1; 2.2.4; 2.4.3; 2.4.4

Total marks: 7

Total: 25 marks

QUESTION 2: CASE STUDY

Sascha Tel Pty Limited (STL) is a mid-size, privately-owned IT services provider and headquartered in Cape Town, South Africa. STL owns the second-largest IT infrastructure network in the country and delivers mission critical technology support to clients in the transportation, telecommunications, and energy sectors.

STL's core services include the real-time management of public transportation schedules (airports, railways, metro buses), nationwide 24/7 call centre infrastructure, and high-availability IT systems for customer support operations for regulated industries.

Operating in a highly competitive market with one major rival offering similar services, STL faces intense pressure to keep uptime and service quality.

STL's revenue breakdown is as below along with its receivables age profile.

Revenue sources	**Revenue percentage**	**Receivables age profile 0-60 days**	**Receivables age profile 61-120 days**
Airports	22%	30%	70%
Railways	16%	75%	25%
Metro buses	12%	80%	20%
Telecom - call centres	38%	20%	80%
Other national institutes	12%	75%	25%

Treasury

STL funds its operations primarily through internally generated revenue but maintains a leveraged capital structure with several long-term bank loans on its balance sheet at floating rates. STL has recently faced rising interest rates, increasing its debt servicing costs. It is expected that the interest rates will continue to rise during the current year.

The revenue is generated in the local currency, South African Rand (ZAR), while nearly 80% of its operating costs including technology licensing, support contracts, and equipment imports are denominated in US Dollars (USD). There are no hedging strategies in place.

IT infrastructure

STL has an advanced and reliable network at the back end. However, there is no back up support system that can provide the back up in times if the core network goes off even for a minute. With a reputation for uninterrupted, high-quality services, any system failure or service degradation poses a direct threat to its customer base and brand value.

STL has recently developed a cyber security department to strengthen its network resistance. The department is also challenged to educate the organisation on various cyber security risk exposures.

Commercial

Receivable ageing has become a challenge for STL. There is a total of nine commercial airports, of which five are STL customers. Similarly, there are four major telecom operators of which two are STL customers. Any stricter action with customers on receivable ageing could offend the customer and they could switch to the competitor, impacting revenue. The current payment terms on its billing are 60 days.

Customer services

STL has received negative feedback regarding its customer service function. Customers frequently report significant wait time when contacting the helpline and difficulty reaching support during service incidents. In contrast, competitors have adopted modern digital channels, such as WhatsApp support and automated issue tracking via web portals.

Admin and human resources

STL customers access its customer services and main head office access is via the same entrance. An incident in early 2025 highlighted physical security exposures when a dissatisfied customer bypassed customer service and directly accessed the executive floor to escalate a complaint. This has raised concerns about facility access control and crisis response protocols.

STL has special temperature-controlled facility rooms where the core network is located. There is limited access to this control room. Officials visiting to view the network hardware must be wearing uniforms and specific shoes, gloves and helmets in case of electric shock.

Management considerations

1. Risk management framework

In its 2025 annual board meeting, the directors recognised growing exposure to operational, financial and reputational risks and approved the rollout of a formal enterprise risk management (ERM) framework, with strong involvement from treasury. To start with a simple framework in the first phase, the probability and impact is restricted to a scale of 1-5 with 1 being the lowest and 5 rated as highest. The treasury manager will be responsible for managing the risk register and applying logical judgment to represent the risk register in next board meeting. The risk appetite for all risks are set low.

The board has approved the below matrix for the ERM:

Rating	Impact	Probability	Priority level	Interpretation
5	Catastrophic	Frequent	15 to 25	Unacceptable Risk: Update product or process design, add additional control, review adequacy of current control
4	Significant	Probable	10 to 14	Inadequate Controls: Significant improvement required &/or unable to achieve intended outcomes
3	Moderate	Occasional	7 to 9	Minor/Moderate improvements required and/or some controls may not meet due date
2	Low	Rare	5 to 6	No further risk controls required
1	Insignificant	Improbable	1 to 4	Good and effective control in place and/or on track to meet due date

2. Funding strategy and bond issuance consideration

In 2025, STL's board approved a strategy to diversify funding sources. To support planned expansion into new African markets and enhance credibility with institutional investors, STL is considering issuing bonds and evaluating whether to list them on an exchange or place them bilaterally over the counter (OTC). STL has also begun voluntary financial disclosures and engaged a credit rating agency to assess its profile.

STL must also make strategic capital investments to strengthen its infrastructure and maintain its competitive edge in uninterrupted service delivery and network redundancy, areas that are vital to its market position in the IT services sector.

STL's funding policy aims to ensure access to adequate liquidity for both operational continuity and long-term capital commitments, while also optimising the cost of capital and preserving financial flexibility.

Zero-coupon bond

STL issues a Zero-coupon bond with a cash repayment of ZAR50m in five years at an interest rate of 2.5%.

QUESTION 2

a.	Recommend and justify an effective funding and liquidity strategy for STL that supports its long-term financial stability and growth strategy. You are also required to discuss the key policy areas to be considered.	8 marks
b.	As treasury manager, identify key business risks for SLT from each functional area. For each risk, recommend a probability and impact rating (on a scale of 1-5), and recommend suitable mitigation techniques.	12 marks
c.	Calculate the worth of the issued Zero Coupon bond at 2.5% and recalculate assuming the interest rate rises to 3.5%. You are required to show your workings.	5 marks
		Total: 25 marks

Mark Scheme

Q2a

Liquidity Policy for STL

- STL must have a liquidity policy for managing its working capital and a separate one for its strategic long-term projects.
- To manage its working capital, cash forecasting must be evaluated on a regular basis, it must assess the gap between its inflows and outflows.
- Since there is mention of receivable ageing as an issue, it must arrange working capital facility lines from its lenders to support its financial commitments to avoid any delay which could arise due to late recoveries.
- While doing cash flow forecasting, a cash buffer must be maintained to meet any contingencies (min 5m ZAR).
- The cash buffer & idle cash must always be invested in highly liquid secure placements like government bonds (T bills) or deposits with highly rated banks.
- A good relationship with multiple banks should be maintained to diversify the sources and types of funding options.
- Funding should be obtained with maturity of borrowings and spread of borrowings across years.
- There should be target headroom in funding facilities to meet uncertain cash requirements.
- Counterparty risk should be evaluated before accessing the sources of capital. Always prefer banks with good credit rating and stable reputation.

1 mark for each valid point

Total marks: 8

Q2b

DEPARTMENT	Risk	IMPACT LEVEL	PROBABILITY LEVEL	PRIORITY LEVEL	Risk Category	Risk Response & Treatment plan
	Define Risk and risk driver with each risk	Rate 1 (LOW) to 5 (HIGH)	Rate 1 (LOW) to 5 (HIGH)	(IMPACT X PROBABILITY)	Catastropic Significant Moderate Low Insignificant	Action Plans (Avoid Accept Reduce Transfer)
Treasury	Rising interest rates due to inflation	3	4	12	Significant	Reduce-Switch from floating rate to fixed rate to lock borrowing cost.
Treasury	Transaction risk - Mismatch of Revenue and cost currencies	3	3	9	Moderate	Reduce-Natural headging by incurring cost in local currency as used for the revenues in different countries
Infrastructure -IT	No back up support for core network - Malfunction of core network	5	5	25	Catastrophic	Reduce-A compatible back up server is essential to avoid any downtime in case the main server runs downs
Commercial	Increase in receivable ageing , causing liquidity risk -Limited customers contributing to max revenue.	4	5	20	Catastrophic	Reduce-Diversify customer base.For existing customers, negotiate for revised payment terms (from 60 to 45 days)
Customer Services	Poor customer services management and techniques- Does not have latest modes to cater customer complaints	3	4	12	Significant	Transfer-Engage 3rd party who has expertise to deal customer services with advance modes
HR & Admin	Access control to office premises -Once entrance that can allow access to main office	3	2	6	Low	Reduce-Restrict unauthorized access to office premises Train admin and security staff

NOTE: A larger form of the table is available upon request.

Each valid risk will be awarded 2 marks. Students' judgment will be analysed.

Holistic marking approach for this question

Total marks: 12

Q2c

Zero bond at 2.5%

ZAR 50,000,000/ (1.025)^5 = ZAR 44,192,714

Zero bond at 3.5%

ZAR 50,000,000/ (1.035)^5 = ZAR 42,098,658

Total decrease in the value of the bond due to increase in interest rate

ZAR 44,192,714 – ZAR 42,098,658 = ZAR 2,094,056

This mark scheme is not exhaustive – all valid points within answers will be awarded marks.

Syllabus refs: 2.1.2; 2.1.4; 2.2.3; 2.4.3.

Total marks: 5

Total: 25 marks

QUESTION 3: CASE STUDY

Mashupa Electric Vehicle (MEV) is a mid-sized electric vehicle manufacturer headquartered in London, United Kingdom. Founded in 2018, MEV has grown rapidly due to strong demand for clean transportation across the United Kingdom and European Union. It focuses on affordable models with high energy efficiency and advanced battery technology. With an increase in demand for a clean environment and renewable energy, MEV has seen rapid growth in its initial years.

In 2024, MEV planned to expand into new EU markets and launch the latest models with advanced features which are more compatible with latest technologies and better battery performance with extended battery hours. This feature of extended battery hours gives MEV an edge over its competitors. By the end of 2024, customers' advance booking started and MEV observed an overwhelming response.

Commodity risk exposure

MEV's strategy has come under pressure due to escalating commodity risks, particularly related to lithium, a critical input in battery manufacturing. There are three main reasons for exposing MEV to commodity risk.

1. Increasing global lithium prices

By early 2025, lithium metal prices had nearly doubled compared to mid-2023 levels, due to increased demand at a global level (for electric vehicles and bikes). There was a mismatch between demand and supply. This further soared due to speculative activity in the global metals markets.

Impact: MEV battery suppliers increased prices by 25%, pressuring its cost structure. Battery components now account for nearly 38% of the total vehicle cost, compared to 27% the previous year.

2. Tariffs on Chinese lithium imports

In late 2024, the United Kingdom imposed new tariffs on lithium imports from China, citing unfair subsidies. China had been MEV's primary lithium source for battery suppliers. Almost 80% of the lithium requirement is imported from China.

Impact: Since the imposition of tariffs, there has been disruption of existing supply contracts.

3. Geopolitical disruption – Russia-Ukraine conflict

While not a lithium supplier, Russia's invasion of Ukraine in 2022 triggered broader energy and logistics impacts that remain in 2025. MEV observed an increased cost of lithium processing plants across Europe. Whilst European supplies represent only 20% of processed lithium, this has still had a direct impact on the cost of manufacturing as well as profit margins. The supply chain from China has now taken an alternative route through the Black Sea causing more delays and added cost.

Impact: The European based battery pack plants saw operational delays, leading to missed MEV Q4 delivery targets.

Strategic decision: accepting cryptocurrency for vehicle sales

In early 2025, MEV announced its decision to accept cryptocurrency as a payment option for its vehicles and services. The move aligned with its digital innovation strategy and aimed to appeal to a growing segment within Europe.

MEV has ensured compliance with the Office of Foreign Assets Control (OFAC). MEV has also partnered with registered payments gateways to ensure compliance and security of crypto within the United Kingdom and the European Union. MEV has initially approved Bitcoin (BTC) for its customers. By embracing cryptocurrency payments, MEV has positioned itself as a first digital automotive player.

QUESTION 3

a.	Analyse the impact of commodity price risks faced by MEV and recommend appropriate risk mitigation strategies.	12 marks
b.	Assess the importance and associated risks of cryptocurrency.	13 marks
		Total: 25 marks

Mark Scheme

Q3a

Commodity risk:

- MEV is highly dependent on lithium as its core product in the production of EV batteries. It is 80% dependent on its Chinese Supplier which creates a concentration risk.
- As a result of tariffs, there is disruption observed in production. This will create a gap in demand and supply of the EV specifically against the one booked at the end of 2024 (pre-booking)
- MEV may also face an increase in the price of lithium. This will impact the cost of production as well as the price margin.
- There could be competition risk, while MEV is facing the commodity challenges, its competitor may bring competitive offers or take first move advantage.

Recommendations:

- MEV should expand its supply base which can meet the requirement of the core component for its EV production.
- Diversification of suppliers is important to address continuous supply, pricing and competitiveness.
- MEV can pass on some added cost to its customers while absorbing some cost. This will help in retaining its profit margins partially while customers will also be mitigated in price shocks.

MEV must ensure that its production is not affected by the tariffs or limited supply of lithium as this will impact its market share and position. Alternative supplies should be contracted to ensure no disruption takes place in the production.

2 marks for each valid point

Total marks: 12

Q3b

1. **Importance of crypto:**

Enhancing customer reach by tapping new demographic areas.

- Cryptocurrencies enable companies to reach tech-savvy and global customers who prefer decentralised payment methods.
- There is a growing demand for cryptocurrency as a payment method, driven by digitalisation trends. Notably, 40% of crypto paying customers are new to the entity and their average transaction value is twice that of credit card users.

More transparent

- Enables real-time settlement and low-cost cross-border payments, avoiding delays and fees associated with traditional banking systems.
- Especially relevant for businesses operating in multiple currencies and countries.

Access to new capital and liquidity pool

- Crypto can create a new class of investors as a result a new avenue of capital/ liquidity source can be formed and used.
- It diversifies the sources of funds, enabling MEV to access a broader liquidity pool and improve overall financial flexibility.

Digitalisation

- Creates awareness internally about new technology, it may also position MEV in this important emerging space for the future that could include digital currencies.

1.5 marks for each valid point

2. **Associated risks**

Volatility risk:

- Cryptocurrencies like Bitcoin are highly volatile, which can create uncertainty in pricing, revenue recognition, and profit margins.
- Treasury teams must manage the risk of holding crypto assets whose value can fluctuate significantly within short timeframes.

Regulatory and compliance challenges:

- Compliance with AML (Anti-Money Laundering), KYC (Know Your Customer), and OFAC sanctions is mandatory.
- Regulations vary widely across jurisdictions, creating a need for legal and tax expertise before adoption.

Cybersecurity and custody concerns:

- Crypto wallets and exchanges can be targets of cyberattacks.
- Businesses must ensure secure custody solutions and choose reputable payment gateways or custodians.

Accounting and tax complexity:

	• Lack of consistent global accounting standards for crypto (e.g. is it an asset, cash equivalent, or inventory?) complicates financial reporting. • Tax treatment can differ for transactions and capital gains depending on jurisdiction. This mark scheme is not exhaustive – all valid points within answers will be awarded marks. **Syllabus refs: 2.2.4; 2.4.4**	**Total marks: 13**
		Total: 25 marks

Published in December 2025 by
ACT (Administration) Limited
10 Lower Thames Street
London
EC3R 6AF

www.treasurers.org

Copyright © ACT (Administration) Limited 2025

All rights reserved. Except as permitted under current legislation you may not photocopy, store in a retrieval system, publish, perform in public, adapt, broadcast, transmit, record or reproduce in any form or by any means or medium any part of this work without ACT (Administration) Limited's permission.

Nothing in this publication should be taken as constituting professional advice. Although we have made every effort to ensure that the contents are correct at the time of publication, ACT (Administration) Limited makes no warranty that the information in this publication is accurate or complete and accepts no liability for any loss or damage suffered by any person acting or refraining from acting as a result of anything in this publication.