ACT
PAST PAPER

Diploma in Treasury Management (AMCT)

Unit 2: Risk management for treasury

July 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, students should 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 4 written questions, of which you must answer 3, 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	1 case study based question	50
Section B	3 shorter case study based questions, of which candidates choose 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

1 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

Connect Fast Tech (Private) Ltd (CFT) is a fast-growing internet bandwidth wholesaler in Pakistan. It owns a private submarine cable system and supplies internet bandwidth capacity to telecom and internet operators domestically and to internet exchanges, data centres and telecom operators internationally. CFT has a business to business (B2B) operating model.

CFT's local currency is the Pakistani Rupee (PKR) and Kibor (Karachi Interbank offer rate) is used as the benchmark interest rate for various tenors. All loans are in local currency. Due to economic conditions, Pakistan's financial market is highly volatile. The interest rate policy is regulated by the State Bank of Pakistan. The policy rate is frequently adjusted. The highest interest rate recorded in 2024 was 24% while the lowest was recorded at 12%. The local currency has been devalued over time reaching as low as RKR282/USD. The functional currency of CFT is PKR while its reporting currency is USD. CFT has 80% of its customers billing in USD which generates revenue in USD with average rate conversion for local customers with spot rate conversion for international customers. Only 50% of the international vendor payments are in USD while 50% are paid in local currency PKR.

As the technology is rapidly evolving, in the gaming industry and other areas, the demand for internet data services is growing, specifically by telecom operators for 5G.

To remain competitive, CFT has invested in its core network to meet increasing demands for high speed, reliable and uninterrupted internet. In this regard CFT has participated in a new consortium-based project that will lay a new submarine cable from Singapore to France with a cost of nearly USD1,300m with a proportionate cost of each participant in the project. The project has 12 participants globally. The mandate to lead the project has been given to a USA based organisation, Delta Corporation Limited (DCL).

CFT's contribution to the project is USD125m. To support this, CFT has signed a seven-year syndicate loan agreement with a local bank for an amount of PKR25bn with a 2.5 years grace period. This loan will support 75% of the project cost, whereas CFT will contribute 25% as equity to the project. The loan is set on a floating rate (six months reference rate and 1.6% spread) with the following financial covenants:

- current ratio of at least 0.8x
- interest coverage ratio not less than 1.2x
- debt/EBITDA not to exceed 3x
- credit rating must be A (long term) and A1 (short term) from a reputable credit rating agency.

The consortium project financing requires a minimum funding of 25:75 at project completion, meaning the company (CFT) must contribute at least 25% of the total project cost, with the remaining 75% to be financed through a bank loan.
Below is an extract from CFT's financial statements.

PKRm	**2024**	**2023**
Current assets		
Cash and cash equivalent	1,100	1,280
Short term investments	230	690
Inventories	365	350
Trade & other receivables	2,560	1,969
Total current assets	**4,255**	**4,289**
Non-current assets		
Property plant and equipment	4,710	2,980
Right of use of assets, property plant & equipment	870	770
Intangible assets	975	625
Total non-current assets	**6,555**	**4,375**
Total assets	**10,810**	**8,664**
Current liabilities		
Short term loan	1,510	880
Current portion of long term loan	2,600	2,089
Current portion of lease liabilities	580	660
Accounts payables	1,100	995
Total current liabilities	**5,790**	**4,624**
Non-current liabilities		
Long term loan - secured	1,640	770
Lease liability	180	320
Total non-current liabilities	**1,820**	**1,090**
Total liabilities	**7,610**	**5,714**
Total equity	3,200	2,950
Total liabilities & equity	**10,810**	**8,664**
PKRm	**2024**	**2023**
Revenue	13,110	10,617

Cost Of Goods Sold	5,423	3,775
Gross Proft	7,687	6,842
Operating Expense	3,600	2,400
Operating Profit	4,087	4,442
Depreciation	1,050	900
EBITDA	5,137	5,342
Tax (credit)/ expense	(351)	516
Interest Cost	2,900	2,480
Net Profit	1,538	1,446

The cable deployment in the sea is divided into regional segments. By completing each segment deployment, DCL generates an invoice to each participant with a 30-day payment term. As it's a consortium-based project, no delay in payments is expected from consortium members. The invoice is billed in USD, against which CFT makes a loan drawdown in its local currency PKR. When the payment is processed, CFT treasury lock the payment rate with its bank at spot rate.

CFT makes a loan drawdown upon receiving the invoice against each billing milestone. By the end of 2024, this loan had reached almost PKR21bn. The overall project is 70% complete. As of December 2024, the equity injected into the project by CFT stood at 20%, while the required ratio is 25%. This investment is expected to generate revenue following completion and commissioning of the project. The interest rate remained higher for 2023 and 2024 with six-month Kibor base rate at 22.5% (spread 1.60%) while there was a decline in interest rate by almost 12% in the last quarter of 2024.

CFT is a highly geared company. CFT has some other term loans on its balance sheet which will be repaid by the end of 2025. It also has arranged a working capital loan to manage its operations with a limit of PKR1bn. It is priced at a spread of 1.45% with the three-month Kibor rate which remained at an average of 16.60%.

CFT has a core set of customers. Receivable ageing has always been an issue. On the other hand, there is always pressure from vendors to settle payables on time. The cash position is updated daily to prioritise payments and manage working capital.

Further capital investments

During the annual board meeting in 2025, the board approved to add Fiber to Home business, a consumer segment to the major business line (business to consumer (B2C)). This will require deployment of local networks to reach the end consumer, home-to-home internet in target areas. This is a capital-intensive capex project and CFT is in discussion with various banks to arrange a term loan to finance this project with some flexible terms as the grace period for the syndicate loan will end during mid-2025. CFT is already struggling to manage its interest costs. The principal instalment repayment will add significant stress to its cash flows.

CFT has a good working relationship with many banks. While it needs to arrange the new financing, it is very important to consider the financial covenants of other loans as well as to maintain their credit rating stable.

QUESTION 1

a.	Analyse the loan covenants agreed and recommend actions that CFT must take to remain compliant with its loan terms.	15 marks
b.	Evaluate the key interest rate risks to which CFT is exposed. You are also required to recommend how CFT can mitigate its interest rate risk and take steps to secure new debt.	15 marks
c.	Evaluate the quantitative techniques that CFT can use to measure its interest rate risk and its impact on CFT's business plans.	10 marks
d.	Recommend KRIs and KPIs that CFT should incorporate in its risk policy to manage its liquidity and funding strategies more effectively.	10 marks
		Total: 50 marks

Mark scheme

Q1a

Calculations

Covenant	Required	2024	2023
Current Ratio	0.8X	0.74	0.93
Gearing	2.1X	1.69	1.17
Interest Coverage	Not less than 1.2x	1.77	2.15
Debt/EBITDA	not to exceed 3x	1.05	0.64

1 mark for covenant working (4 marks)

- The current ratio has been breached by a slight margin. There is an increase in accounts payable, short-term loan and the current portion of long term loan has also increased. The increase in working capital loan also reflects that the company is utilising its working capital finance facility to its limits.
- CFT needs to improve its receivables cycle to lessen its dependency on working capital lines. This can be achieved by reducing the receivable aging which is currently showing an increasing trend Account receivables has increased by 30% and comprises of 60% of current assets as of 2024.
- CFT needs to renegotiate the ratio with its bank as the syndicate financing grace period will end in 2025. As a result, the current portion of long-term loan will be part of current liabilities which will further increase the short-term loan. As a result, the current ratio will not remain compliant to the agreed level.
- Gearing ratio is within limits. CFT can further add on more debts on its balance sheet. CFT gearing ratio is perceived to be less risk for the lenders thus increasing their confidence for further lending in future.

1 mark for each valid interpretation

2 marks for each complete recommendation and details.

- Interest coverage has improved largely besides the fact that the interest rate remained on the higher side for the year. If the improvement in interest rate remains the same for 2025, the ratio will improve further for CFT which goes in its favour.
- High operating profits has helped the CFT to manage its interest coverage ratio.
- Debt EBITDA ratio is very low. There is a great margin for more borrowing looking only at this ratio. For a private and highly geared company, this is very important for CFT as it is in the discussion for more financing and from lenders point of view, it's an important consideration.
- Equity to debt for consortium-based project financing ratio is slightly breached. The required ratio is 25% loan compared to only 20% CFT contribution at this moment. There is only 5% deviation. This can be negotiated; however the ratio is required upon completion of the project. CFT can fill the gap by contributing more equity in upcoming payments.
- The credit rating is a requirement for the loan. However, to maintain a stable rating, it is important that CFT remain compliant to loan terms. Further a stable rating will help CFT to secure a new loan as well as at better pricing.

Max marks: 15

Q1b

INTEREST RATE RISK

CFT is a highly geared company. Interest rate has a direct impact on interest expense which is directly related to cash outflows. While considering a new debt facility, the following factors will affect its interest rate risk.

The interest rate policy is -highly volatile. Pakistan which makes the cost of the loan highly unpredictable. CFT's loan is on floating rate basis which exposes it to interest rate risk. The interest rate resets every three months for the Revolving credit Facility and every six months for its term and syndicate loans.

An increased interest rate will increase the accrued interest thus stressing the liquidity position at time of repayment. This risk will be more material when the grace period of the loan will end, and principal instalment will be added to interest payment.

Higher interest expense can have impact on financial covenants. In CFT's case, the debt service ratio and debt to equity ratios can be breached. CFT is already under high financial obligations, repayment of huge interest cost will expose it more risks like liquidity risk as well.

1 mark for each valid & complete point for identifying the interest rate risk

1 mark for each valid & complete recommendation for securing new debts

The economic condition of the country is highly volatile which can result in frequent rise of interest rate over the period of the loan making it more expensive for CFT. Hedging the loan can minimise the risk exposure to a certain extent.

The loan has a financial covenant of maintaining a certain credit rating from a reputable agency. Any breach of other financial covenant can downgrade the credit rating for CFT. A downgrade will adversely affect CFT's ability to arrange more borrowings and good pricing for further loans.

CFT is lacking a shortfall of injecting in the consortium project by almost 20%. An increased interest rate means an increased interest cost which could be a reason for CFT to struggle with this contribution in the project. In a syndicate loan, the negotiations take longer compared to a bi-lateral loan facility. Any syndicate member can object to lend further considering the equity to debt ratio is not met as agreed.

Higher interest rates can affect CFT's profitability in terms of ROCE, EPS. This can be a matter of concern for the shareholders.

SECURING NEW LOAN & MITIGATING INTEREST RATE RISK

CFT must hedge its interest rate if not for all loans, at least for new ones. This will reduce its exposure to high-cost debt which is creating stress on its balance sheet. Interest rate cap/ floor can help CFT to limit too much of the exposure.

As the interest rates have correction/ reduction towards the end closure of 2024, CFT can swap its floating rate with fixed rate to mitigate the interest rate risk.

CFT strategic investments seems to generate the revenue on commission of the project. Until that time it will remain under a huge debt burden, added operational cost and reduced liquidity position. CFT must refinance its syndicated loan with extended maturities and request for an additional grace period. This will reduce its financial obligations in times where it is focusing more on its core projects.

CFT must develop good relationship with its lenders. It can ease the refinancing of the loan. Pricing can be negotiated more favourably (spread). The repayment dates can be reset in a way that no maturities of the loan are accumulated in same month.

For a highly leverage company like CFT, Diversification of sources of funds is very critical factor. CFT must develop good relationships with leading and reputable banks. It must have diversified sources of lending for its various sources of funding like working capital loan, term loan, syndicate loan lead bank, trade loan etc.

Max marks: 15

Q1c

CFT's debt structure makes its interest rate risk a critical factor to consider the impact of interest rates on its business. In financial projections, budgeting, and other important reporting any change in interest rate will have a direct impact on its cashflows and interest expense. There are a number of techniques CFT can use to evaluate interest rate risk.

Max 10 marks for all points identified and discussed.

VALUE AT RISK

CFT is operating in a highly volatile environment. With 80% debt proportion in its capital structure, any increase in interest rates will expose it to a higher interest rate risk which will increase the cost if the debt resulting an increase of value at risk. CFT debt composition is on floating rate which keeps the value at risk on higher side.

In addition to the interest rate, the economic instability and currency fluctuation adds more to increase the value at risk for CFT.

Considering the above factors, any change in interest rate can have direct impact on cashflows and profitability of CFT. This risk can be assessed using the Value at Risk (VaR) method, which summarises the maximum expected loss over a period of six months at a given 90% confidence level. It also reflects high sensitivity of interest rate towards economic conditions which can reset the interest rate policy at more rapid speed thus impacting the cost of debt on frequent basis (floating rate in case of CFT).

CFT can evaluate the max expected loss /impact arising from unfavourable movements in interest rate. A hedging strategy can be considered according to the probability and impact of risk arising from movement in interest rates.

SENSITIVITY ANAYLYSIS:

For CFT, the interest rate risk will have direct impact on its liquidity, company profitability and cost of the debt as well. CFT is managing its operations through a working capital loan which reflects how its cashflows are squeezed.

It is important to quantify the impact on cashflows by considering and applying a range of changes in interest rate. As of 2024 the average rate is 22.5%. CFT can run sensitivity analysis by applying best- and worst-case scenarios.

If The interest rate reduced to 20.5% how much interest expense will be reduced
If interest rate increases to 24.5%, how much added expense will be incurred.

In both cases, the direct impact is on the cashflow and operating profitability. A slight change can have significant impact due to CFT's high leverage. This is also a useful tool to monitor the covenants compliance and applying for a waiver if there is deviation from the agreed limits.

CFT can also use two way sensitivity analysis considering its billing in USD and loan drawdown in local PKR, giving it FX exposure and loan utilisation which has a direct impact in interest cost.

SCENARIO ANALYSIS:

Considering new debt requirements and existing interest rate fluctuations, CFT can evaluate the best- and worst-case scenarios with respect to interest rate trends and make an important decision for a new loan. CFT can run and test different scenarios to evaluate the impact of the change due to changes in interest rates. Some of the scenarios are as below.

- Company debt cost: With an increase of 2%, for example, what impact it will have on the liquidity position and profitability. This can be compared with base case, best- and worst-case situations by calculating a 2% increase and 2% decrease in interest rates.

- With new debts in discussion, the overall debt of CFT will increase by 25%. Consider what impact this will have on financial covenants and CFT's capital structure.

STRESS TESTING:

Testing the extreme cases of different scenarios and comparing its impact. This is a very helpful technique to plan/ add contingencies for CFT which is exposed to a very volatile economic condition.

- What if the interest rate rises suddenly, what financial impact CFT will face as a result.

A sudden spike in inflation can directly affect the interest rate movements.

CONCLUSION:

Considering all these quantitative techniques, CFT can make an important decision for the choice of loan (fixed or floating rate), tenor of the loan and hedges it may transact. CFT can make a business proposal in a more realistic way by adding all these contingencies due to its business location and macroeconomic factors which may impact CFT.

CFT can also refinance the loan (specifically the tenor and pricing) with better terms considering the movement of interest rates and its impact on CFT's profits. For strategic investments, there will be better rational to decide the funding choices.

Total marks: 10

Q1d

Policy	KRI	KPI
Liquidity	Cash required for working capital. Current asset should not be less than current liabilities	Keep 10% headroom as cash buffer for unexpected cash requirements Measure the current ratio on monthly basis to monitor that CFT is able to meet its current liabilities from its current assets/ operations
Funding	Funds availability for various projects. Each project must have sufficient financing available to meet its targets.	Access to facility lines and availability in the short and long run. Monitor the project progress with facility available limit to support the remaining project.
Banking relationship	Banks are primary lenders, risk appetite to lend to CFT. The counterparty (banks) remains solvent throughout the tenor of the loan.	Maintaining banking relationships to ensure various funding sources are available. Funding sources are diversified to have multiple sources of debts from different bank.
Debt Portfolio management	Availability of different type and sources of loan. Working capital loan, Term Loan, Trade loan	Diversification of sources of funds must be maintained. Revolving credit facility to be obtained from two different banks with 50% from each bank contributing to CFT working capital loan. If one limit is exhausted and there is need of more funds, revolving credit facility from another bank will be available.
Loan Covenants	Compliance with loan terms Track and monitor the loan covenants and other condition on quarterly basis to ensure no breaches at all times.	Management accounts must be reviewed to track compliance. Achieve the financial covenants within an acceptable margin or haircut. Corrective actions must be taken before the actual breech happens
Interest Rate Policy	Floating rate monitoring (the board will decide the threshold for expected loss arising from an increase in interest rate for a highly volatile economic	VAR must be evaluated. What is the max expected loss CFT can take from increase in interest rate. The expected loss must be within the threshold limits defined by the board. This can be obtained by monitoring the central bank policy

1 mark for complete Policy KRI & KPI

Max 10 marks

	condition. CFT will opt for floating or fixed rate loan as per the risk appetite)	and economic condition closely on interest reset date.
Credit Rating	Performance against standard ratios. A downgrade in credit rating or warning signals for downgrade.	Timely monitoring of compliance & maintaining stable rating. A good communication with the rating agency can help CFT to discuss quantitative and qualitative measures as per its business dynamics for better understanding and identifying any gaps in timely manner that can result in any downgrade.
Credit Risk policy	Each project credit profile must be assessed for any possible financial defaults	Monitor the progress of each project and ensure compliance as per milestone achieved. CFT must operate within agreed limits against each loan agreement.
Forex Risk Policy	Volatility of forex rate PKR/USD (% of change of actual exchange rate from budgeted rate)	% of total exposure hedged from derivatives. Since CFT use natural hedging, the % of exposure offset by increased international revenue.
Investment Policy	Surplus cash investment	Short term investment of idle cash to generate income.

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

Syllabus refs: LO 2.1.3, 2.2.3, 2.3.1, 2.3.4, 2.4.1, 2.4.2, 2.4.3

Total marks: 10

Total: 50 marks

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

Fit Squat Club (FSC) is a private fitness club based in Doha, Qatar. It was launched in 2022 and is one of the biggest and most famous gyms in Doha. FSC has certified trainers, more than 1200 items of the latest gym equipment, comfortable changing rooms, and the latest technology to track each client's health and fitness profile. FSC also has an outdoor temperature-controlled swimming pool area, with sauna and jacuzzi services adjacent to it.

One year after its launch, following careful research, FSC introduced 'Healthy Kitchen' meals and a range of protein products including protein supplements and bars. The facility included a cafeteria offering healthy meals after a workout and a range of protein products.

FSC gained popularity through social media and became very popular among local residents. Considering the increasing demand, FSC started to deliver door-to-door services of its healthy meals to residents and local offices.

FSC also became an international supplier of its protein supplements in several countries including UAE, Saudia Arabia, Germany and the United Kingdom

FSC is in discussions with potential customers in Malaysia, Turkey, France and India for the supply of its protein supplements.

Revenue from business is as below.

QARm	**2024**	**2023**
Qatar	1,850	1,600
UAE	2,050	1,940
Saudia Arabia	1,050	1,280
Germany	1,800	1,550
United Kingdom	2,550	2,250
Total	**9,300**	**8,620**
Revenue by source		
QARm	**2024**	**2023**

Gym & Club	1,120	1,050
Kitchen and Catering	900	700
Protein Supplements Local	3,200	2,980
Protein Supplements International	4,080	3,890
Total	**9,300**	**8,620**

Liquidity and funding position

FSC secured a term loan of four years with a grace period of one year for its fitness club in Doha. It invested in research and development to introduce protein supplements. FSC has had organic growth and, since its inception, it has continuously invested horizontally and vertically to enhance the scope of the business, i.e. Healthy Kitchen, supplements, gym equipment etc.

Cash outflows are greater than cash inflows. The international customers add to the main revenue stream, however the payment terms for international customers are 90 days whereas FSC vendors commitments are agreed on 30 days.

The partners decided to expand its business in the Middle East by opening two more fitness centres. One in Dubai, UAE and another in Riyadh, Saudia Arabia.

FSC will require funded and unfunded financing (trade finance) to kick off its projects in both locations. The fitness equipment supplier in Germany requires a secure mechanism for import of equipment into the United Arab Emirates as it is also a regulatory requirement for a new business. There are commercial and Islamic banks which offer a range of financing facilities.

FSC management is interested in obtaining an overdraft facility for working capital and a medium-term loan at floating rates of interest for a period of four years. The economic condition in the Gulf Cooperation Council *(GCC) region is stable and the interest rate is tied to the US Federal Reserve's rate due to their currency peg to USD. Currently the interest rates are at 4.25% with low volatility.

UAE will be a competitive market for FSC due to its high standards and diverse background. FSC will face tough competition in this market, hence the strategy is to attract customers with low cost, high standard services.

FSC is considering a cash pooling option to optimise its liquidity position once the new branches are functional.

***GCC includes six countries Saudia Arabia, Oman, Kuwait, Qatar, Bahrain and United Arab Emirates**

Foreign exchange policy

FSC's functional currency is the Qatari Riyal, while its reporting currency is in USD. The revenue in different currencies is settled at a spot rate on the arrival of remittance to FSC's bank. There is no hedging strategy implemented. Sales to international customers are made in the foreign currency of the customer. FSC receive invoices from its international customers in different currencies. The invoices against imports of equipment from Germany are billed in EUR. It is paid at spot rate negotiated with the bank on payment day.

The cash flow projections for new branches are as below.

QARm	**Dubai**	**Riyadh**
Gym equipment	800	750
Infrastructure	550	450
IT and technology	450	450
Other fees and costs	250	250
Total funds required	**2,050**	**1,900**

FSC needs to carefully consider the regulatory requirements to run its business in these locations which includes licenses and permits from local authorities, maintaining health and safety standards as well as local employment requirements and regulations. These locations are highly culturally sensitive. Apart from this, FSC needs to hire qualified staff for fitness and management purposes. High commercial rents in Dubai and Riyadh pose an ongoing cost pressure that must be integrated into FSC's financial forecasting

QUESTION 1

a.	Discuss the key factors and challenges that could affect FSC's liquidity and funding needs as it further expands its business in Dubai and Riyadh.	7 marks
b.	Recommend the suitable long term and short-term funding options which FSC should consider to support its expansion Dubai and Riyadh. Evaluate the factors that may influence the choice of funding.	8 marks
c.	Assess the key financial and non-financial risks that might impact FSC's profitability considering its strategic business expansion plans.	10 marks
		Total: 25 marks

Mark Scheme

Q1a

Key Factors and Challenges 1. FSC is a privately owned business, only few years old. This limits the funding sources for the business especially in the new countries. 2. FSC is focusing primarily on bank loans. Developing good banking relationships will require some time. Considering a wide range of banking options available in new locations, FSC needs careful consideration while choosing its counterparty i.e. bank in this case. 3. For trade finance, the security structure like lien or cash margin against import can trap the free cash over the period of the LC. 4. The price of loan is negotiable in a bilateral facility however several factors are considered while negotiating it. For example, history, the financial health of FSC, credit rating etc. Most of these elements are missing for FSC at present. A strong business case must be presented to banks to convince them for acceptable terms. 5. GCC countries have reduced forex risk, however considering the cash pooling option, regulatory requirements at each country can limit the cash concentration. This can be challenging for FSC to optimise its liquidity position. 6. FSC's reliance on bank loans can put stress on its cashflow especially if the principal repayments are accumulated in a single month. 7. The management is interested in an overdraft facility which can be recalled at a short notice resulting in liquidity issues for FSC.	max 7 marks for discussing the factors. **Total marks: 7**

Q1b

Type of funding

FSC requires funding for the short term and long term.

1. To manage its working capital, a short-term loan can be arranged. Overdraft (OD) and revolving credit facilities (RCF), both are offered by banks in Dubai and Saudia Arabia. Since the business is launching in these regions, banks might not be comfortable in providing an OD.
2. An RCF will support FSC to manage its working capital and any gaps identified in operations especially in its initial phase of the business. Additionally, if the RCF includes a well-structured spread of maturities, it can further enhance cash flow flexibility and reduce refinancing risk
3. There is a lot of capital investment in developing both centres. A medium-term loan can support FSC's requirements.
4. A trade loan is important for FSC to manage import and export through letter of credit. As it is planning to expand in further countries, this would be the most secure way to manage it.
5. Dubai has one of the highest commercial real estate rents. FSC can opt for signing a bank rental lease agreement on an annual renewal basis.
6. To manage its door-to-door services, vehicle leases can be arranged through local banks at each location.
7. FSC should consider keeping a target capital structure for its expansion into new markets, ensuring a balanced mix of equity and debt financing. The equity-to-debt ratio should be assessed annually based on the project's profitability, market conditions, and funding requirement
8. While considering the type of loan, FSC must ensure he creditworthiness of its lenders to avoid any counterparty risk. This is important due to high reliance of FSC on bank loans.

max 8 marks for discussing the factors.

Total marks: 8

Q1c

Financial Risks:

- Market risk (FX, Interest rate).
  FSC is exposed to forex exchange risk as it is dealing with suppliers and customers located in different countries. It further creates two types of risks as below,
  Transactional risk: The supplier and customers have a range of currencies and with addition of new customers in Turkey, Malaysia and India, the risk will increase. Any volatility in these currencies can lead to unexpected gain/losses for FSC.
  Translation risk: The reporting and functional currency is different (USD-QAR). Any fluctuations in these currencies can lead to gain/losses in consolidation of financial results.
- The management is more interested in floating interest rate borrowings whereas the current interest rates are considered low at 4.25% A fixed rate loan can be considered as an option considering the economic condition of the

One mark for each valid point

USA -. can lead to changes in interest rates and hence an impact on interest expense, when borrowing at floating rates.

- Liquidity Risk. FSC's new business will be facing liquidity issues in start. Securing loans from banks in different Gulf countries can be a cumbersome process due to legal and regulatory requirements which can vary from each jurisdiction
- Cash pooling/ notional pooling can be subjective to permission by regulatory bodies, tax rules at each country. This can impact the liquidity position of FSC.
- Counterparty risks: supplier timely delivery, Timely payments from customers under import contract. The revenue from protein supplements is a major contribution. Any delay can impact its working capital cycle.
- Funding sources are important for a private business. If the loan facility is not timely available, it can impact strategic projects.

Non-Financial Risks:

- Legal and regulatory requirements at each location Food authorities in Gulf countries have very strict rules. Any violation or harm to human health through food deliveries, supplement can expose FSC to legal and regulatory risk with hefty fines or impose of ban.
- Operational risks: new business and its operations
  (Business Continuity, IT, Fraud, Mistakes, Data Integrity, Human Resource)
  Operating in a very competitive and diverse market like Dubai, attracting customer and their loyalty is subjective to quality services, word of mouth and reputation.
- Regulatory risk: different countries, different polices and requirements. Arranging licenses from different authorities to remain compliant to the rules and regulations can become very challenging. FSC need to pay close attention to every detail like gender segregated spaces for men and women, health, and fitness policies, Sahirah complaint policies etc.
- Hiring and retaining qualified staff for fitness and management exposes to retention of qualified staff challenge.
- Disaster planning risk: Heavy floods which happened recently which resulted in huge losses to many businesses. The location of the business is critical from commercial aspect, but climate change and its damage can impact business.
- IT and Data integrity risk: As FSC is high tech gym, customer data is maintained in very detail. Any breach of data can result not only business loss but also legal consequences.

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

Syllabus refs: 2.1.1, 2.2.4, 2.4.3

Total marks: 10

Total: 25 marks

QUESTION 2: CASE STUDY

Gloria Rest & Resort (GRR) is a famous holiday resort business in the United States. It has 46 outlets across the country. Most of the resorts are located in coastal and beach areas. The biggest outlets are located at the heart of Pacific Palisades, Los Angeles (LA) and Miami (MIA)

Business model

GRR has a capacity of 75 rooms in each resort, however some major locations including LA and MIA have double capacity due to high demand in these locations. The main revenue is generated from these two locations. Each resort has its own restaurant and coffee shop. The occupancy rates are higher in the summer months compared to the winter season.

Treasury structure

GRR has bank accounts at each location to manage its treasury operations smoothly. However, the treasury team has centralised operations. It has six major banks while maintaining branch level relationship at many locations. They are based in the main head office located in LA. The treasury team consists of ten qualified treasury staff with skills to lead financing, trade, treasury operations and reporting. Some of the processes are manual and need improvement. GRR retains almost USD1m in cash in its safe all the time to meet any cash transaction requirements. In head office, the cash is in the custody of treasury while in other locations, the cash safe is operated by an administration manager. A petty cash summary is submitted to treasury on a monthly basis.

Risk management

The board resolution for management of treasury operations has empowered the president and chief financial officer (CFO) for all transactional limits. Members of the board and management have close personal and professional relationships.

The management is empowered to take active decisions and is held responsible for taking business risks. Currently there is no risk management framework in place relying on an assumption that USA is a safe zone for business.

Each location has its own risk strategy with respect to seasonal business, customer services and operational factors, however the overall risk strategy varies from location to location.

IT landscape

GRR has partially outsourced its IT team, which constantly ensures the safety and reliability of its IT infrastructure. The contract with the expert consultants is renewed on an annual basis. The in-house team keeps the systems updated and ensures back up data is stored appropriately.

GRR has recently implemented a new enterprise resource planning (ERP) system to improve control of its larger business. GRR focuses on implementing the best practices. All approvals are given through the ERP system. Due to this being a recent implementation and subsequent process design back-log, the IT team has not implemented an authority matrix in the ERP system. As a result, users have full access to transaction initiation and its posting. The managers, however, review each voucher carefully.

Some of the treasury functions utilise bank portals for foreign exchange deals and loan repayments. Local vendor payments are not integrated hence manual reports are prepared in treasury. The team generates the general ledger from the ERP system and extract bank statements from the bank portal and incorporate the data in excel to generate a cash position on a weekly basis.

Servers have been installed in the offices based in LA and MIA while other servers are at consultant premises

Natural disaster

In the recent wildfires in LA, two resorts were destroyed. No-one was hurt as preventive measures were taken in advance. However, one of the main head offices where treasury was based also faced severe damage. Employees are now working from home until further notice. They are facing difficulties as some processes are manual. The external IT team is not available as they themselves have been affected by this situation. GRR only had one bank account in the local area which is also partially affected by the disaster. The overall network in the area is down hence there is no online access to bank account and the various payment portals to conduct banking operational activities. Neither the staff nor the management was expecting any such disaster hence no risk planning was done.

QUESTION 2

a.	Assess the operational risks faced by GRR. You are also required to recommend and justify actions that will help GRR control these risks.	10 marks
b.	Examine GRR's business continuity risk caused by recent wildfires. Within your answer you must recommend techniques to implement disaster recovery actions to manage such risks.	8 marks
c.	Justify the importance of the implementation of internal reporting of risks, which were highlighted to GRR by the LA wildfires. In your answer you must also discuss the essential components of internal reporting.	7 marks
		Total: 25 marks

Mark Scheme

Q2a

• GRR's operational risks are arising due to lack of control at certain points like IT Landscape, roles and increased roles and responsibilities, lack of uniform polices and a robust system to smoothly operate the process flow. • By establishing a policy of controls, GRR can measure and reduce the operational risks. • **Organisational and procedural**: **Risk**: GRR has different policies in different locations. This addresses the regional issues that can arise due to different legal or regulatory requirements of different states it operates in. The probability of frauds and error will increase due to lack of standard policies across all branches. The staff will not be aware of the required actions in such situations. This can result in monetary losses.	One mark for each valid point identified and one mark for action taken to mitigate the risk (Holistic marking required)

- **Control:** GRR should implement well-defined Standard Operating Procedures (SOPs) across all critical functions to ensure consistency, accountability, and compliance. This will help mitigate risks arising from process lapses, inconsistent execution, and human error.
  In addition, GRR must develop and regularly test business continuity and contingency plans to ensure preparedness for IT system failures, data breaches, or major operational disruptions. Periodic simulation exercises should be conducted to evaluate the effectiveness of these plans and improve organizational resilience

- **Authorisation: Risk:** The bank mandate for GRR is concentrating the treasury operations and financing powers by giving funding, operational and signing authority to the president and CFO. The personal and professional relationship of the board and management can result in misuse of financial empowerment. The operations are decentralised while treasury has centralised controls. This can lead to conflict of interest between the treasury team for choosing a counterparty (bank) and the regional teams who manage the banking relationship with the local bank. **Control:** GRR must develop a comprehensive bank mandate, incorporate a dual signing matrix to avoid any unwanted transactions. The bank mandate must define the approving limit per signatory/ permitted instruments and other operational controls like opening, closing of bank accounts power, call back confirmation, establishing import contracts authority etc. GRR treasury team work together with regional teams to understand the mutual requirements before choosing a counterparty in that location.
- **Physical control: Risk**: treasury team has centralised operations in its head office and it's a small team while there are a number of banks to deal with. **Control:** treasury members accessing various bank portals must have their own credentials, access for which they are empowered. For example, who is empowered to access GRR bank statements.
- The cash-in-hand amount is material Control: there must be a surprise cash count to ensure it is updated and information is accurate.

- **Segregation of duties**: **Risk:** The ERP has permitted multiple roles to users. The authority matrix is not implemented thus the initiator entering the transaction can post it as well which can lead to fraud and errors. **Control** The roles need to be assigned as per the authority matrix and the person entering the payment must not post it. This is a clear conflict of interest.

- **Personnel Control:** While GRR has an expert treasury team, the close relationship between the board and management could lead to potential conflicts of interest or a lack of independent oversight.
  Control: GRR should implement strong governance protocols, including the segregation of duties, establishment of an independent audit or risk committee, and periodic board reviews of key treasury decisions to ensure transparency and accountability

- **Limits and validations: Risk:** Currently GRR financial powers are limited to only two officials **Control:** GRR must implement tiered financial limit and validation hierarchy not only in its ERP but also apply in other bank portals and processes. For example, adding two more signatories, defining payment limits, dual authorization matrices on transaction value, bank credit limits / cut off timings for signing payments and escalation path for high valued transaction limits.

- **Supervision Risk**: there is clear problem in GRR ERP roles. Processes are manual and not straight through the system which means payments can be made without validation in the system. Besides the fact that initiator has control over what they enter and post. **Control**: Multiple controls can be implemented at various stages to minimise the probability of fraud and error. The payment initiated by the initiator must be authorised to next level once the line manager reviews the voucher and ensures that it is correct and complete. Once the signatory approves the payment in the system, an authorised person must publish the payment.

- **Management Control**: **Risk**: manual processes at GRR can expose it to many operational and procedural risks. Lack of data can show an unrealistic treasury position to the management**. Control**: treasury operations are centralised (which includes all funding, working capital management, reporting and risks are controlled from head office) hence a consolidated cash position report can give better visibility to management. A close monitoring of daily cash position can result in identifying any unrecorded transactions.

- **The ERP consultants are outsourced**. **Risk** This is an operational weakness as the routine problems might be overlooked or go unnoticed at all. The reliance on outsourced consultant on an annual basis itself is a risk **Control**: Hire and train an inhouse team who can quickly resolve the IT related issues.

Total marks: 10

Q2b

In the hospitality industry, robust contingency planning is essential to protect against operational disruptions and minimize financial loss. Natural disasters cannot be avoided but the risk of losses can be reduced by planning the situation in a structured way. To strengthen its resilience, contingency plan should address the risks in key area.

- Operational risk due to lack of planning.
- Business continuity at LA
- IT: The damage to IT infrastructure, non-availability of external or in-house support. Backup data.
- Data Integrity: access to treasury

Each valid point with explanation will be given 1 mark

GRR can take the following actions to manage business continuity risk in the future.

- **Initial Assessment**: Forecast the probability of all possible risks at all locations. Its severity and impact. This should not be limited to natural disasters but IT infrastructure, regulatory risk, seasonal fluctuations, reputational risk, pandemics etc. all these risks must be aligned to GRR business strategy.

- **Scenario Planning:** GRR must adopt a structured scenario planning approach by consideration potential disruption in key areas. for example, travel restrictions due to another pandemic, natural disaster as it happened and impacted GRR. Unavailability of key staff due to strike, sickness. Damage to hotel due to fire, natural disaster. Third party support like IT services, House keeping etc. Restricted access to key sites due to network outrage or cyber-attacks.

- **Business Continuity planning:** Each action against each scenario must be discussed, approved with specific response with key stakeholders i.e. management with clear evaluation of cost -benefit analysis. For example, if the IT system is not working due to wildfire damage in the local network, what are the back-up plans and how can employees remotely access the network, the bank portal, how to process the payments, how to secure the cash etc.

- **Tests refine and retest:** Conducting successful testing from time to time ensuring the activities ensure the systems and access to key points are remotely available. This can be tested on regularly basis and any observations should be addressed.

- **Communication:** GRR must implement uniform policies across the board and it must communicate clearly the actions of each BCP situation and key people to be contacted. GRR must circulate the key plans and actions to be taken in such situations.

Max marks: 8

Q2c

Importance of Internal reporting

- The LA wildfires highlighted significant vulnerabilities in GRR's operations, especially due to its decentralised structure. Implementing robust internal risk reporting is essential to strengthen risk awareness, enhance governance, and support decision-making. The importance of internal reporting can be justified using the following syllabus-linked components

Essential components of internal reporting are listed below:

- Identification& supporting organisational decision making Through monitoring and close coordination with all resorts, a centralized approach to identify when

Each valid point with complete explanation will be given a mark.

a risk happens and what commercial impact it can have on the business. An early identification can be managed in more controlled way. In GRR's case, the damage to property, IT infrastructure and closure of the resort are major risk because of natural disaster. Internal reporting also allows treasury to inform the board about relevant risks affecting GRR, such as natural disasters, operational disruptions, or liquidity constraints. This supports strategic decision-making, including adapting the risk management policy and allocating resources to mitigation efforts. In the aftermath of the wildfires, timely reporting would help identify gaps in contingency planning and lead to policy improvements

- Classification: Classify the risk as per assigned categories. Damage to property "High risk," closure of property will have financial and commercial loss "High risk," natural disaster is unusual but can have significant business impact hence "moderate risk."

- Evaluation Quantitative and qualitative analysis to be conducted to evaluate the significance of the risk and its impact. The reporting must disclose all aspects. What if the resort takes 3 months for full renovation and become operational, it can result in a loss of 30% on net profitability. The probability of more wildfire in next few months is low however the impact can be material.

- Authority, Delegation, and Oversight: Treasury must operate under clearly defined policies and delegated authorities. Internal reporting ensures transparency on how those risks (e.g. market, credit, operational) are being managed within authorised limits. This builds internal confidence and reinforces oversight mechanisms, especially in a decentralised business like GRR where local teams may take independent actions.

- Governance and Reporting: Internal reporting is fundamental to good corporate governance. Senior management must receive regular, structured information to understand GRR's overall risk profile and monitor progress of risk mitigation strategies. Post-wildfire, a structured internal report could track recovery efforts, contingency planning readiness, and ongoing exposure in high-risk areas. importance of relevancy and input of data clarity. A comprehensive report will cover the risk and its impact. The complexity of the report can be decided by the GRR management. The frequency can be set as per various levels. For example, the treasury manager will monitor the financial exposure more closely on daily or weekly basis specifically till the time the resorts are fully operational whereas the management might require it on monthly basis.

- Assessment Liquidity, Market Risk Exposures and Funding: What is important to GRR to make a decision based on the information provided in the internal reporting. Accurate reporting is necessary for effective communication between departments, especially between operations and treasury. For example, the wildfire may have impacted local revenue, which needs to be

reported to assess liquidity needs or reallocate funding. Internal reports should capture metrics such as cash burn rates, market risk exposure, and forecasted shortfalls to ensure proactive treasury action. The management can take actions, alter treasury policies based on the risk report provided to them. Decision making can be made accordingly.

- **Compliance and Control**
  Internal reporting also supports compliance and internal control frameworks, particularly around limit monitoring, approvals, and segregation of duties. In high-risk scenarios, like those caused by the wildfires, reporting tools should highlight exceptions, breaches, and control failures. This is essential in a post-SOX environment and supports GRR's global compliance posture.

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

Total marks: 7

Syllabus refs: 2.4.4, 2.5.1, 2.5.3

Total: 25 marks

QUESTION 3: CASE STUDY

Ride Fast Tech (RFT) is a manufacturer of electric scooters based in France, utilising the latest developments in technology. It has specialised in providing technological advancement by fully automated functions. The scooters are environmentally friendly and designed to operate through a mobile phone based application (app) developed by RFT. The app controls the speed through sensors which allows the scooters to slow down automatically on busy roads. It also has a tracker which can easily locate it through the app. Due to the safety measures installed, the RFT produced scooters have become the preferred choice among customers.

Business model
RFT has two business models.

- RFT is the main supplier of scooters to authorised retail dealers across Europe and the Middle East for a cost of EUR2,000 per scooter. The retail dealers can pay either the full amount up front or in five equal monthly instalments with 5% interest on the balance outstanding. The latter option is the preferred choice for most retailers.

- RFT rents the scooters directly to customers at a cost of EUR50 per hour. It has 75 rental scooters available in each of 12 major cities within France. All rental scooters have liability insurance covered.

There is a regulatory requirement in France for riders to have a license to ride such scooters. RFT is not permitted to rent scooters to customers aged 16 and below. The maximum speed allowed is 25km/h. A fine of EUR70 is imposed for breaking this speed limit which would then be charged to RFT as the scooters are registered to RFT. RFT must then recover the fine from the customer who incurred the fine. Some customers do not pay RFT for these fines.

Operational model
The scooters are manufactured in France however some of the essential parts are imported from China, the sole supplier. Since the demand for scooters is rapidly increasing across Europe, any delay in the import of these spare parts can impact on the whole process of demand supply. This makes the reliance on the supplier paramount.

The RFT app to control the riding of the scooters is crucial. To manage this, RFT has engaged a private IT company which specialises in managing and upgrading the app from time to time.

Extract from receivables ageing is as below.

EUR '000	30 days ageing	60 days ageing	90 days ageing
Retail Dealers- France	650	980	2,340
Retail Dealers Europe	1,100	2,150	3,690
Retail Middle East	700	500	240
Total	**2,450**	**3,630**	**6,270**

Credit risk
Despite a rapid increase in the sales of scooters, RFT's profits are not increasing. The customers are required to pay monthly rental instalments, however there is a pattern in their repayments. Some instalments are delayed by up to six months. This puts pressure on cash flow and as a result RFT is using an overdraft facility to manage its working capital. Credit terms are the same for all customers. The retail dealers' contracts are signed on an annual basis.

Some of the customers in Europe and Middle East are new to business and supplying scooters to such clients is always a risk. However, if too strict credit terms are set, there is a possibility that customers can switch to competitors.

QUESTION 3

a.	Analyse RFT's counterparty business risks. Within your answer you must recommend actions that can mitigate these risks.	15 marks
b.	Discuss how a risk map can be effectively used by RFT to evaluate its counterparty business risk and the limitations that might arise from the creation of this map.	10 marks
		Total: 25 marks

Mark Scheme

Q3a

• RFT has a range of customers across Europe and the Middle East. This creates Counterparty credit risk which has a commercial aspect. • Some customers are not paying on time. As a result, the cash inflows are impacted. The working capital cannot be efficiently managed and creating additional interest expense arising from use of the overdraft facility. • RFT relies is on one supplier for core parts. This can disrupt the supply demand process if the supplier fails to deliver the goods at an appropriate time. • For existing customers, the counterparty risk can be measured however for RFT's new customers, located in different regions there is a risk that the new customer may not pay on time or does not pay at all • RFT must identify the customers with the highest receivable ageing and renegotiate the payment terms. Attempt to impose a penalty of 2% to 6%on amounts overdue beyond threshold period (60, 75 or 90 days), at a minimum, accounts with significantly overdue balances should be put on hold to prevent further credit • The app is one of the core services which is handled by third parties, this creates a major risk for RFT performance and business. **Recommended Actions** • Credit terms should be considered wisely. Initially a small amount of credit should be granted in the start. Once the credit history is established, only then revised limits can be considered. • Customer creditworthiness must be evaluated before granting any credit terms. It can be done either through credit ratings, or through other public information available. • RFT can mitigate the counterparty credit exposure by implementing a good system/ERP which can automatically limit the credit exposure customer wise, preventing further credit once this limit has been reached. • Supplier diversification is important to reduce the counter party risk. • For new customers in different countries, exports should be conducted through a secure mechanism i.e. Letter of credit (LC).	All valid point and recommendation will be awarded 1 mark.

- By maintaining know your customer (KYC) profile, can help RFT to manage problematic customers more efficiently
- Keep track/ monitoring of receivable ageing. Communication with customers should give good friendly reminders to settle the dues early.
- An inhouse IT team could be built to manage and run the App.

Total marks: 15

Q3b

- RFT is aware of its customer probability of credit risk and its impact on the cash flow. By creating a risk map, RFT can analyse the frequency and severity of its counterparty credit risk arising from each customer.
- Risk maps will help RFT to manage its risk more efficiently by mapping the customer with highest probability / impact. This will be done by categorising each customer in the risk map matrix with predefined probability impact criteria.
- Customers with highest receivable ageing in financial terms will have direct impact on profitability as well as impact on the cashflows. Retail dealer in Europe is showing 59% receivable ageing in 60 days (moderate risk), while contributing 58% for 90 days and above (High risk).
- A risk guide can be derived through this map. RFT needs to pay attention to customers whose receivable number is increasing and beyond defined credit terms. Risk maps will automatically assign risk alerts of the highest level to such customers. It is important to identify those customers in each business segment which are increasing the receivable ageing.
- RFT can monitor the counterparty risk and with changes in each customer profile / receivable ageing, it can move to different risk categories. This will shift RFT's focus to more critical customers rather than those customers who have moved from high /critical levels to more moderate level. It is possible that there could be some cashflow issues experienced by some customer and they delay the payments to RFT for only a short period. This situation suggests that monitoring the risk map and updating it on certain intervals is important to consider.
- RFT must be clear in terms of choosing the risk categories, some customers might be more frequent in delaying payment, but it is possible that the total expected loss might not be material.

Limitations:

- RFT risk management team/ treasury may be very subjective while defining the risk either too high or too low.
- The risk map will not interact with other risks for example the counter party risk will not reflect the risk of suppliers in China. For each risk RFT needs to develop a separate risk map which is time-consuming to monitor.

Each valid point to have 1 mark.

	• There is limitation that risk map relies heavily on updated data so regular update must be taken place to monitor the updated risk positions. • Treating risks independently may overlook the interconnected nature of risks, which is a limitation of relying solely on a risk map. It would be more effective to highlight the need to combine it with other risk management frameworks that consider interdependencies The risk definition for RFT may be different than the industry norm (RFT's competitors). • RFT risk map results can be more judgmental when viewed alone. Interpretation of its treasury team in light if its impact and management involvement can help to overcome this limitation. This mark scheme is not exhaustive – all valid points within answers will be awarded marks. **Syllabus refs: L.O 2.1.4, 2.2.4, 2.4.3**	**Total marks: 10**
		Total: 25 marks

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