

Advanced Finance Exam
FINAL Fall 2012 /Spring 2013

Important Exam Information:

Exam Date and Time	A read-through time will be given prior to the start of the exam—15 minutes in the morning session and 15 minutes in the afternoon session.
Exam Registration	Candidates may register online or with an application.
Order Study Notes	Study notes are part of the required syllabus and are not available electronically but may be purchased through the online store.
Introductory Study Note	The Introductory Study Note has a complete listing of all study notes as well as errata and other important information.
Updates	Candidates should be sure to check the Updates page on the exam home page periodically for additional corrections or notices.

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Topic: Accounting and Value Measures

Learning Objective:

- 1. The candidate will understand measures of corporate value and be able to analyze the data in corporate financial statements.**

Learning Outcomes:

The candidate will be able to:

- a) Explain basic accounting concepts used in producing financial statements:
 - in insurance companies
 - in other financial institutions
 - in non-financial institutions
- b) Analyze a specific company financial situation by demonstrating advanced knowledge of balance sheet and income statement structures.
- c) Describe the concept of economic measures of value (e.g. MCEV) and demonstrate their uses in the risk management and corporate decision-making processes.
- d) Compare and contrast various regulatory/industry reserve and capital frameworks

RESOURCES

Fridson, Alvarez, *Financial Statement Analysis: A Practitioners Guide*, Fourth Edition, 2011
Ch. 1, The Adversarial Nature of Financial Reporting
Ch. 2, The Balance Sheet
Ch. 3, The Income Statement
Ch. 4, The Statement of Cash Flows
Ch. 13, Credit Analysis

AF-100-12: *Insurance Industry Mergers & Acquisitions*, Toole and Herget, 2005
Ch. 4: Valuation Techniques (sections 1-5 only)
AF-101-12: CRO Forum “A Market Cost of Capital approach to market value margins” paper
(sections 1-3 background only)
AF-102-12: A Comparative Analysis of U.S., Canadian and Solvency II Capital Adequacy
AF-103-12: Market Consistent Embedded Value Principles
AF-109-12: Tilman, *Asset/Liability Management of Financial Institutions*, 2003
Ch. 24, Accounting Standards and Requirements, by E. Habayeh & S. Sethi

Fair Value – Financial Economics Perspective by Babbel, Gold and Merrill, NAAJ,
http://www.soa.org/library/journals/north-american-actuarial-journal/2002/january/naaj0201_2.pdf

Fair Valuation of Insurance Liabilities: Principles and Methods, AAA Monograph,
September 2002 http://www.actuary.org/pdf/finreport/fairval_sept02.pdf

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Topic: Risk Quantification and Risk Measures

Learning Objective:

- 2. The candidate will understand how the risks faced by an entity can be quantified and the use of metrics to measure risk.**

Learning Outcomes:

The candidate will be able to:

- a) Demonstrate an understanding of a variety of quantitative risk measures
- b) Articulate shortcomings of statistical risk measures
- c) Explain various approaches for the measurement of credit risk
- d) Explain various approaches for the measurement of liquidity risk

RESOURCES:

Saunders and Allen ,*Credit Risk Management In and out of the Financial Crisis*, Third Edition, 2010

- Ch. 4, Loans as Options: The Moody's KMV Model
- Ch. 5, Reduced Form Models: Kamakura's Risk Manager
- Ch. 6, Other Credit Risk Models
- Ch. 7, A Critical Parameter: Loss Given Default

AF-104-12: Sweeting, 15.4 , Risk Measures

AF-105-12: Black Monday and Black Swans, J. Bogle, Financial Analysts Journal, 64:2(30-40) 2008

AF-106-12: AAA Report on Life Liquidity

AF-107-12: Liquidity Risk – Measurement and Management , Matz and Neu editors. Chapters 2 and 3

AF-108-12: Tilman, *Asset/Liability Management of Financial Institutions*, 2003,

Ch. 9, Measuring and Marking Counterparty Risk, by E. Canabarro & D. Duffie

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Topic: Risk and Capital Management Topics

Learning Objective:

3. The candidate will understand various means available for managing risk and capital.

Learning Outcomes:

The candidate will be able to:

General

a. Explain why risk management adds value to a firm.

Reinsurance

b. Demonstrate knowledge of advanced methods of reinsurance

Liquidity Risk Management

c. Define liquidity risk.

d. Explain methods for managing this risk, both pre-event and post-event.

e. Evaluate examples of company disasters that were the result of these types of risks – what the exposure was, what occurred, the sequence of events, what actions management took, didn't take and could have / should have taken, what the financial impacts and general consequences were.

RESOURCES

AF-107-12: Liquidity Risk – Measurement and Management , Matz and Neu editors.
Chapters 2 and 3

AF-106-12: AAA report on Life Liquidity

AF-110-12: Tiller, *Life, Health and Annuity Reinsurance*, 3rd Edition, 2005,
Ch. 5, Advanced Methods of Reinsurance

AF-111-12: : Doherty, *Integrated Risk Management*,
Ch. 7, Why Is Risk Costly to a Firm?