

## SINGAPORE CA QUALIFICATION EXAMINER'S REPORT

**MODULE:** Business Value, Governance and Risk BG

**EXAMINATION DATE:** 20 June 2024

### General comments

The June 2024 BG examination consists of a single-company case study with financial and industry data covering four questions across the BG syllabus. Each question addresses particular syllabus areas which are consistent with prior examinations.

The June 2024 BG scenario focused on High Technology Circuit Boards Limited (HTCB), which is a small company listed on the Singapore Exchange (SGX) Catalist board. HTCB manufactures printed circuit boards (PCBs) at its factory in Singapore, purchasing microchips, semiconductors, and other electronic components, as well as raw materials such as silicon, copper, and gold. HTCB are facing issues with supplier capacity and employee retention and is considering setting up an electronics components plant in Taiwan to counter these issues.

Risk and governance learning outcomes are covered by Questions 1 and 4.

Question 1 focused on risk evaluation and control mitigation and the application of the following risk evaluation tools: probability estimates and analysis, scenario planning or stress testing, human reliability analysis, and root cause analysis.

Question 4 focused on the governance at HTCB around its sustainability-related objectives and required Candidates to evaluate existing and new sustainability ESG performance metrics and to evaluate a proposed sustainability initiative.

Financial appraisal, capital structure, and working capital management learning outcomes are covered by Questions 2 and 3.

Questions 2 and 3 focused on setting up a new manufacturing facility for HTCB in Taiwan to address a supply constraint. Question 2 required Candidates to evaluate the value of a new debt issue to finance the proposal and to evaluate and comment on the impact on the company's cost of capital. Question 3 required Candidates to perform a financial investment appraisal and a non-financial appraisal of the proposed expansion in Taiwan.

As with prior BG examinations, it was noted that some Candidates performed better on the numerical elements of the examination than on the discussion requirements. There is evidence that some Candidates failed to sufficiently utilise and reference relevant facts from the case scenario when providing written explanations to the requirements. Some Candidates' responses remain too brief, vague, or generic, which resulted in them not able to score the available marks they potentially could.

Future candidates are strongly encouraged to manage their time effectively to ensure there is sufficient time to address each question and practice their written explanation skills as part of their BG examination preparation and provide answers in full sentences that respond to the precise requirements and use relevant information from the case scenario provided in the exam paper.

## **Analysis of individual questions**

### **Question 1**

#### **Part (a): Identification and explanation of risks**

Candidates were asked to identify and explain nine distinct strategic, operational, or market risks relevant to HTCB. Most candidates performed well in this section, successfully identifying and explaining a range of risks specific to HTCB. Overall, this section was well handled by the majority of Candidates. However, some Candidates repeated the same risk in different forms.

#### **Part (b): Risk mitigation strategies**

For **part (b)**, Candidates were required to advise the Board on a risk mitigation strategy for each of the nine risks identified in part (a). Candidates typically answered parts (a) and (b) together, evaluating nine specific risks and proposing corresponding mitigation strategies which provided a coherent approach. The majority of Candidates demonstrated a clear understanding of risk mitigation techniques. However, as with part (a), those who repeated the same risks failed to secure all the marks available.

Generally, parts (a) and (b) are still done well.

#### **Part (c): Explanation of risk evaluation tools**

In **part (c)**, Candidates were asked to explain four risk evaluation tools; probability estimates and analysis, scenario planning or stress testing, human reliability analysis, and root cause analysis. Candidates were then required to advise the Risk Committee how each tool could enhance the evaluation of the PCB manufacturing process at HTCB. While many Candidates could describe the risk evaluation tools adequately, a notable proportion of Candidates struggled to contextualise their application within HTCB's PCB manufacturing process, leading to incomplete answers.

#### **Recommendations for future candidates**

Candidates are advised to avoid repetition by ensuring each identified risk and its corresponding mitigation strategy are distinct. When explaining risk evaluation tools, provide specific examples of how each tool can be applied to the scenario company as this will improve clarity and relevance. Candidates should always aim to provide thorough explanations using relevant, specific information extracted from the case scenario provided.

### **Question 2**

#### **Part (a): Recommend an issue price for each of the proposed two issues of corporate debentures**

In **part (a)**, Candidates were required to recommend an issue price for each of the proposed two issues of corporate debentures at nominal S\$25 million each (totalling S\$50 million). Most Candidates demonstrated the ability to calculate the issue price for the two debentures

which was excellent. However, some Candidates incorrectly used the credit risk premium for AAA-rated debentures instead of applying the credit rating appropriate for HTCB.

**Part (b): Calculation of existing weighted average cost of capital (WACC)**

**Part (b)** required Candidates to calculate HTCB's existing WACC. Generally, Candidates performed well in this section. Errors arose when Candidates incorrectly used the number of shares as the equity value, instead of multiplying by the share value or they applied the incorrect credit risk premium.

**Part (c): Impact on WACC and change in gearing**

For this requirement, Candidates needed to measure the impact on WACC and the change in gearing if HTCB issued S\$50 million of new corporate debentures and its credit rating decreased from A to BBB. This part of the question saw mixed results. There was a tendency to use incorrect figures, such as S\$180 million instead of S\$115 million for equity in the regear calculation and some Candidates failed to downgrade the credit rating correctly. A significant number of Candidates used pre-tax rather than post-tax figures for calculations in the WACC calculation. Many Candidates omitted the calculation for the change in gearing. Also, there was a notable number of Candidates who did not attempt this question part.

**Part (d): Commentary on results from part (c)**

In **part (d)**, Candidates were required to comment on the results from part (c). While Candidates generally provided brief responses, many did not fully explain the implications of their results on HTCB, which was the purpose of the requirement. Candidates often made simple statements about increases or decreases in percentages without substantial commentary. Specifically, few Candidates noted that the predicted revised gearing exceeded the maximum level tolerated by HTCB's shareholders. As with part (c), there was a notable number of Candidates who did not attempt this final question part.

Overall, Question 2 is the best-performed question of the entire paper.

**Recommendations for future candidates**

Candidates should carefully read and understand the question requirements to avoid misusing rates or figures. Candidates should practice ensuring accuracy in all WACC calculations, particularly the degear and regear element, and distinguishing between pre-tax and post-tax figures. When interpreting the results of analysis, Candidates should ensure that they relate their comments to the company in the scenario provided in the question. Finally, Candidates should always try to attempt all parts of a question.

**Question 3**

**Part (a): Evaluation of Net Present Value (NPV)**

**Part (a)** required Candidates to evaluate the net present value (NPV) of setting up a manufacturing operation in Taiwan. Generally, Candidates performed well and correctly interpreted the requirement, but differences in interpretation and assumptions were evident. Few Candidates understood that there was one-year dedicated to testing, with production starting in Year 2. Additionally, most Candidates did not recognise that the product price

quote was in today's prices rather than when production starts in two years. Some Candidates failed to recognise all eligible assets for capital allowances and some Candidates omitted the end-of-5-year sales value in their NPV analysis. Careful reading of the specific information in the scenario would have resolved some of these misunderstandings as the information was clearly provided.

#### **Part (b): Evaluation of advantages and disadvantages**

**Part (b)** required Candidates to evaluate three advantages and five disadvantages of setting up manufacturing operations in Taiwan. Most Candidates effectively discussed some advantages and disadvantages specific to manufacturing in Taiwan. However, some Candidates focused narrowly on the advantages and disadvantages of the process of setting up the manufacturing operations, without considering factors related to operating in the newly set-up operations in Taiwan and the challenges of finding new suppliers and employees when operating in a different territory.

#### **Part (c): Advice on further analysis or due diligence**

**Part (c)** required Candidates to advise on five areas of further analysis or due diligence before HTCB's Board decided to proceed with a new microchip manufacturing facility in Taiwan. Whilst Candidates largely performed well in part (c), some Candidates repeated points more suitable to part (b) without recommending specific due diligence analysis to be performed.

#### **Recommendations for future candidates**

Candidates should carefully read and understand the question requirements and the specific information provided in the scenario to avoid calculation errors due to misinterpretation of the information provided. It is crucial that Candidates can differentiate between assumptions about present and future values and understand the timeline of operations. Candidates are reminded that each requirement is designed to focus on a different aspect, so Candidates should always aim to avoid repeating content which is more relevant to other parts of a question that were already answered.

#### **Question 4**

##### **Part (a): Governance and sustainability objectives**

**Part (a)** required Candidates to describe how governance provided by the HTCB Board of Directors, HTCB Audit Committee, and HTCB Risk Committee can improve the setting, monitoring, and achieving of HTCB's sustainability-related objectives. Candidates generally had a reasonable understanding of the question requirements in their answers. Some Candidates provided relevant and well-applied answers, demonstrating their ability to connect their knowledge to the scenario and specific question requirements. However, other Candidates provided generic descriptions of governance without focusing on how these apply to HTCB. Additionally, some Candidates did not specifically apply their governance knowledge to sustainability leading to incomplete answers. Finally, a small number of Candidates left this question unanswered, potentially due to insufficient time or poor time management. This is the best performed subpart of Question 4.

##### **Part (b): Improving ESG performance metric disclosure**

**Part (b)** required Candidates to recommend how each ESG performance metric currently disclosed in HTCB's 2024 Sustainability Report could be adapted to enhance the information disclosed on HTCB's sustainability performance for HTCB stakeholders. The majority of Candidates managed to give simple suggestions for improving the existing ESG performance metric disclosures. However, some Candidates misinterpreted the requirement, recommending instead of providing solutions to improve the disclose KPI value, rather than focusing on improving the breadth and depth of disclosures in the sustainability report. This is the most poorly performed subpart of Question 4.

**Part (c): Benefit and uncertainties of proposed sustainability initiative**

**Part (c)** required Candidates to discuss one benefit and three uncertainties of the proposed sustainability initiative by the Board of HTCB to reduce its CO2 emissions and recommend whether HTCB should proceed with a technical feasibility study to evaluate the proposal further. Most Candidates were able to explain the benefit and uncertainties requested, however, some Candidates overlooked simple disadvantages and practical challenges in favour of more tenuous, vague or generic answers which failed to relate installing solar power at HTCB. Some Candidates incorrectly assumed that solar power would replace, rather than add to existing power sources which was not realistic. Some answers were simply too brief, vague, or generic, possibly due to time management issues, so failed to generate the marks available.

**Part (d): Additional ESG performance metrics**

**Part (d)** required Candidates to recommend four additional ESG performance metrics that HTCB could monitor, which were not disclosed in HTCB's 2024 Sustainability Report and explain how each metric could improve sustainability performance at HTCB. This requirement was generally poorly answered, with few Candidates providing clearly identified or credible new ESG key performance indicators (KPIs). Some Candidates only explained ESG KPIs without indicating how each proposed new KPI should be measured. For many Candidates, the explanations provided were too brief, again suggesting time management issues towards the end of the exam.

Overall, Candidates performed the least well in Question 4.

**Recommendations for future candidates**

Candidates should ensure they apply their governance knowledge specifically to sustainability objectives and the context of the scenario. Candidates should take time to interpret the requirement correctly and provided answer should be detailed and specific to the requirement. Finally, developing effective time management skills is critical to ensure Candidates have sufficient time to attempt all exam requirements.