



# Introduction to Securities and Investment

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## Objective of the Examination

The objective of the examination is to provide candidates with a basic introduction to the financial services industry with a focus on investments.

The examination will test candidates' knowledge and understanding of the following elements:

- Introduction
- Economic Environment
- Financial Assets and Markets
- Equities
- Bonds
- Derivatives
- Investment Funds
- Financial Services Regulation
- Taxation, Investment Wrappers and Trusts
- Other Financial Products
- Financial Advice

## Syllabus Structure

The unit is divided into **elements**. These are broken down into a series of **learning objectives**.

Each learning objective begins with one of the following prefixes: **know**, **understand**, **be able to calculate** or **be able to apply**. These words indicate the different levels of skill to be tested. Learning objectives prefixed:

- **know** require the candidate to recall information such as facts, rules and principles
- **understand** require the candidate to demonstrate comprehension of an issue, fact, rule or principle
- **be able to calculate** require the candidate to be able to use formulae to perform calculations
- **be able to apply** require the candidate to be able to apply their knowledge to a given set of circumstances in order to present a clear and detailed explanation of a situation, rule or principle

## Candidate Update

Candidates are reminded to check the [cisi.org/candidateupdate](http://cisi.org/candidateupdate)) on a regular basis for updates that could affect their examination as a result of industry change.

## Examination Specification

Each examination paper is constructed from a specification that determines the weightings that will be given to each element. The specification is given below.

It is important to note that the numbers quoted may vary slightly from examination to examination as there is some flexibility to ensure that each examination has a consistent level of difficulty.

| <b>Examination specification</b>    |  |                  |
|-------------------------------------|--|------------------|
| <b>50 multiple choice questions</b> |  |                  |
| <b>Element number</b>               | <b>Element</b>                           | <b>Questions</b> |
| 1                                   | Introduction                             | 3                |
| 2                                   | Economic Environment                     | 3                |
| 3                                   | Financial Assets and Markets             | 5                |
| 4                                   | Equities                                 | 7                |
| 5                                   | Bonds                                    | 6                |
| 6                                   | Derivatives                              | 4                |
| 7                                   | Investment Funds                         | 6                |
| 8                                   | Financial Services Regulation            | 5                |
| 9                                   | Taxation, Investment Wrappers and Trusts | 5                |
| 10                                  | Other Financial Products                 | 3                |
| 11                                  | Financial Advice                         | 3                |
| <b>Total</b>                        |  | <b>50</b>        |

## Assessment Structure

A one-hour examination of 50 multiple choice questions.

Candidates sitting the examination by computer based testing may also be asked to answer up to 10% of additional questions. These are trial questions that will not be separately identified and do not contribute to the result. Candidates will be given proportionately more time to complete the test.

## Summary Syllabus

### **Element 1 Introduction**

- 1.1 The Financial Services Industry

### **Element 2 Economic Environment**

- 2.1 Economic Environment

### **Element 3 Financial Assets and Markets**

- 3.1 Cash Deposits
- 3.2 The Money Market
- 3.3 Property
- 3.4 The Foreign Exchange Market

### **Element 4 Equities**

- 4.1 Equities

### **Element 5 Bonds**

- 5.1 Characteristics
- 5.2 Government Bonds
- 5.3 Corporate Bonds
- 5.4 Bonds

### **Element 6 Derivatives**

- 6.1 Derivatives Uses
- 6.2 Futures
- 6.3 Options
- 6.4 Terminology
- 6.5 Derivatives / Commodity Markets
- 6.6 Swaps
- 6.7 Credit Default Swaps

### **Element 7 Investment Funds**

- 7.1 Introduction
- 7.2 Unit Trusts
- 7.3 Open Ended Investment Companies (OEICs)
- 7.4 Pricing, Dealing and Settling
- 7.5 Investment Trusts
- 7.6 Exchange-Traded Funds

7.7 Alternative Investment Funds

**Element 8 Financial Services Regulation**

8.1 Financial Services Regulation

8.2 Financial Crime

8.3 Insider Dealing and Market Abuse

8.4 Data Protection

8.5 Complaints and Compensation

**Element 9 Taxation, Investment Wrappers and Trusts**

9.1 Tax

9.2 Investment Wrappers

9.3 Pensions

9.4 Trusts

**Element 10 Other Financial Products**

10.1 Loans

10.2 Mortgages

10.3 Life Assurance

**Element 11 Financial Advice**

11.1 Areas of Financial Advice

11.2 Process for giving financial advice

11.3 Legal concepts relevant in financial advice

**Element 1 Introduction**

**1.1 The Financial Services Sector**

On completion, the candidate should:

1.1.1 *know* the role of the following within the financial services sector:

- retail banks
- savings institutions
- investment banks
- pension funds
- insurance companies
- fund managers
- stockbrokers
- custodians
- platforms
- third-party administrators (TPAs)
- industry trade and professional bodies
- peer to peer / crowdfunding

1.1.2 *know* the function of and differences between retail and professional business and who the main customers are in each case

1.1.3 *know* the role of the following investment distribution channels:

- independent financial advisers
- restricted advice
- execution only
- robo advice

1.1.4 *know* about the following emerging themes

- Fintech
- Environmental, Social, and Governance (ESG)

**Element 2 Economic Environment**

**2.1 Economic Environment**

On completion, the candidate should:

2.1.1 *know* the factors which determine the level of economic activity:

- state-controlled economies
- market economies
- mixed economies
- open economies

2.1.2 *know* the function of central banks:

- The Bank of England
- The Federal Reserve
- The European Central Bank

2.1.3 *know* the functions of the Monetary Policy Committee

2.1.4 *know* how goods and services are paid for and how credit is created

2.1.5 *understand* the impact of inflation / deflation on economic behaviour

2.1.6 *know* the common measures of inflation

2.1.7 *understand* the impact of the following economic data:

- Gross Domestic Product (GDP)
- Balance of Payments
- budget deficit / surplus
- level of unemployment
- exchange rates

**Element 3 Financial Assets and Markets**

**3.1 Cash Deposits**

On completion, the candidate should:

- 3.1.1 *know* the characteristics of fixed-term and instant access deposit accounts
- 3.1.2 *know* the advantages and disadvantages of investing in cash
- 3.1.3 *know* the differences between crypto currencies and traditional fiat currencies

**3.2 The Money Market**

On completion, the candidate should:

- 3.2.1 *know* the difference between a capital market instrument and a money market instrument
- 3.2.2 *know* the definition and features of the following:
  - Treasury Bill
  - Commercial Paper
  - Certificate of Deposit
  - Money market funds
- 3.2.3 *know* the advantages and disadvantages of investing in money market instruments

**3.3 Property**

On completion, the candidate should:

- 3.3.1 *know* the characteristics of property investment:
  - commercial / residential property
  - direct / indirect investment
- 3.3.2 *know* the potential advantages and disadvantages of investing in property

### 3.4 The Foreign Exchange Market

On completion, the candidate should:

3.4.1 *know* the basic structure of the foreign exchange market including:

- currency quotes
- settlement
- spot / forward
- short-term currency swaps

3.4.2 *be able to calculate* a forward exchange rate using interest rate parity formula

## Element 4 Equities

### 4.1 Equities

On completion, the candidate should:

4.1.1 *know* how a company is formed and the differences between private and public companies

4.1.2 *know* the features and benefits of ordinary and preference shares:

- dividend
- capital gain
- share benefits
- right to subscribe for new shares
- right to vote

4.1.3 *be able to calculate* the share dividend yield

4.1.4 *understand* the advantages, disadvantages and risks associated with owning shares:

- price risk
- liquidity risk

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- issuer risk

4.1.5 *know* the definition of a corporate action and the difference between mandatory, voluntary and mandatory with options, including takeovers and mergers

4.1.6 *understand* the following terms:

- bonus / scrip / capitalisation issues
- rights issues
- dividend payments
- buybacks

4.1.7 *be able to calculate* bonus and rights issues

4.1.8 *know* the purpose and format of annual general meetings

4.1.9 *know* the function of a stock exchange:

- primary / secondary market
- listing

4.1.10 *know* the types and uses of the main global stock exchange indices

4.1.11 *know* how shares are traded:

- on exchange / over-the-counter
- multilateral trading facilities
- order driven / quote driven

4.1.12 *know* the method of holding title and related terminology: registered and bearer; immobilised and dematerialised

4.1.13 *understand* the role of the central counterparty in clearing and settlement

4.1.14 *understand* how settlement takes place:

- participants
- process
- settlement cycles

**Element 5 Bonds**

**5.1 Characteristics**

On completion, the candidate should:

5.1.1 *understand* the characteristics and terminology of bonds:

- coupon
- redemption
- nominal value
- yields

**5.2 Government Bonds**

On completion, the candidate should:

5.2.1 *know* the definition and features of government bonds:

- types

**5.3 Corporate Bonds**

On completion, the candidate should:

5.3.1 *know* the definitions and features of the following types of bond:

- domestic
- foreign
- eurobond
- asset-backed securities including covered bonds
- zero coupon
- convertible / preferred

## **5.4 Bonds**

On completion, the candidate should:

5.4.1 *know* the potential advantages and disadvantages of investing in different types of bonds

5.4.2 *be able to calculate* the flat yield of a bond

5.4.3 *understand* the role of credit rating agencies and the differences between investment and non-investment grades

## **Element 6 Derivatives**

### **6.1 Derivatives Uses**

On completion, the candidate should:

6.1.1 *know* the uses and application of derivatives

### **6.2 Futures**

On completion, the candidate should:

6.2.1 *know* the definition and function of a future

### **6.3 Options**

On completion, the candidate should:

6.3.1 *know* the definition and function of an option

6.3.2 *understand* the following terms:

- calls
- puts

## **6.4 Terminology**

On completion, a candidate should:

6.4.1 *understand* the following terms:

- long
- short
- open
- close
- holder
- writing
- premium
- covered
- naked

## **6.5 Derivatives / Commodity Markets**

On completion, the candidate should:

6.5.1 *know* the characteristics of the derivatives and commodity markets

6.5.2 *know* the potential advantages and disadvantages of investing in the derivatives and commodity markets

## **6.6 Swaps**

On completion, a candidate should:

6.6.1 *know* the definition and function of an interest rate swap

**6.7 Credit Default Swaps**

On completion, a candidate should:

6.7.1 *know* the definition and function of credit default swaps

**Element 7 Investment Funds**

**7.1 Introduction**

On completion, the candidate should:

7.1.1 *understand* the potential advantages, disadvantages and risks of collective investment

7.1.2 *know* the difference between active and passive (eg index) management

7.1.3 *know* the purpose and principal features of UCITS / NURS

7.1.4 *know* the types of funds and how they are classified

**7.2 Unit Trusts**

On completion, the candidate should:

7.2.1 *know* the definition and legal structure of a unit trust

7.2.2 *know* the roles of the manager and the trustee

**7.3 Open Ended Investment Companies (OEICs)**

On completion, the candidate should:

7.3.1 *know* the definition and legal structure of an OEIC / ICVC / SICAV

7.3.2 *know* the roles of the authorised corporate director and the depositary

**7.4 Pricing, Dealing and Settling**

On completion, the candidate should:

7.4.1 *know* how unit trust units and OEIC shares are priced, bought and sold

7.4.2 *know* how collectives are settled

## **7.5 Investment Trusts**

On completion, the candidate should:

7.5.1 *know* the characteristics of an investment trust:

- share classes
- gearing
- real estate investment trusts (REITs)

7.5.2 *know* the meaning of the discounts and premiums in relation to the pricing of investment trusts

7.5.3 *know* how investment trust shares are traded

## **7.6 Exchange-Traded Funds**

On completion, the candidate should:

7.6.1 *know* the main characteristics of exchange-traded funds:

- trading
- replication methods
- synthetic/non-synthetic

## **7.7 Alternative Investment Funds**

On completion, the candidate should:

7.7.1 *know* the basic characteristics of hedge funds:

- risks
- cost and liquidity
- investment strategies

7.7.2 *know* the basic characteristics of private equity:

- raising finance
- realising capital gain

## **Element 8 Financial Services Regulation**

### **8.1 Financial Services Regulation**

On completion, the candidate should:

- 8.1.1 *understand* the need for regulation and authorisation of firms
- 8.1.2 *know* the function and impact of UK, European and US regulators in the financial services sector
- 8.1.3 *know* the requirements of the Senior Managers and Certification Regime
- 8.1.4 *know* the outcomes arising from the FCA's approach to managing conduct risk within firms
- 8.1.5 *know* the CISI's Code of Conduct
- 8.1.6 *understand* the key principles of professional integrity and ethical behaviour in financial services

### **8.2 Financial Crime**

On completion, the candidate should:

- 8.2.1 *know* what money laundering is, the stages involved and the related criminal offences
- 8.2.2 *know* the purpose and the main provisions of the Proceeds of Crime Act and the Money Laundering Regulations
- 8.2.3 *know* the action to be taken by those employed in financial services if money laundering activity is suspected and what constitutes satisfactory evidence of identity
- 8.2.4 *know* the purpose of the Bribery Act
- 8.2.5 *know* how firms / individuals can be exploited as vehicles for financial crime:
  - fraud
  - cybercrime
  - terrorist financing

### **8.3 Insider Dealing and Market Abuse**

On completion, the candidate should:

8.3.1 *know* the offences that constitute insider dealing and the instruments covered

8.3.2 *know* the offences that constitute market abuse and the instruments covered

### **8.4 Data Protection**

On completion, the candidate should:

8.4.1 *understand* the impact of the Data Protection Act 2018 on firms' activities

### **8.5 Complaints and Compensation**

On completion, the candidate should:

8.5.1 *know* the requirements for handling customer complaints including the role of the Financial Ombudsman Service

8.5.2 *know* the circumstances under which the Financial Services Compensation Scheme pays compensation and the compensation payable for investment and deposit claims

## **Element 9 Taxation, Investment Wrappers and Trusts**

### **9.1 Tax**

On completion, the candidate should:

9.1.1 *know* the direct and indirect taxes affecting individuals:

- income tax
- capital gains tax
- inheritance tax
- stamp duty
- corporation tax
- state benefits / HMRC tax credits
- national insurance
- residency / domicile

9.1.2 *know* the main exemptions in respect of the main personal taxes

### **9.2 Investment Wrappers**

On completion, the candidate should:

9.2.1 *know* the definition of and tax incentives provided by ISAs

9.2.2 *know* the main types of ISA available:

- cash ISA
- stocks & shares ISA
- innovative ISA
- lifetime ISA
- junior ISA

### **9.3 Pensions**

On completion, the candidate should:

9.3.1 *know* the benefits provided by pensions

9.3.2 *know* the basic characteristics of the following:

- State Pension Scheme
- Occupational Pension Schemes
- Personal Pensions including Self Invested Personal Pensions (SIPPs)

### **9.4 Trusts**

On completion, the candidate should:

9.4.1 *know* the features of the main trusts:

- discretionary
- interest in possession
- bare

9.4.2 *know* the definition of the following terms:

- trustee
- settlor
- beneficiary

9.4.3 *know* the main reasons for creating trusts

## **Element 10 Other Financial Products**

### **10.1 Loans**

On completion, the candidate should:

10.1.1 *know* the differences between bank loans, overdrafts and credit card borrowing

10.1.2 *know* the difference between the quoted interest rate on borrowing and the effective annual rate of borrowing

10.1.3 *be able to calculate* the effective annual rate of borrowing, given the quoted interest rate and frequency of payment

10.1.4 *know* the difference between secured and unsecured borrowing

### **10.2 Mortgages**

On completion, the candidate should:

10.2.1 *understand* the characteristics of the mortgage market:

- interest rates
- loan to value

10.2.2 *know* the definition of and types of mortgage:

- repayment
- interest only
- offset

### **10.3 Life Assurance**

On completion, the candidate should:

10.3.1 *know* the definition of the following types of life policy:

- term assurance
- whole-of-life

## **Element 11 Financial Advice**

### **11.1 Areas of Financial Advice**

On completion, the candidate should:

11.1.1 *understand* the main areas of financial advice:

- budgeting
- protection
- borrowing
- investment and saving
- later life planning
- estate planning
- tax planning and offshore considerations

### **11.2 Process for giving financial advice**

On completion, the candidate should:

11.2.1 *understand* the key factors in the financial advice process:

- the client relationship
- affordability, suitability, attitude to risk
- matching solutions with needs
- use of communication skills in giving advice
- monitoring and reviewing clients' circumstances
- information given to clients
- consumer rights

### **11.3 Legal concepts relevant in financial advice**

On completion, the candidate should:

11.3.1 *understand* the key legal concepts relating to:

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- legal persons (wills / intestacy / personal representatives / trustees / companies / limited liabilities / partnerships)
- contract, capacity to contract
- agency
- real estate, personal property and joint ownership
- powers of attorney
- insolvency and bankruptcy
- identifying, reporting scams