

STUDY SESSION

9

Corporate Issuers (1)

This study session provides an introduction to corporate governance and investing and financing decisions. An overview of corporate governance is presented along with a framework for understanding and analyzing corporate governance and stakeholder management. The growing impact of environmental and social considerations in investing is also highlighted. A discussion of the capital allocation process and the assessment of capital investment opportunities using NPV and IRR methods follows. The session ends with coverage of the short and long-term options companies may have to finance themselves and techniques for assessing a company's short-term liquidity management.

READING ASSIGNMENTS

- | | |
|-------------------|--|
| Reading 27 | Introduction to Corporate Governance and Other ESG Considerations
by Assem Safieddine, PhD, Young Lee, CFA, Donna F. Anderson, CFA, and Deborah Kidd, CFA and Hardik Sanjay Shah, CFA |
| Reading 28 | Uses of Capital
by John D. Stowe, PhD, CFA, and Jacques R. Gagné, FSA, CFA, CIPM |
| Reading 29 | Sources of Capital
by Edgar A. Norton, Jr., PhD, CFA, Kenneth L. Parkinson, MBA, CCM, and Pamela Peterson Drake, PhD, CFA |

LEARNING OUTCOMES**READING 27. INTRODUCTION TO CORPORATE GOVERNANCE AND OTHER ESG CONSIDERATIONS**

The candidate should be able to:

- a** describe corporate governance;
- b** describe a company's stakeholder groups, and compare interests of stakeholder groups;
- c** describe principal–agent and other relationships in corporate governance and the conflicts that may arise in these relationships;
- d** describe stakeholder management;
- e** describe mechanisms to manage stakeholder relationships and mitigate associated risks;
- f** describe functions and responsibilities of a company's board of directors and its committees;
- g** describe market and non-market factors that can affect stakeholder relationships and corporate governance;
- h** identify potential risks of poor corporate governance and stakeholder management, and identify benefits from effective corporate governance and stakeholder management;
- i** describe factors relevant to the analysis of corporate governance and stakeholder management;
- j** describe environmental and social considerations in investment analysis;
- k** describe how environmental, social, and governance factors may be used in investment analysis.

READING 28. USES OF CAPITAL

The candidate should be able to:

- a** describe the capital allocation process and basic principles of capital allocation;
- b** demonstrate the use of net present value (NPV) and internal rate of return (IRR) in allocating capital and describe the advantages and disadvantages of each method;
- c** describe expected relations among a company's investments, company value, and share price;
- d** describe types of real options relevant to capital investment;
- e** describe common capital allocation pitfalls.

READING 29. SOURCES OF CAPITAL

The candidate should be able to:

- a** describe types of financing methods and considerations in their selection;
- b** describe primary and secondary sources of liquidity and factors that influence a company's liquidity position;
- c** compare a company's liquidity position with that of peer companies;
- d** evaluate choices of short-term funding.