

This document should be read in conjunction with the examiner’s suggested answers and marking guidance.

General comments

This examination was based on a pre-seen scenario which described a company in the pharmaceutical industry. The scenario was made available in advance of the exam and a number of variant papers were set, each offering additional scenario-based information and each setting three sections to be completed. Each section was split into two or more specific elements. This is a very interesting industry which most candidates would understand. The pre-seen scenario was detailed and well prepared candidates should have been able to give good answers in the context of the industry. The unseen scenarios were interesting and presented some realistic questions on the industry.

Candidate performance

Performance overall was reasonably good for many candidates. There were several weak areas which candidates must improve on in the future. Hedge accounting was by far the worst task; candidates really failed to answer this question in variant 5. Candidates must study the financial reporting in the syllabus as there are always F pillar questions and they are always by far the weakest answers. Ethics, was slightly better this time which was heartening. Hedge accounting, parity relationships, share valuation, consolidations, internal audit and governance were the main technical areas that caused problems for candidates this time. It is clear that candidates are becoming weaker at technical accounting questions and better at management questions which is not ideal. It is hoped that candidates redress this balance in the future.

Most candidates now give a very good structure to their answers which is excellent, it makes it much easier to read and understand. The main problems were candidates failing to answer what was asked and writing everything they knew on the topic being asked about.

In most of the questions it was hoped candidates would be able to use industry knowledge and knowledge of the company to help formulate answers. There was some evidence of this but some candidates appeared to know very little about the industry.

Looking ahead to future examinations

Candidates should read the pre-seen material carefully and come into the examination understanding the industry and the company which will be the focus of the exam. This will help candidates formulate good answers that relate to the tasks they are given. Candidates must manage their time well and make sure they do not run out of time on parts they know well.



A good level of knowledge of the three strategic syllabi is necessary in order to do well in the exams. It is not enough to have knowledge of topics; candidates must be able to apply their knowledge to a variety of situations and show they have an in depth knowledge of the subject matter.

Variant 1

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Evaluate the strategic benefits of a merger	Business skills	E3 B1a - evaluate the processes of strategic analysis and strategic options generation
	Evaluate the implications of share price volatility for pricing negotiations	Technical skills	F3 C2a - calculate the value of a whole entity ...
Task 2	Advise on ethical implications of withholding safety concerns	People skills	P3 A3a - evaluate ethical, social and environmental issues arising from risk management
	Recommend approach to maintaining stakeholder relationship	Leadership skills	E3 A1b - recommend approaches to business/government relations and to relations with society
Task 3	Evaluate governance issues associated with board membership	People skills	P3 B3a - evaluate the risks associated with poor governance structures
	Recommend response to governance issues	Leadership skills	P3 B3a - evaluate the risks associated with poor governance structures
	Evaluate risks associated with merger	Technical skills	F3 C3b - evaluate post-transaction issues
	Recommend steps to mitigate risks	Business skills	F3 C3b - evaluate post-transaction issues

Comments on performance

Section 1

Strategic benefits of merger

Candidates should have been able to spot the potential synergies and opportunities created by this merger. Most candidates did manage to answer well and had lots of good reasonable suggestions of future synergies and opportunities. Many candidates discussed the increase in market share, the cash reserves of Poutire that could help fund more research, and the complimentary products of the two companies. Better candidates referred back to the structure of the pharmaceutical industry according to the pre-seen material. This question was done very well by most candidates and the marks were high.

Share prices

It could be argued that the present share prices reflect all information, including the information that can be gleaned from studying past trends. In other words, the present share prices already reflect whatever can be read into Poutire's general upward trend and Novak's diminishing share price. Few candidates really understood this and many said the price would now increase if shareholders thought the merger was a good idea.

Better candidates addressed the possibility that there may also be an implicit market assumption about the synergies and an agreed deal between Poutire and Novak and so there is scope for negotiation between the boards.

Marks were awarded for a sensible discussion of the EMH, but many candidates did not relate this to the scenario and just discussed definitions and material concerning market efficiency.

Many candidates were weak in this area; the F pillar is always the weakest and some work will be required in this area before the case study is attempted again.

Section 2

Ethical implications

The CIMA Code of Ethics was a logical starting point and most candidates did begin their answer with this.

The suggested answer indicates that the company will be in breach of the code of Ethics, but there is generally scope for disagreement over whether any given behaviour is ethical or unethical and so marks were gained by having a good evaluation and

discussion of the issues. This question was done well by many candidates with many going through the relevant ethical principles and discussing them. This was good to see as often ethics questions are answered badly.

Relationship with regulator

Candidates should have considered the need for Novak to maintain a relationship of trust with the regulator. Failing to report the concerns that have been raised could prove controversial if that ever comes to light. Candidates should be able to identify possible precautions that might be taken. It was hoped that candidates would offer sensible arguments that would enable the company to limit any possible damage to its reputation.

Most candidates discussed good communication with the regulator which was one of the main issues. A number of candidates did discuss that the company could do its own investigation which was very sensible and is in the suggested answer. Many candidates missed this point.

Most candidates did reasonably well in this requirement.

Section 3

This task was essentially two pairs of linked requirements.

Governance issues with proposed board and responses

As with most alleged mergers, this is really a takeover. In this case, Poutire is acquiring Novak. That fact is signalled by the dismissal of most of Novak's non-executives and the inclusion of only two remaining directors in reduced roles. Candidates did not answer this question well at all. Very few candidates discussed the lack of knowledge that the non-executive directors of Poutire would have of drug testing; this was a major issue. Training would have to be offered and some new non-executive directors appointed to address this issue. The previous roles held by both Dirk and Dorothy probably mean that neither would be a suitable person to serve as a non-executive director so some role must be found for them, again this was not discussed in any detail by candidates.

Candidates should have offered a realistic evaluation of the problems that will arise from this arrangement. Candidates did attempt to discuss the problem of the composition of the board but most just quoted governance principles and did not really apply it to the situation. Many others did not make realistic suggestions which meant the marks were low for this section.



Risks to achievement of synergies

There are a wide range of problems that can affect the benefits to be obtained from a takeover. In this case, we have two entities from the same industry but with very different business models. Candidates should have focused on the specifics of those models. Many candidates did manage to discuss the main risks which was good. Some candidates did not pay attention to the requirement which concerned the risks to achieving commercial benefits and instead just listed lots of other risks which did not gain marks. Many candidates did not discuss the ambitious researcher who could resign and take expertise away from the company, but most made up for this by discussing other risks in detail.

Mitigation

Candidates were expected to respond to the risks identified in the preceding requirement. Some candidates answered this very well but others gave very impractical answers that really would not have worked. Communication was the key to most of the issues and many candidates did mention this which was good.

Candidates should always try and give practical, feasible responses to problems.

This section was done well by many candidates.

Variant 2

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Evaluate challenges to ethical stance	People skills	E3 A1c - discuss the drivers of external demands for environmental sustainability ...
	Advise on corporate social responsibility reporting	Leadership skills	F3 A1c - advise on the use of sustainability and integrated reporting to inform stakeholders ...
Task 2	Assess economic currency risk	Technical skills	P3 D2b - evaluate appropriate methods for the identification and management of financial risks associated with international operations
	Evaluate the potential value of Big Data analytics	Business skills	E3 E2a - evaluate the impact of IT/IS on an organisation and its strategy
Task 3	Evaluate potential impact of news event on share price	Technical	F3 C2a - calculate the value of a whole entity ...
	Recommend mitigation for share price impact	Business skills	F3 C2a - calculate the value of a whole entity ...
	Advise on difficulties of conducting an internal audit investigation	People skills	P3 C3a - evaluate the effective planning and management of internal audit and internal audit investigations
	Recommend response to audit difficulties	Leadership skills	P3 C3a - evaluate the effective planning and management of internal audit and internal audit investigations

Comments on performance

Section 1

Ethical stance challenge

Some candidates provided a reasonably good answer to this task, explaining a number of potential reasons for the repeated challenges to Novak's ethical stance. The most competent candidates were those who clearly recognised that Novak has multiple stakeholders with differing needs and, therefore, it would inevitably always face challenges to its ethical stance, based on the differing (and sometimes conflicting) stakeholder needs and their success / failure in fulfilling these.

A number of candidates recognised the potential general lack of understanding of the need for Novak's successful products to recover their research and development costs within the price of its drugs. Also, better candidates recognised that Novak has a fundamental duty to its shareholders to maximise shareholder wealth, which is clearly a difficult factor to balance against the expectations of customers (particularly those in developing countries).

Weaker candidates merely discussed the ethical principles and, in some cases, attempted to apply these to the information presented. For some of the ethical principles this was suitable, but those candidates who merely identified and described the ethical principles, with little or no attempt to identify how these explained the reason for the challenge to Novak's ethical stance, were awarded few marks.

Advantages and disadvantages of enhanced CSR reporting

This part of the task was answered well by many candidates. Stronger answers were those that were applied directly to Novak, rather than those that merely provided generic advantages and disadvantages of enhanced CSR reporting.

Many candidate answers covered a good range of relevant and well considered advantages, such as increasing transparency and thus reassuring stakeholders of Novak's corporate social responsibility activities. Additionally, a number of candidates correctly recognised the potential for reducing the threat of regulators imposing more stringent disclosure requirements that might harm Novak's image. Good answers also considered a range of disadvantages to enhanced disclosure, such as providing more information for the critics to use against the business and the potential for some stakeholders to challenge Novak more if more information is available to them.

Weaker answers were those which were either very generic or those that merely identified the advantages and disadvantages of CSR reporting. Both of these approaches were awarded limited credit as they failed to adequately address the requirement.

Section 2

Determine the extent of economic currency risk

This task was not well answered by most candidates. Most answers were merely descriptive, outlining the definitions of transaction, translation and economic risks. Few candidates went further than explaining economic current risk and its potential impact on Novak. Only a very small number of candidates went on to consider the alternative possible reasons (other than economic currency risk) why Novak was not asked to supply the malaria treatment drugs. These candidates provided a well-balanced answer and were therefore awarded higher marks.

A key weakness of most answers was the failure to consider the wider reasons, beyond economic currency issues, such as the quality of Novak's drugs compared to the competitors, the speed of delivery needed or Novak's relationship with the Dolrovia Health Authority. In addition, the weaker answers were those that were theoretical rather than applied directly to Novak.

Big Data analytics and potential industry collaboration

This part of the task was reasonably well answered by most candidates. Most candidates demonstrated a sound knowledge and understanding of Big Data analytics and most applied this reasonably well to Novak. However, the weaker answers were those that merely described the features and/or advantages of Big Data with very limited direct application to Novak.

Stronger answers were those that also considered the pros and cons of industry collaboration on Big Data. Again, candidates were expected to consider the specific advantages and disadvantages relating to the pharmaceutical industry rather than general industry collaboration and those candidates who did so were awarded higher marks.

Section 3

Impact on Novak's share price

This task was answered well by most candidates. Many answers considered a range of relevant points, including the challenges to Novak's corporate governance, the potential negative response of customers and the potential for significant fines. Most candidates recognised that all of these factors could have consequences for the shareholders and hence an impact on the share price. Weaker answers were those that merely described the efficient market hypothesis with little or no application directly to Novak. However, few answers took this approach and most candidates made a good attempt at this part of the task.

How to minimise the impact

The second part of this task was answered reasonably well by most candidates. Most candidates correctly recognised the need for swift and effective communication to all of the key stakeholder groups. Also, many candidates correctly identified the need to bring in external auditors or investigators to assess Novak's governance procedures in order to demonstrate an unbiased and independent assessment of Novak. Weaker answers were those that identified actions which were not specific to reducing the impact on the share price, such as setting up an audit committee or reviewing remuneration policies for senior managers. These were not specific to the current situation under discussion.

Difficulties for internal audit investigation of the alleged bribery

This part of the second task was reasonably well answered. Most candidates correctly considered the main challenges of getting access to Yvonne and to the relevant information and documentation, which is likely to have been seized by the police. Some candidates also correctly considered the difficulties of potential collusion and fear amongst the marketing staff of being implicated in the alleged bribery offence. Good answers were also those that recognised that many of the alleged transactions could have been concealed by Yvonne, thus making the audit process very difficult. Weaker answers were those that provided very generic answers, which largely focused on general internal audit activities with limited application to this particular audit investigation. For example, some candidates discussed the lack of Non-Executive directors in Novak which was not relevant to the task.

Overcoming difficulties of the internal audit investigation

This part of the task was generally not well answered by many candidates. Many answers were very thin and poorly applied to the audit investigation being considered. Few candidates suggested that the internal investigation should be delayed until the police investigation is concluded and some incorrectly suggested direct contact with Yvonne, which is highly unlikely to be possible under the circumstances. Some candidates provided unnecessary actions such as setting up an audit committee or employing more NED's which again, was not specific to this investigation.

Variant 3

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Advise on management of stakeholder relationships	People skills	E3 A1d - recommend how to build and manage strategic relationships with stakeholders
	Evaluate ethical implications of a redundancy decision	Leadership skills	P3 B2a - evaluate the risks of unethical behaviour
Task 2	Advise on application of APV to an investment project	Business skills	P3 E1a - evaluate investment projects
	Evaluate potential impact on beta coefficient	Technical skills	F3 B1b - evaluate and compare alternative methods of raising long-term debt finance
Task 3	Advise on usefulness of costings	Technical skills	E3 D1a - evaluate alternative models of strategic performance measurement in a range of business contexts
	Recommend approach to product quality	Business skills	E3 D1a - evaluate alternative models of strategic performance measurement in a range of business contexts
	Evaluate challenges of dealing with regulator	People skills	F3 A2b - advise on the development of financial strategy for an entity taking into account taxation and other external influences
	Recommend response to challenges of dealing with regulator	Leadership skills	F3 A2b - advise on the development of financial strategy for an entity taking into account taxation and other external influences

Comments on performance

Section 1

Stakeholder relationships

Candidates generally identified the key stakeholders whose interests might be affected by the response to the demands. Some candidates argued that Novak's competitors were stakeholders, which may be true in the sense that competitors would have an interest in Novak's actions, but there is hardly a relationship that should be managed.

Candidates generally offered realistic recommendations for dealing with the stakeholder issues. The most important consideration was a realistic understanding of the relationship itself and its importance to Novak. This generally led on to a sensible recommended course of action.

Ethical implications

This question was answered reasonably well, with many candidates recognising that closing either of the existing factories would cost a group of employees their livelihoods. Many candidates argued that the closure of the factory in the developing country would cause greater harm because the employees there would be less likely to have alternative employment opportunities.

Weaker answers simply stated and defined ethical principles with little or no attempt to relate those to the requirement. There was also a significant minority of candidates who attempted to avoid the dilemma altogether by suggesting that the staff who were being made redundant could be offered jobs at the new factory in Harland. While it can occasionally be possible to find a compromise that avoids an ethical dilemma, it is unlikely that such a solution would be possible in this case. Presumably, Harland's government wishes to obtain jobs for its own citizens.

Section 2

Challenges of evaluation

The first requirement sought an evaluation of the difficulties associated with using the Adjusted Present Value (APV) approach to investing in a project that involves investing in a new factory, with subsequent financial support from the host government. On this occasion, the reference material offered a brief reminder of the process for determining APV.

A full answer would require a discussion of three factors: the predication of project cash flows, the discounting of those cash flows at Novak's cost of equity and finally the determination of the cash flows from the government subsidy. Most candidates wrote a good discussion of the first of these issues, but answers to the second and third were generally far weaker. This was disappointing because the expectation had been that candidates would have been able to discuss the factors from first principles rather than necessarily repeating book knowledge. For example, Novak is a quoted company that has debt. Candidates should have been able to explain how the cost of equity might be determined.

Impact of proposal

This requirement required a basic understanding of CAPM and the difference between systematic and unsystematic risk.

Some candidates argued for an increase in beta and others argued against. That was not necessarily an issue provided they offered a logical basis for their arguments. The biggest problem was that many candidates confused systematic and unsystematic risk, which undermined the quality of their arguments. Candidates were better on the implications of a change in beta, with good arguments to support the fact that an increase in beta could increase the cost of equity and reduce the share price.

Section 3

Incorporating costings into targets and relaxing standards

The first requirement raised two separate, but potentially related, issues. These were the extent to which a changing cost structure should be incorporated into performance targets and the possibility that quality standards should be permitted to fall during a period of transition.

Better answers to the first part of the question recognised that the production schedule was in a state of transition and that prices were undoubtedly going to rise because of the move to Harland. Some candidates argued for the currency issues that had affected the costings to be taken into account. Overall, answers were generally good. The second element was answered well, with most candidates recognising that permitting quality standards to fall could cause serious problems for patients.

Challenges in dealing with regulators and how to address these

The second requirement asked for a discussion of the challenges that might be faced in dealing with the regulator in the light of the price increase and required a response to those challenges.

Better scripts approached the first part of this requirement by focussing on the possible problems that might be created if the selling price of the medication was increased. There could have been problems with competing products from other manufacturers or with



the PRA deciding that the product was no longer cost-effective. The quality of answers varied, depending on whether candidates had a realistic starting point in terms of the implications of a price increase.

Answers relating to the second part were generally stronger, with arguments reflecting the need to be seen to be offering effective and affordable remedies.

Variant 4

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Evaluate relevance of BCG matrix	Business skills	E3 B2b - recommend how to manage the product portfolio of an organisation to support the organisation's strategic goals
	Assess importance of stakeholders other than shareholders	Technical skills	F3 A1b - evaluate financial objectives of for-profit entities
Task 2	Evaluate ethical dilemma	Leadership skills	E3 A2a - evaluate ethical issues and their resolution within a range of organisational contexts
	Evaluate proposal to sell a product that is safe but has not been fully tested	People skills	P3 B2a - evaluate the risks of unethical behaviour
Task 3	Advise on possible changes to share price	Technical skills	F3 C2a - calculate the value of a whole entity ...
	Assess long-term impact on share price	Business skills	F3 C2a - calculate the value of a whole entity ...
	Evaluate challenges facing Internal Audit	People skills	P3 C3a - evaluate the effective planning and management of internal audit and internal audit investigations
	Advise on implications of conducting an Internal Audit investigation	Leadership skills	P3 C3a - evaluate the effective planning and management of internal audit and internal audit investigations

Comments on performance

Section 1

Usefulness of BCG

Many candidates explained the quadrants of the BCG matrix well and discussed this in the context of the drugs marketed by Novak. However, many did not identify any negative aspects to the use of the matrix, making only positive points. It would have been appropriate to point out that the fact the consultants' report is so negative suggests that the consultants may have made an error in applying it to Novak. A good answer could have identified that aspects of the analysis may not be appropriate in this context. For example, the advice that “dogs” should be considered for divestment would be short sighted because these products can be sold at a healthy contribution as long as there is demand, so there is likely to be little point in withdrawing them.

Addressing interests of stakeholders

In the second part of this section, most candidates identified key stakeholders and discussed the importance of addressing their interests, but few explored whether this is inconsistent with the maximisation of shareholder wealth. Many did not provide any context for their discussion of other stakeholders. For example, the fact that in order to meet society's need for new drugs it is necessary to have a sustainable business to fund research and development was often not recognised. Difficulties in identifying and engaging with stakeholders were also discussed by very few candidates.

Section 2

Ethics of developing Blenalix

For the first part of this section it was appropriate to use the CIMA code of ethics and many candidates applied this well. Many worked through the ethics code discussing each element in the context of the side effects suffered by volunteer testers of Blenalix and the implications of this for development of the new product. The need to safeguard the health of volunteers was generally recognised as was the duty to maximise shareholder wealth.

Immediate launch of Darlafen

The second element of this task referred to a new drug called Darlafen. Most sales of this were to international charities who would buy it to treat sufferers of Trimpovirus. However, Trimpovirus mostly occurs in countries which require animal testing of drugs, which

has not been carried out for Darlafen. The candidate was asked to comment on a proposal to launch Darlafen immediately without animal testing. A good answer here would have pointed out that this would mean breaking the law in the countries where the product would be released, and that the directors do not have the right to set aside a law just because they believe it to be unjust. It would also have been appropriate to point out that this course of action could lead to legal penalties and that stakeholders could be concerned about the neglect of safety procedures and seek alternative suppliers. This section was often poorly attempted, with many candidates completely ignoring the illegality and unethical behaviour and recommending that the immediate launch should go ahead.

Section 3

Share price

The last section began by asking whether share price movements might indicate insider trading. It would therefore have been appropriate for candidates to discuss this in the context of market efficiency. For example if the market were strong form efficient the share price would reflect all information whether public knowledge or not. Relatively few candidates mentioned market efficiency at all, and many produced responses which lacked structured arguments and depth of discussion. Market efficiency is very relevant to this discussion, and candidates who used it as the basis for their discussion tended to produce responses with a stronger structure. Better candidates also made good use of the information provided on share price movements and linked this to the timing of the announcement.

Internal Audit

The various challenges that Internal Audit would face were generally well identified and explained. Many candidates recognised the difficulty in finding evidence and the fact that a leak could have originated outside Novak. The identification of the appropriateness of Internal Audit investigating this was often poorly covered with many candidates making very general points without depth of discussion. A good answer would have explored the fact that this investigation could prove a distraction from the ongoing work of the department, that it could undermine the relationship between Internal Audit and Management as they would potentially be investigating a criminal act. Candidates could also have discussed whether the Internal Audit department would have the skills needed to perform the investigation.

Variant 5

	Designed to test ability to:	Competency being tested:	Syllabus lead learning outcome:
Task 1	Advise on role of mission statement and values	Leadership skills	E3 B1a - evaluate the process of strategic analysis and strategic options generation
	Evaluate Corporate Social Responsibility reporting	Business skills	F3 A1a - advise on the overall strategic financial and non-financial objectives of different types of entities
Task 2	Advise on forecasting demand for new drug	Technical skills	E3 B2a - evaluate strategic analysis tools
	Evaluate reputational risks associated with selling a new drug	People skills	P3 A3a - evaluate ethical, social and environmental issues arising from risk management
Task 3	Evaluate relevance of International Fisher Effect	Technical skills	P3 D2b - evaluate appropriate methods for the identification and management of financial risks associated with international operations
	Evaluate proposal to make advance payment	Business skills	P3 D2b - evaluate appropriate methods for the identification and management of financial risks associated with international operations
	Evaluate usefulness of hedge accounting	People skills	F3 A2c - evaluate the impact of the adoption of hedge accounting and disclosure of financial risk on financial statements and stakeholder assessment
	Evaluate desirability of hedge accounting	Leadership skills	F3 A2c - evaluate the impact of the adoption of hedge accounting and disclosure of financial risk on financial statements and stakeholder assessment

Comments on performance

Section 1

Mission statement v strategy

Candidates on the whole gave very general answers to this requirement. Many candidates recognised that the mission statement does not bind the company to a set of actions but is rather a guide and should reflect the current ethos of the company. On that basis it should be refined and adjusted from time to time to provide a better guide to potential investors. Very few actually investigated the elements in detail, those that did were generally the more mature students recognising the industry environment and the potential commercial conflict between the needs of shareholders and sufferers.

CSR Reporting

CSR reporting was somewhat better answered. Candidates were able to use the structure presented to frame their response and, on the whole, gave a good account of stakeholder inclusiveness highlighting the developing countries aspects from the scenario and in many cases that Orphaned Diseases were not given any mention.

Coverage of the other three areas was rather less complete although many gave good accounts of the shortfall in each of the areas and highlighted where improvements could be made. Better candidates again worked in the aspects suggested by Orphaned Diseases highlighting the lack of specific coverage whilst picking out new areas and techniques of research relevant to sustainability in particular but also highlighting the lack of material information with any detailed data on Orphaned diseases.

Section 2

Challenges in forecasting demand

Identifying the difficulties in forecasting demand for Kartiam was tackled quite well. Candidates on the whole recognised the lack of availability of any structured data on the caseloads of patients outside Cronland and the need to assess whether there are any geographic or lifestyle indicators of the prevalence of the disease. Better students went on to explore the likely applicability of Novak's treatment against any which might be presented by other competitors. These candidates gave good answers which also highlighted the need for communication and education throughout the medical profession.

On the pricing side, most candidates again reflected on the affordability of the treatment and the public funding implications required for “Approval”. Good candidates went on to reflect on how to interpret indicators provided by analysing similar situations on the various markets and the precedents set in different countries for expensive treatments for rare conditions versus addressing what may be better coverage of other prevailing conditions in different economic circumstances.

Reputational risks

The second requirement which dealt with the reputational risks of having ceased research for a potential cure was answered poorly. Most candidates readily seized on the commercial aspects of being profit driven with some seemingly overstating the public reaction to such news. A reasonable number of candidates showed an awareness of pressures from governments to restrict profiteering by drug companies and many quickly compensated any adverse comment against Novak with the fact that public funding for expensive treatments may well have been withheld in the past and that a fairly simple re-alignment with evolving facts should settle the matter. Very few developed any discussion about the “very debilitating and can prove fatal” comment in the scenario.

Section 3

Exchange rate

This task was presented as two pairs of linked requirements. These were answered badly in the majority of cases. All parts of the question were weak with candidates displaying a lack of knowledge of the subject areas.

Very few candidates demonstrated a solid knowledge of the International Fisher Effect as a basis for predicting rate changes often skipping over any definition or discussion to ramble in general about the difficulty of predicting rates. Many were able to salvage something by highlighting the volatility of the local conditions and the impending election as rendering any prediction of market direction as futile. Poor candidates failed to relieve themselves with any sensible suggestions.

The second part of the first couplet was rather better although clearly some candidates were unsettled by their lack of knowledge in the first part.

Hedge accounting

The second pair of requirements presented in section 3 were similarly weak. Few candidates showed any detailed knowledge of hedge accounting as opposed to general comments on hedging. Poor candidates just gave a knowledge dump of multiple often irrelevant facts mostly unrelated to the scenario, slightly better ones gave some discussions on relevant hedging techniques; those that related to the scenario were awarded some credit. Good candidates, were able to distinguish that hedge accounting was



different and does not protect but rather informs, going on to discuss the reality of the situation and tie it into the detail of the scenario and the rules of deployment as responses improved.

There was a complete lack of knowledge of hedge accounting in most answers.

The second requirement was not answered well at all. Many scripts produced a rambling discussion of hedging which failed to delineate the two sections. Better candidates considered cash flows as the determining factor in the decision process with the few good answers covering risk attitude, the wider implications of the project, the materiality of amounts involved, the opportunities for offsetting and natural hedges, all forming parts of the risk consideration and management process.