



Unit 3: Equities

Delivery Guide

Equities

Unit Aim: Understand the features of equities and how they are traded.

Unit Relevance to the Course: This is the first asset class to be explored in the course, and so some terminology and concepts will be in units 4, 5, 6 and 7. An understanding of public and private companies, and the associated role of shares, will also be relevant to units 9 and 11.

Learning Hours:

Scheduled – 0

Guided – 9

Independent – 4.5



Unit 3 learning Outcomes

| Learning Objective | Learning Outcomes | Chapter Section |
|--------------------|--|-----------------|
| 3.1.1 | Know how a company is formed and the differences between private and public companies | 2 |
| 3.1.2 | Know the features and benefits of ordinary and preference shares: <ul style="list-style-type: none"> • Dividend • Capital gain • Share benefits • Right to subscribe for new shares • Right to vote | 3 |
| 3.1.3 | Be able to calculate the share dividend yield | 4 |
| 3.1.4 | Understand the advantages, disadvantages and risks associated with owning shares: <ul style="list-style-type: none"> • Price risk • Liquidity risk • Issuer risk • Foreign exchange risk | 4 and 5 |
| 3.1.5 | Know the definition of a corporate action and the difference between mandatory, voluntary and mandatory with options, including takeovers and mergers | 6 |
| 3.1.6 | Understand the following terms: <ul style="list-style-type: none"> • Bonus / scrip / capitalisation issues / stock splits / reverse stock splits • Rights issued • Dividend payments • Buybacks | 6 |

Unit 3 learning Outcomes

| Learning Objective | Learning Outcomes | Chapter Section |
|--------------------|--|-----------------|
| 3.1.7 | Be able to calculate: <ul style="list-style-type: none"> • Theoretical ex rights price • Theoretical ex bonus price | 6 |
| 3.1.8 | Know the purpose and format of annual general meetings | 2 |
| 3.1.9 | Know the function of a stock exchange <ul style="list-style-type: none"> • Primary / secondary market • Listing | 7 |
| 3.1.10 | Know the types and uses of the main global stock exchange indices | 8 |
| 3.1.11 | Know how shares are traded: <ul style="list-style-type: none"> • On exchange / over the counter • Multilateral trading facilities • Order driven / quote driven | 9 |
| 3.1.12 | Know the method of holding title and related terminology: registered and bearer; immobilised and dematerialised | 10 |
| 3.1.13 | Understand the role of the central counterparty in clearing and settlement | 11 |
| 3.1.14 | Understand how settlement takes place: <ul style="list-style-type: none"> • Participants • Process • Settlement cycles | 12 |

How to use this delivery guide

Throughout this delivery guide, look out for the different icons to support the learner experience:

Understand and learn – These **compulsory** sections will help learners to develop their knowledge and understanding of the assessed learning objectives. We have also integrated the CISI micromodules into this learning. These give learners key explanations of the themes in a short, digestible manner and can be found on the CISI learning platform.



Apply and practise – These sections allow the learners to practise and test their newly acquired learning by undertaking a range of **compulsory** activities to help them prepare for the multiple choice assessment at the end of the course.



Further your knowledge – These sections allow learners to consolidate their understanding of key concepts by reading and interacting with current, credible CISI resources to help further enhance their learning. These **optional** resources include the CISI professional refresher modules and CISI YouTube videos.



Extension Activities – Whilst these activities do not form part of the core learning, we have added lots of extension activities to enhance the learners understanding. These activities include videos and webinars from the CISI TV channel. These activities also provide help and support if learners feel that they might need an extra bit of guidance after completing the end of unit multiple choice assessments.



Introduction

Read the [Investopedia page](#) and watch the [short video defining equity](#). Summarise the key features of equity below.





Learning Outcome 3.1 – Equities

3.1.1: Know how a company is formed and the differences between private and public companies

3.1.8: Know the purpose and format of annual general meetings

3.1.2: Understand the features and benefits of ordinary and preference shares:

- Dividend
- Capital gain
- Share benefits
- Right to subscribe for new shares
- Right to vote



Company formation

[GOV.UK](https://www.gov.uk) provides guidance about how to set up a limited company, appoint directors and shareholders and register for tax. Summarise the stages and identify the key documents required.

1.

4.

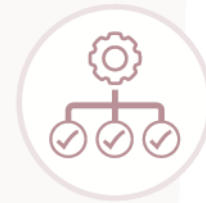
5.

2.

6.

3.

7.



Memorandum and Articles of Association

Look at the example documents on the right and answer the below questions.

1. What is the purpose of each document?

2. More specifically what does it tell you about the business?

**PRIVATE COMPANY LIMITED BY SHARES
 MEMORANDUM OF ASSOCIATION
 OF
 LOCAL VEG LTD**

- The company's name is Local Veg Limited.
- The Company's registered office is:
 Under the Arches, 6 High Street, Newtown, Newtownshire, NE61 5SW.
- The Company's objects are to carry on the business of a general commercial company, principally this will involve buying vegetables from producers and selling those vegetables on to consumers.
- The liability of the shareholders/members is limited.
- The Company's authorised and issued share capital is £1,000 divided into 1,000 Ordinary £1 Shares of £1 each.
 We, the subscribers to this Memorandum of Association, wish to be formed into a Company pursuant to this Memorandum and to take the number of shares shown beneath our respective names.
 Jake Onions, 42A High Street, Newtown, Newtownshire, NE61 5SW.
 Number of shares taken: 400
 Johnny Plant, 36 High Street, Newtown, Newtownshire, NE61 5SW.
 Number of shares taken: 300
 Jenny Plant, 36 High Street, Newtown, Newtownshire, NE61 5SW.
 Number of shares taken: 300

**PRIVATE COMPANY LIMITED BY SHARES
 ARTICLES OF ASSOCIATION
 OF
 LOCAL VEG LTD**

INDEX TO THE ARTICLES

PART 1 - INTERPRETATION AND LIMITATION OF LIABILITY

- Defined terms
- Liability of member

PART - 2 DIRECTORS

| | | |
|---|---|---|
| a) DIRECTORS' POWERS AND RESPONSIBILITIES | b) DECISION-MAKING BY DIRECTORS | c) APPOINTMENT OF DIRECTORS |
| 3. Directors' general authority | 7. Directors to take decisions collectively | 17. Methods of appointing directors |
| 4. Shareholders' reserve power | 8. Unanimous decisions | 18. Termination of director's appointment |
| 5. Directors may delegate | 9. Calling a directors' meeting | 19. Directors' remuneration |
| 6. Committees | 10. Participation in directors' meetings | 20. Directors' expenses |
| | 11. Quorum for directors' meetings | |
| | 12. Chairing of directors' meetings | |
| | 13. Casting vote | |
| | 14. Conflicts of interest | |
| | 15. Records of decisions to be kept | |
| | 16. Directors' discretion to make further rules | |

PART 3 - SHARES AND DISTRIBUTIONS

| | | |
|---|--|---|
| a) SHARES | b) DIVIDENDS AND OTHER DISTRIBUTIONS | c) CAPITALISATION OF PROFITS |
| 21. All shares to be fully paid up | 30. Procedure for declaring dividends | 36. Authority to capitalise and appropriation of capitalised sums |
| 22. Powers to issue different classes of share | 31. Payment of dividends and other distributions | |
| 23. Company not bound by less than absolute interests | 32. No interest on distributions | |
| 24. Share certificates | 33. Unclaimed distributions | |
| 25. Replacement share certificates | 34. Non-cash distributions | |
| 26. Share transfers | 35. Waiver of distributions | |
| 27. Transmission of shares | | |
| 28. Exercise of transmitters' rights | | |
| 29. Transmitters bound by prior notices | | |

PART 4 - DECISION-MAKING BY SHAREHOLDERS

| | |
|---|-------------------------------|
| a) ORGANISATION OF GENERAL MEETINGS | b) VOTING AT GENERAL MEETINGS |
| 37. Attendance and speaking at general meetings | 42. Voting: general |
| 38. Quorum for general meetings | 43. Errors and disputes |
| 39. Chairing general meetings | 44. Poll votes |
| 40. Attendance and speaking by directors and non-shareholders | 45. Content of proxy notices |
| | 46. Delivery of proxy notices |
| | 47. Amendments to resolutions |
| 41. Adjournment | |



Ltd or Plc?

Look at the UK companies below and research whether they are private limited or public limited companies.

RiverIsland



Guardian Media Group
gmg

Deloitte.



home bargains

BARCLAYS

easyJet

In your own words, explain the difference between Ltds and Plcs.

TESCO

Clarks



Private and Public Limited Companies – True or False?

| | True | False |
|--|------|-------|
| 1. All private and public limited companies have limited liability | | |
| 2. Private Limited Companies (Ltds) must have a minimum of two shareholders | | |
| 3. Public Limited Companies (PLCs) can be listed on a stock exchange | | |
| 4. The majority of public limited company shareholders are directors of the company | | |
| 5. Shareholders and directors are often the same people in a private limited company | | |



Annual General Meetings (AGM) – True or False?

| | True | False |
|--|------|-------|
| 1. Public Limited Companies must hold an AGM within six months of the financial year end | | |
| 2. The Companies Act provides shareholders with the right to attend, speak and vote at the AGM or appoint a proxy who can attend, speak and vote on the shareholder's behalf | | |
| 3. Shareholders are able to vote on matters such as the appointment and removal of directors but are not able to vote on the payment of the final dividend recommendations | | |
| 4. Matters of major importance, such as proposed changes to the company's constitution, require a special resolution and at least 75% of shareholders to vote in favour | | |
| 5. Companies may hold other general meetings during the year but must not put important issues on the agenda of such meetings | | |



Extension Activity – Annual General Meetings (AGM)

Plcs publish information about their AGMs on their websites along with the annual report. Take a look at either [NatWest Group](#) or [Marks and Spencer's](#) AGM notices and the communications provided to shareholders and summarise the key features of this important meeting.



*CISI is not responsible for the accuracy, legality or content of any external sources referenced in this workbook



The benefits of owning shares

Using section 4 in chapter 3 of the course workbook, describe the benefits of share ownership.

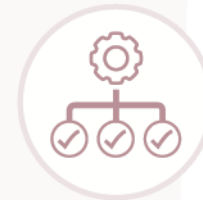
| Benefits of share ownership | | | |
|-----------------------------|---------------|----------------------|--|
| Dividends | Capital gains | Shareholder benefits | Shareholder rights |
| | | | <ul style="list-style-type: none"> • Voting • Subscription |



Features of ordinary and preference shares

Summarise the key features of ordinary and preference shares below:

| Ordinary shares | Preference shares |
|-----------------|-------------------|
| | |



Which type of share?

Look at the short scenarios below. Determine which type of shares each shareholder owns.

Dan Brown receives a fixed dividend on his shares but in 2023 received a larger dividend

Margaret Atwood was entitled to vote at the company AGM after her shares became ordinary shares

James Patterson normally receives a fixed dividend but missed out on dividends for two years in a row

Stephen King lost his investment in a company after it collapsed. Other shareholders received money from the company.

Jane Austen changed her shares to ordinary shares on 31.01.2023

John Grisham received different dividend amounts each year based on the company's profits

Anne Tyler on 02.02.2022 she received the original value of her shares back from the company and her shares were cancelled

Terry Pratchett was entitled to a vote at the company AGM



Preference Shares

Read the Standard Charter example about preference shares in section 3.2 of chapter 3 in the course workbook and answer the following questions.

1. How much dividend will the investor receive each year?
2. Which is paid first? Dividends to this investor or to ordinary shareholders?
3. What does 'non-cumulative' mean in this context?
4. What does 'irredeemable' mean in this context?
5. Could this investor convert their holding into ordinary shares at any time?



Learning Outcome 3.1 – Equities

3.1.3: Be able to calculate the share dividend yield

3.1.4: Understand the advantages, disadvantages and risks associated with owning shares:

- Price risk
- Liquidity risk
- Issuer risk
- Foreign exchange risk



Calculating the Share Dividend Yield

Potential shareholders will want to compare dividends paid on a company's shares to determine whether an investment will return a healthy yield. The share dividend yield tells investors the percentage of a company's share price that it pays out in dividends each year and is calculated using the following formula.

$$\text{Dividend Yield} = \frac{\text{Dividend}}{\text{Total value of a company's shares (or market capitalisation)}} \times 100$$

So if ABC plc has 20 million ordinary shares, each trading at £2.50, and pays out a total of £1 million dividends:

$$\frac{\text{£1 million}}{\text{£20 million} \times \text{£2.50}} \times 100 = \text{Dividend Yield is 2\%}$$



Calculating the Share Dividend Yield

1. XYZ plc has issued 40 million ordinary shares, each trading at £3.20. The company pays out a total of £2m in dividends. What is the dividend yield?
 - A. 8.00%
 - B. 1.56%
 - C. 6.25%
 - D. 1.85%
2. ABC plc has issued 25 million ordinary shares, each trading at £2.10. The company pays out a total of £3.5 million in dividends. What is the dividend yield?
 - A. 6.67%
 - B. 7.00%
 - C. 5.57%
 - D. 6.38%



Calculating the Share Dividend Yield – scenario

Sam has collated the following data about two companies that he may invest in. Based solely on the dividend yield, which company might Sam invest in and why?

Alpha plc has 38 million ordinary shares trading at £4.50 a share. The company pays out £3 million in dividends.

Zebra plc has issued 27 million ordinary shares, trading at £2.18. The company paid out £4.75 million in dividends.





The Share Dividend Yield

Using the course workbook to help, answer the following questions.

1. What could it mean if a company has **higher** than average yields when compared with the rest of the market?
2. What could it mean if a company has **lower** than average yields when compared with the rest of the market?





The risks of owning shares

Describe each of the types of risks of share ownership in the diagram below. Use section 5 in chapter 3 of the course workbook to help.

| Risks of Share Ownership | | | |
|--------------------------|----------------|-------------|-----------------------|
| Market / price risk | Liquidity risk | Issuer risk | Foreign exchange risk |
| | | | |



Further your knowledge – Shares

Log onto the professional refresher section of the CISI learning platform and complete the [Shares Essential](#) module (30 mins). This module explores the features, risks and benefits of owning shares, the different types available and how they are traded globally.





Learning Outcome 3.1 – Equities

3.1.5: Know the definition of a corporate action and the difference between mandatory, voluntary and mandatory with options, including takeovers and mergers.

3.1.6: Understand the following terms:

- Bonus / scrip / capitalisation issues / stock splits / reverse stock splits
- Rights issues
- Dividend payments
- Buybacks

3.1.7: Be able to calculate:

- Theoretical ex rights price
- Theoretical ex bonus price



Corporate action

A corporate action occurs when a company does something that affects its shareholders or bondholders. Read section 6 in chapter 3 of the course workbook, summarise the three types of corporate actions below and give an example of each.

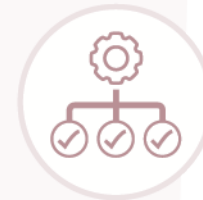
| Mandatory | Mandatory with options | Voluntary |
|-----------|------------------------|-----------|
| | | |



Takeovers – A beginners guide

Watch the MoneyWeek tutorial about [takeovers](#) and explain the process of taking over a company.

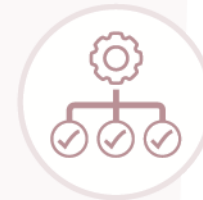




Corporate action – takeovers and mergers

Complete the sentences below. Use section 6 in chapter 3 of the course workbook to help

1. Companies seeking to expand can either grow organically or through
2. A takeover can be friendly or hostile. The acquiring company is known as the predator and the other company is known as
3. When the predator acquires shares in the other company, they are obliged to report their share purchases once
4. In a successful takeover, the predator company will buy more than 50% of the shares and is then described as
5. A merger is a similar transaction when the two companies
6. In a merger it is usual for one company to exchange new shares for the shares of the other and as a result the two companies



Extension Activity – takeovers and mergers

Watch the video about [Kraft and Heinz](#) and answer the questions below.

1. Describe what is happening in this deal?
2. What is the impact on Kraft's shareholders?
3. What makes this deal unusual?
4. What category of corporate action is this?



Extension Activity – takeovers and mergers

Watch the video about [AB Inbev and SABMiller](#) and answer the questions below.

1. How is this deal different to the Kraft/Heinz deal?
2. What is the offer for SABMiller shareholders?
3. How will AB Inbev be benefiting from the deal?
4. What are the concerns about this corporate action?
5. What type of corporate action is this deal?



Other corporate actions

Read section 6 in the course workbook and answer the following questions about corporate actions.

1. What is a securities ratio?
2. How does a securities ratio differ between the European and Asian markets and the US markets?
3. What is a 'cash call'?
4. 'Rights issues' are examples of which type of corporate action?
5. How might a company announcing a planned rights issue affect its share price?
6. What is the agreement that underwriters of a share issue make?



Other corporate actions Continued...

7. What happens when a cash call 'flops'?

10. Why would a company make a bonus issue?

8. What is a bonus issue also known as?

11. What does it mean when shares go 'ex-rights'?

9. 'Bonus issues' are examples of which type of corporate action?
Why?

12. What is a stock split and a reverse stock split?



Teddy's dilemma

Teddy is a shareholder in ABC plc and has come to you for some advice.

- ABC plc has informed Teddy of a 1:4 rights issue.
- Shares in ABC plc are currently trading at £4.00
- The price of the rights is set at a discount to current market price at £2.00
- Teddy currently holds 400 shares in ABC plc

Teddy doesn't really understand what ABC plc has offered and has asked you to give him some information about the rights issue and explain his options to him. He particularly wants to understand what might happen to the share price after the right issue.



Dividends

Dividends are an example of a mandatory corporate action. Summarise the key features of dividends in the table below.

| | |
|---|--|
| When are dividends paid? | |
| What factors determine the amount to be paid? | |
| How are dividends paid? | |
| What is the role of the London Stock Exchange? | |
| What is the standard settlement period for dividends? | |



Identify the type and category of the following corporate actions.

| | Type | Category |
|---|------|----------|
| 1. A company offer new shares to existing shareholders at a discounted price | | |
| 2. A company issues new shares to existing shareholders for free | | |
| 3. Ordinary shareholders receive interim and final payment based on company profits | | |
| 4. A company looks to buy 55% of the shares in another company | | |
| 5. Two similar companies join together to become one large entity | | |
| 6. A company wants to raise finance to expand | | |

CHOOSE FROM:

TYPES:

- A - Bonus/Scrip/Capitalisation Issue
- B - Rights issue
- C - Dividends
- D - Takeover
- E - Merger

CATEGORY:

- A - Mandatory corporate action
- B - Mandatory with options
- C - Voluntary Corporate Action



Buybacks

'Buyback' or 'share repurchase' is a corporate action in which a company buys back its shares from their shareholders. Generally, companies buyback shares at a price higher than the current market price.

Read the report and watch the short video about [Apple's buyback corporate action](#) and answer the following questions:

1. In your opinion, do you think Apple were right to buyback their shares? Give reasons for your answers.

2. Can this type of corporate action also benefit the shareholders? Again, give reasons for your answers.



Further your knowledge – corporate actions

Log onto the professional refresher section of the CISI learning platform and complete the [Corporate Actions](#) module (45 mins). This module provides an understanding of the mandatory and voluntary events.





Calculating the theoretical ex rights price (TERP)

Using the example from section 6.2 in the course workbook, answer the following questions.

1. What is another term for the TERP?
2. Why is it a theoretical price?

The formula for calculating the TERP is:

$$\text{TERP} = \frac{\begin{array}{l} \text{(Number of Existing Shares x Price per Share)} \\ + \text{(Number of New Shares x Rights Issue Price)} \end{array}}{\text{Total Number of Shares After the Rights Issue}}$$

3. Using this formula above, show why the TERP is £3.60 in this example.

Example

ABC plc has 100 million shares in issue, currently trading at £4.00 each.

To raise finance for expansion, it decides to offer its existing shareholders the right to buy one new share for every four previously held. This would be described as a 1 for 4 rights issue (see section 6.1).

The price of the rights would be set at a discount to the prevailing market price at, say, £2.00.

Each shareholder is given choices as to how to proceed following a rights issue. For an individual holding four shares in ABC plc, they could do the following:

- **Take up the rights**, by paying the £2.00 and increasing their holding in ABC plc to five shares.
- **Sell the rights on to another investor**. The rights entitlement is transferable (often described as renounceable) and will have a value because it enables the purchase of a share at the discounted price of £2.00.
- **Do nothing**. If the investor chooses this option, the company's advisers will sell the rights at the best available price and pass on the proceeds (after charges) to the shareholder.
- Alternatively, the investor could sell sufficient rights to raise cash and use this to take up the rest. As an example, if an investor had a holding of, say, 4,000 shares then they would have the right to buy 1,000. They could sell sufficient of the rights to raise cash and use this cash to take up the rest.

The share price of the investor's existing shares will also adjust to reflect the additional shares that are being issued. So, if the investor originally had four shares priced at £4 each, worth £16, and they can acquire one new share at £2.00, on taking the rights up, the investor will have five shares worth £18 or £3.60 each.

The share price will, therefore, change to reflect the effect of the rights issue once the shares go ex-rights (this is the point at which the shares and the rights are traded as two separate instruments). The adjusted share price of £3.60 is known as the theoretical ex-rights price (TERP) – theoretical because the actual price will also be determined by demand and supply.

The rights can be sold, and the price is known as the premium. In the example above, if the theoretical ex-rights price is £3.60 and a new share can be acquired for £2.00, then the right to acquire one has a value. That value is the premium and would be £1.60, although again the actual price would depend upon demand and supply.



Calculating the theoretical ex bonus price

The new price of the stock (the theoretical ex-bonus price) after a bonus issue, is determined by dividing the total market value of the company by the new number of shares outstanding. So if XYZ plc's shares trade at £15 each and the company decide to make a 1:2 bonus issue, each shareholder who held two shares worth £30, now has three shares worth £30 and the share price has decreased to £10.

Example

XYZ plc's shares currently trade at £15.00 each.

The company decided to make a 1 for 2 (1:2) bonus issue, giving each shareholder an additional share for every two shares they currently hold.

The result is that a single shareholder who held two shares worth £30.00 now has three shares worth the same amount in total. As the number of shares has increased, the share price decreases to £10.00.

The example taken from section 6.3 of the course workbook explains how the theoretical ex bonus price is calculated.

In your own words, explain the reasons for making a bonus issue.



Learning Outcome 3.1 – Equities

3.1.9: Know the function of a stock exchange

- Primary / secondary market
- Listing

3.1.10: Know the types and uses of the main global stock exchange indices



Going public

Identify whether the following features describe the primary or secondary market for shares.
Tick the box that applies.

| | Primary | Secondary |
|--|---------|-----------|
| The marketing of new shares in a company to investors for the first time | | |
| Disposal of shares via a stock exchange | | |
| Surplus funds to be matched with investment opportunities | | |
| Two way trade in issued securities | | |
| A way to raise capital | | |



Advantages and disadvantages of listing on a stock exchange

| Advantages | Disadvantages |
|------------|---------------|
| | |



Listing on the London Stock Exchange (LSE)

Read section 7.2.1 – requirements for listing on the LSE in chapter 3 of the course workbook, and summarise the six key requirements for a company wishing to list on either the premium or standard segments of the LSE.

1.

2.

3.

4.

5.

6.



Listing on the LSE

Read the three scenarios below and decide which companies are eligible for listing on the London Stock Exchange.

Kelsey Market Research Ltd

- Established 10 years ago.
- Company has been trading profitably since 2nd year of operation.
- 85% of revenues from market research.
- Has sufficient working capital for 14 months of operations.



Eden Park IT Services plc

- Established four years ago.
- 75% of revenues from IT services.
- Been trading profitably from company's inception.
- Directors, associates and significant shareholders own 25% of the shares.
- Expected market cap £1 million.



Langley Property Rentals plc

- Established five years ago.
- First rental properties acquired two years ago.
- 100% of revenues from property rentals.
- Directors, associates and significant share-holders own 70% of the shares.
- Expected market cap £2 million.



| Eligible | Ineligible |
|----------|------------|
| | |
| | |
| | |



AIM – case study

Heena has come to you for some further information about investing in the AIM market. She is particularly interested in understanding more about the requirements that a company must meet to be listed on AIM and how that differs from companies who list on the LSE.

What would you tell Heena to aid her understanding?





The types and uses of the main global stock exchange indices

Fill in the blanks using the words below. Use section 8 in chapter to help.

segment derivatives price snapshot ranked largest capitalisation tracker outperforming benchmark

Markets worldwide compute one or more indices of _____ of the shares of their country's large companies. These indices provide a _____ of how share prices are progressing across the whole group of constituent companies. They also provide a _____ for investors, allowing them to assess whether their portfolio of shares are _____ or underperforming the market in general.

Additionally, in recent decades, many indices have provided the basis for _____ contracts, such as the FTSE, Futures and FTSE Options. Indices also proved the basis for many _____ products such as ETFs (Exchange Traded Funds)

Generally, the constituents of these indices are the _____ largest companies, _____ by their market value or market _____. However, there are also indices which track all constituents of a market, or which focus specifically on a _____, eg the smaller companies listed on that market.



What are the features of the following index calculation methods?

| Price weighted | Market-cap weighted | Equal weighted |
|----------------|---------------------|----------------|
| | | |



Refer to the table on the main indices in section 8 of chapter 3 of the course workbook and complete the table below:

| Region | Country | Index Name and Description | Index Type |
|--------------|-----------|----------------------------|------------|
| America | US | | |
| | | | |
| | | | |
| Europe | UK | | |
| | France | | |
| | Germany | | |
| Asia Pacific | China | | |
| | | | |
| | Hong Kong | | |
| Japan | | | |



Multiple choice questions

- Which of the following is NOT a function of a stock market index?
 - Calculates the daily aggregate price movements of its targeted stocks
 - Provides a snapshot of how share prices are performing in a particular market
 - Provides a single figure for ease of comparison
 - Provides a very accurate indicator of future share prices
- Which UK stock market is used as a benchmark against which diversified share portfolios are assessed?
 - FTSE All Share
 - FTSE 100
 - FTSE All Star
 - FTSE 350
- How many stocks does the Xetra DAX track?
 - 100
 - 225
 - 40
 - 30



Further Your Knowledge – Stock Exchange and Trading

Log onto the professional refresher section of the CISI learning platform and complete the [Stock Exchange and Trading](#) module (1hr 30 mins). This module explores what stock exchanges are, how they work, their participants and potential future developments.





Learning Outcome 3.1 – Equities

3.1.11: Know how shares are traded:

- On exchange / over the counter
- Multilateral trading facilities
- Order driven / quote driven

3.1.12: Know the method of holding title and related terminology: registered and bearer; immobilised and dematerialised

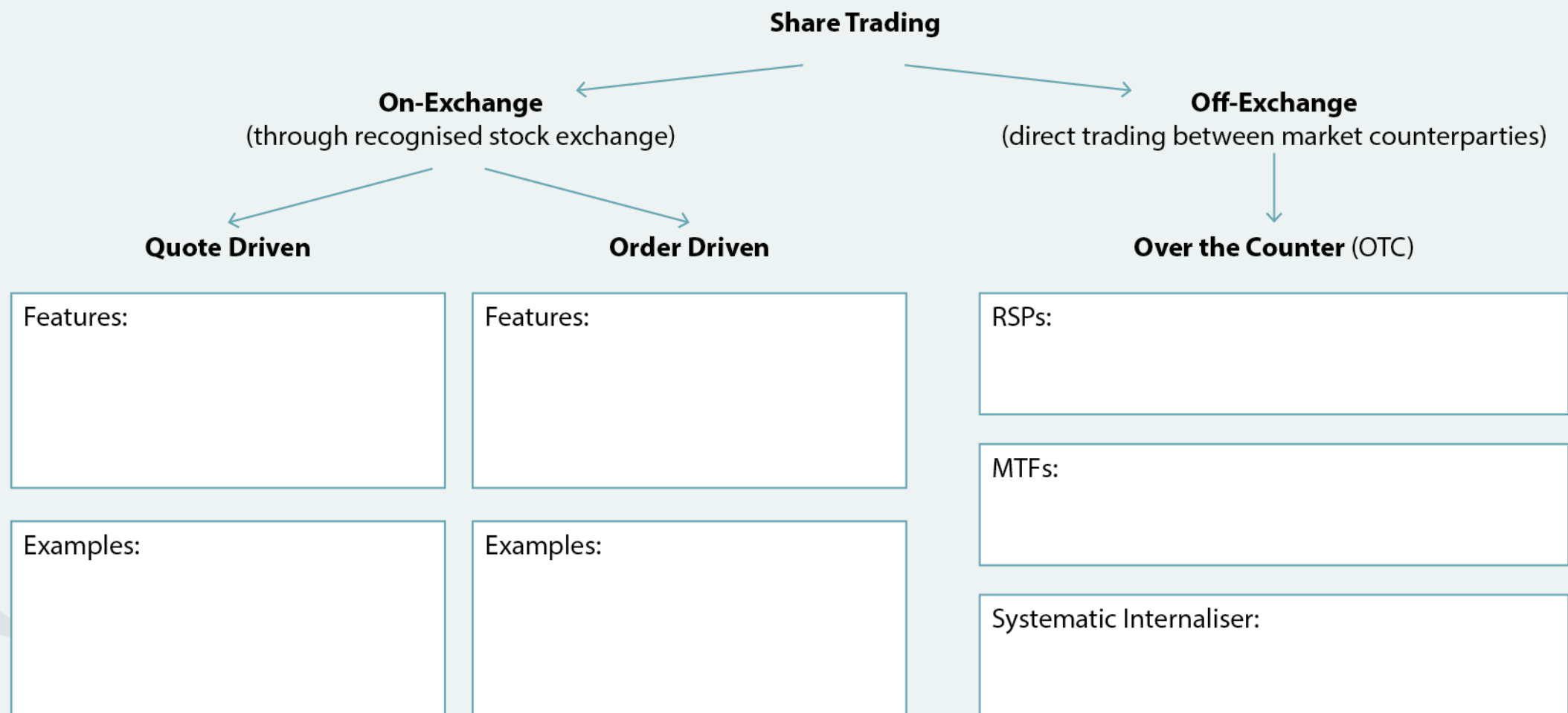
3.1.13: Understand the role of the central counterparty in clearing and settlement

3.1.14: Understand how settlement takes place:

- Participants
- Process
- Settlement cycles



Use the boxes below to describe the key features of the different ways shares can be traded:





Holding titles, clearing and central counterparties and settlement

Read sections 10, 11 and 12 in chapter 3 of the course workbook and answer the following questions.

1. Explain the difference between holding shares in registered or bearer form
2. Who might 'immobilise' bearer shares and why?
3. What is a share register?
4. What is settlement?



Holding titles, clearing and central counterparties and settlement Continued...

5. Why do most markets now use a single central securities depository?
6. Which system does the UK use for settlement?
7. What is another term for dematerialised settlement?
8. What is the settlement cycle/ period for those investors who still hold physical share certificates?



Clearing and Central Counterparties

Clearing is the process through which the obligations held by the buyer and the seller to a trade are defined and legally formalised.

It:

- establishes what each of the counterparties expects to receive when the trade is settled
- defines the obligations each counterparty must fulfil
- for the trade to settle successfully

List 4 of the features of the clearing process

- 1.
- 2.
- 3.
- 4.



Central Counterparties (CCPs)

1. Explain bi-lateral settlement?
2. Who is liable for losses in bi-lateral settlement?
3. Explain the process of novation?
4. Why are regulators keen on the use of CCPs across a wide range of financial products?



Settlement

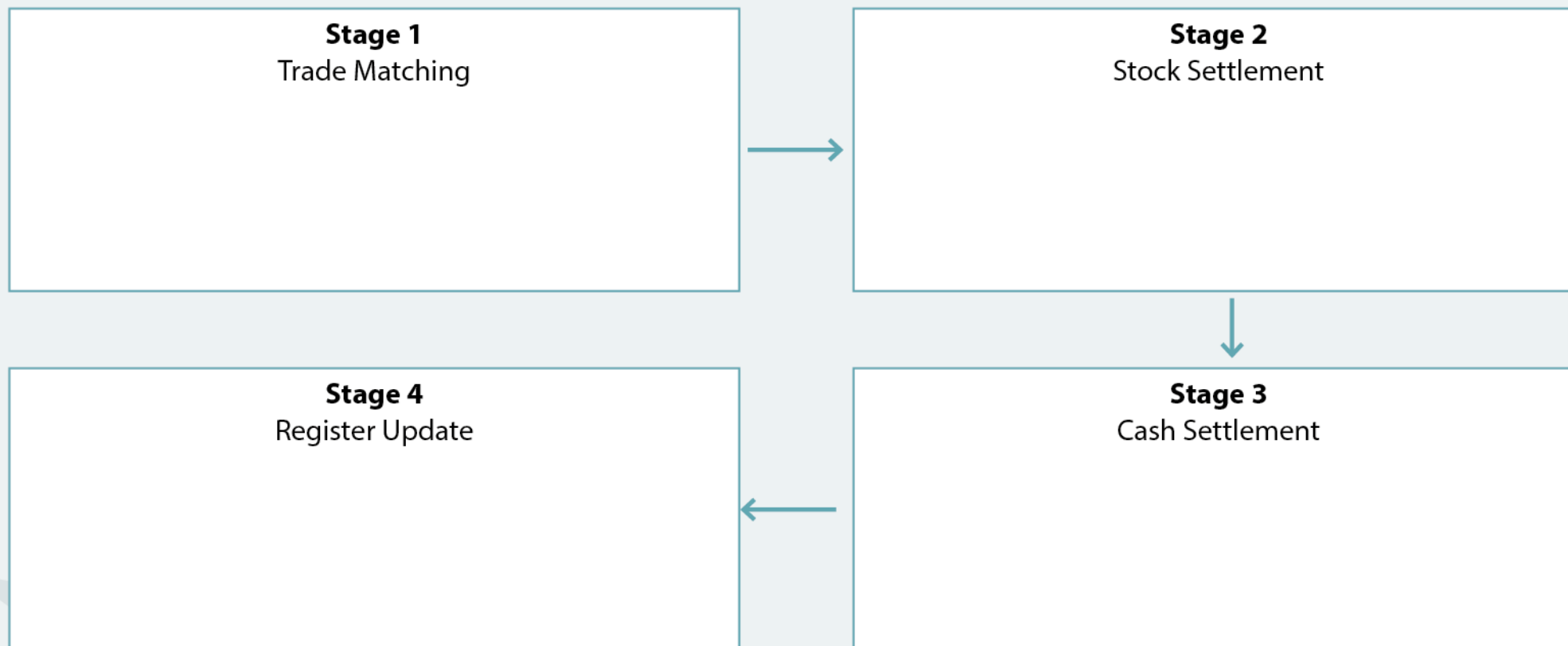
CREST is the term commonly used to refer to the system operated by Euroclear UK & International which is the central securities depository for UK and Irish equities. Which **TWO** of the following features are **NOT** a key feature of CREST:

- A. holdings are uncertified; that is share certificates are not required to evidence transfer of ownership
- B. trades are matched at T+2
- C. settlement of transactions takes place in sterling only
- D. electronic transfer of title (ETT) takes place on settlement
- E. settlement generates guaranteed obligations to pay cash outside CREST
- F. coverage includes shares, corporate and government bonds and other securities held in registered form
- G. a range of corporate actions is processed, including dividend distributions and rights issues
- H. it also provides a mechanism to facilitate the settlement of trades when the investor holds paper share certificates



The Settlement Process in CREST

List the key features in each stage of the settlement process below:





Further Your Knowledge – Central Clearing

Log onto the professional refresher section of the CISI learning platform and complete the [Central Clearing](#) module (45 mins). This module explores the background of central clearing, the risks that central counterparties mitigate, recent events and legislation.





End of Unit 3 Multiple Choice Assessment



Test your knowledge

1. When a shareholder appoints somebody to vote on their behalf at an AGM, it is known as:
 - A. A closed ballot
 - B. A secret ballot
 - C. Ad-hoc voting
 - D. Proxy voting
2. If shares are sold for a capital gain, the profit is referred to as having been:
 - A. Taken
 - B. Banked
 - C. Gained
 - D. Unrealised



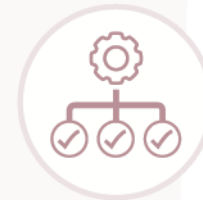
Test your knowledge

3. A company with 30 million ordinary shares, trading at £5.00 per share pays out a total of £2.5m in dividends. What is the dividend yield?
- A. 1.5%
 - B. 1.8%
 - C. 1.7%
 - D. 7.1%
4. A 'cash call' is also known as:
- A. A bonus issue
 - B. A rights issue
 - C. The premium
 - D. A dividend



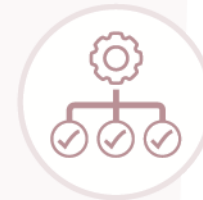
Test your knowledge

5. Which of the following is a possible reason for a company having a higher than average dividend yield?
- A. It is mature and continues to generate healthy levels of cash, but has limited growth potential
 - B. The company is viewed by investors strong growth prospects
 - C. A large proportion of the profit is being ploughed back into the business
 - D. It is a new company
6. A shareholder receives a fixed dividend but in a particular year receives a higher level of dividend as company profits were higher than anticipated. What types of shares does he/she hold?
- A. Non cumulative preference shares
 - B. Redeemable preference shares
 - C. Ordinary shares
 - D. Participating preference shares



Test your knowledge

7. Which index is often used as a benchmark against which diversified share portfolios are assessed in the UK?
- A. FTSE 100
 - B. FTSE All Star
 - C. FTSE All Share
 - D. FTSE 350
8. In order for a special resolution to be passed, what percentage of shareholders need to vote in favour?
- A. 51%
 - B. 75%
 - C. 100%
 - D. 57%



Test your knowledge

9. Which of the following is NOT true about preference shares:
- A. They are non-voting except in special circumstances
 - B. They pay a fixed dividend each year (the amount being set when they are first issued)
 - C. They rank ahead of ordinary shares in terms of being paid back if the company is wound up
 - D. They carry the full risk and reward of investing in a company



Test your knowledge

10. Which of the following would require a special resolution?
- A. Election of a director
 - B. Company dissolution
 - C. Appointment of auditors
 - D. Payment of dividends
11. When currency price movements have a negative impact on the value of an investment, it is known as:
- A. Issuer risk
 - B. Liquidity risk
 - C. Foreign exchange risk
 - D. Transaction risk



Test your knowledge

12. When a company has to use its undistributed profits from previous years to cover dividend payments, the dividend payment is referred to as:

- A. unrealised
- B. bare
- C. naked
- D. covered

13. Which of the following terms reflects a company marketing new shares to investors for the first time?

- A. The secondary market
- B. The tertiary market
- C. The primary market
- D. The gearing process



Test your knowledge

14. An investor chooses to buy shares in a 'thinly traded' company. Which of the following is the most likely risk they face?
- A. Price risk
 - B. Liquidity risk
 - C. Issuer risk
 - D. Foreign exchange risk
15. Which of the following is NOT true about plcs?
- A. They must be listed
 - B. They must have a minimum of 2 shareholders
 - C. Company accounts must be submitted to HMRC within 6 months of the end of the financial year
 - D. They are permitted to issue shares to the public



Test your knowledge

16. The rights of shareholders to subscribe for new shares if the company wants to issue more are referred to as:
- A. Voting rights
 - B. Pre-emptive rights
 - C. Shareholder rights
 - D. Pre-issue rights
17. The price risk associated with owning shares is best described as:
- A. A fall in share prices where investors can lose capital even when dividends are paid
 - B. When shares become worthless due to the collapse of the issuing company
 - C. When shares cannot be sold quickly enough to prevent a loss for the investor
 - D. A fall in dividend paid out by the issuing company



Test your knowledge

18. An IPO is also referred to as:

- A. Listing
- B. Trading
- C. Speculating
- D. Dealing

19. Which of the following documents details the relationship between a company and its shareholders when it is being established?

- A. Memorandum of Understanding
- B. Memorandum of Association
- C. Articles of Association
- D. Articles of Understanding



Test your knowledge

20. Which of the following is NOT true about stock splits

- A. They do not raise extra cash
- B. It involves the division of existing shares into smaller denominations
- C. It makes share capital more marketable
- D. It raises the market value of a company share

21. An ordinary shareholder is not entitled to:

- A. A vote on resolutions at company meetings
- B. Receive dividends declared by the company
- C. Dispose of some or all of their shares
- D. Seniority if the company was to be 'wound up'



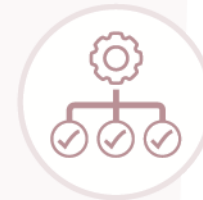
Test your knowledge

22. In which country will you find the CAC 40 index?

- A. France
- B. Belgium
- C. Germany
- D. Italy

23. A merger is what type of corporate action?

- A. Mandatory with options
- B. Voluntary
- C. Mandatory
- D. A rights issue



Test your knowledge

24. When bearer shares are transferred over to electronic records of ownership, the physical certificate is no longer used and they are said to have been:

- A. Immobilised
- B. Dematerialised
- C. Diminished
- D. Destroyed

25. A capitalisation issue is an example of:

- A. A mandatory corporate action
- B. A mandatory with options corporate action
- C. A voluntary corporate action
- D. A rights issue



Test your knowledge

26. When shares go ex-rights, the share price will change to reflect the effect of the rights issue. What is the new price known as?
- A. Ex-dividend price
 - B. Premium price
 - C. Theoretical ex-rights price
 - D. Bid offer spread
27. Which of the following is NOT true about a share register?
- A. It must be maintained by an employee of the company
 - B. It is a record of all current shareholders and how many shares they hold
 - C. All companies (apart from a very few exceptions) must maintain a share register
 - D. It is kept and maintained by the registrar



Test your knowledge

28. Which of the following is NOT true about ordinary shares:

- A. They are a hybrid security with elements of both debt and equity
- B. Some ordinary shares may be referred to as contributing shares where only part of their nominal value has been paid up
- C. They carry the full risk and reward of investing in a company
- D. Holders are paid last if a company is 'wound up'



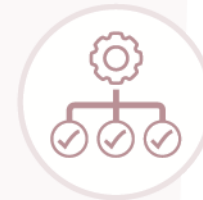
Test your knowledge

29. Which of the following is NOT another term for a bonus issue

- A. A capitalisation issue
- B. A scrip issue
- C. A rights issue
- D. A mandatory corporate action

30. A company wanting to list on AIM must have:

- A. A minimum market capitalisation of £700,000
- B. At least 3 years' trading history
- C. At least 25% of shares held by outside investors
- D. An appointed NOMAD



Monitoring my progress – Unit 3

My multiple choice assessment mark is ___ / 30

I am happy with the progress that I made on the multiple choice assessment

___ Yes ___ No

To improve my knowledge and understanding, I now need to....

- 1.
- 2.
- 3.

Need more help?

If you feel that your multiple choice score can be improved further, complete the end of unit 3 multiple choice questions in the course workbook.

