



CHARTERED INSTITUTE FOR
SECURITIES & INVESTMENT

Introduction to Securities and Investment

Effective from 1 August 2014

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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 Retail Financial Products

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 'Candidate Update' area of the Institute's website (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.

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

Assessment Structure

A 1 hour examination of 50 multiple choice questions.

Candidates sitting the examination by Computer Based Testing may have, in addition, up to 10% of additional questions as 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 Foreign Exchange Market

Element 4 Equities

- 4.1 Equities

Element 5 Bonds

- 5.1 Government Bonds
- 5.2 Corporate Bonds
- 5.3 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

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 Hedge 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 Breaches, Complaints and Compensation
- 8.6 Integrity and Ethics

Element 9 Taxation, Investment Wrappers and Trusts

- 9.1 Tax
- 9.2 Investment Wrappers
- 9.3 Pensions
- 9.4 Investment Bonds
- 9.5 Trusts

Element 10 Other Retail Financial Products

- 10.1 Loans
- 10.2 Mortgages
- 10.3 Life Assurance
- 10.4 Protection Insurance

Element 1 Introduction

1.1 The Financial Services Industry

On completion, the candidate should:

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

- retail banks
- building societies
- investment banks
- pension funds
- insurance companies
- fund managers
- stockbrokers
- custodians
- third party administrators (TPAs)
- industry trade and professional bodies

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

- retail clients and professional clients

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

- Independent Financial Adviser
- Restricted advice
- Platforms
- Execution only

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 on economic behaviour

2.1.6 *know* the meaning of the following measures of inflation:

- Consumer Prices Index
- Retail Price Index

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

- Gross Domestic Product (GDP)
- Balance of Payments
- Public Sector Net Cash Requirement (PSNCR)
- 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 *understand* the distinction between gross and net interest payments
- 3.1.3 *be able to calculate* the net interest due given the gross interest rate, the deposited sum, the period and tax rate
- 3.1.4 *know* the advantages and disadvantages of investing in cash

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 advantages and disadvantages of investing in property

3.4 Foreign Exchange Market

On completion, the candidate should:

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

- currency quotes
- settlement

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

- price risk
- liquidity risk
- issuer risk

4.1.4 *know* the definition of a corporate action and the difference between mandatory, voluntary and mandatory with options

4.1.5 *understand* the following terms:

- bonus/scrip/capitalisation issues
- rights issues
- dividend payments
- takeover/merger

4.1.6 *know* the purpose and format of Annual General Meetings

4.1.7 *know* the difference between the primary market and secondary market

4.1.8 *know* the characteristics of the following exchanges:

- London Stock Exchange
- NYSE
- NASDAQ
- Euronext
- Tokyo Stock Exchange
- Deutsche Börse

4.1.9 *know* the types and uses of a stock exchange index

4.1.10 *know* to which markets the following indices relate:

- FTSE
- Dow Jones Industrial Average
- S&P 500
- Nikkei 225
- CAC40
- XETRA Dax
- NASDAQ Composite
- Hang Seng

4.1.11 *know* the advantages and disadvantages of a company obtaining a UK listing of its shares

4.1.12 *know* how shares are traded:

- on exchange/off exchange
- multilateral trading facilities
- order driven/quote driven

4.1.13 *know* the method of holding title – registered / bearer / immobilised / dematerialised

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

4.1.15 *understand* the role played by Euroclear UK & Ireland in the clearing and settlement of equity trades:

- uncertificated transfers
- participants (members, payment banks, registrars)

Element 5 Bonds

5.1 Government Bonds

On completion, the candidate should:

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

- DMO maturity classifications
- how they are issued

5.2 Corporate Bonds

On completion, the candidate should:

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

- domestic
- foreign
- Eurobond
- asset-backed securities including covered bonds
- zero coupon
- convertible

5.3 Bonds

On completion, the candidate should:

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

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

5.3.3 *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 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

6.6.2 *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 benefits of collective investment

7.1.2 *know* the difference between active and passive management

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

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 types of funds and how they are classified

7.2.3 *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
- 7.3.2 *know* the roles of the Authorised Corporate Director and the Depositary
- 7.3.3 *know* the term SICAV and the context in which it is used

7.4 Pricing, Dealing and Settling

- 7.4.1 *know* how unit trust units and OEIC shares are priced
- 7.4.2 *know* how shares and units are bought and sold
- 7.4.3 *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 *understand* the factors that affect the price of an investment trust
- 7.5.3 *know* the meaning of the discounts and premiums in relation to investment trusts
- 7.5.4 *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
- 7.6.2 *know* how Exchange-Traded Funds are traded

7.7 Hedge Funds

On completion, the candidate should:

7.7.1 *know* the basic characteristics of Hedge Funds:

- risks
- cost and liquidity
- investment strategies

Element 8 Financial Services Regulation

8.1 Financial Services Regulation

On completion, the candidate should:

8.1.1 *understand* the need for regulation

8.1.2 *know* the function and impact of UK, European and US regulators in the financial services industry

8.1.3 *understand* the reasons for authorisation of firms and approved persons

8.1.4 *know* the groups of activity (controlled functions) requiring approved person status

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 can be exploited as a vehicle for financial crime: theft of customer data to facilitate identity fraud

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 on firms' activities

8.5 Breaches, Complaints and Compensation

On completion, the candidate should:

8.5.1 *know* the difference between a breach and a complaint

8.5.2 *know* the responsibilities of the industry for handling customer complaints and dealing with breaches

8.5.3 *know* the role of the Financial Ombudsman Service

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

8.5.5 *know* the outcomes of Treating Customers Fairly

8.6 Integrity and Ethics

On completion, the candidate should:

8.6.1 *know* the CISI's Code of Conduct

8.6.2 *understand* the key principles of professional integrity and ethical behaviour in financial services

Element 9 Taxation, Investment Wrappers and Trusts

9.1 Tax

On completion, the candidate should:

9.1.1 *know* the direct and indirect taxes as they apply to individuals:

- Income Tax
- Capital Gains Tax
- Inheritance Tax
- Stamp Duty and Stamp Duty Reserve Tax
- VAT

9.1.2 *be able to calculate* the tax due on investment income

9.1.3 *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 aim of (New) Individual Savings Accounts

9.2.2 *know* the tax incentives provided by (N)ISAs

9.2.3 *know* the types of (N)ISA available:

- cash
- stocks & shares

9.2.4 *know* the eligibility conditions for investors:

9.2.5 *know* the following aspects of investing in (N)ISAs:

- subscriptions
- transfers
- withdrawals
- number of managers
- number of accounts

9.2.6 *know* the features of Junior ISAs

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)
- Stakeholder Pensions
- NEST/Auto Enrolment

9.3.3 *know* the options for pensions at retirement

- annuity/drawdown

9.4 Investment Bonds

On completion, the candidate should:

9.4.1 *know* the main characteristics of investment bonds

9.5 Trusts

On completion, the candidate should:

9.5.1 *know* the features of the main trusts:

- discretionary
- interest in possession
- bare

9.5.2 *know* the definition of the following terms:

- trustee
- settlor
- beneficiary

9.5.3 *know* the main reasons for creating trusts

Element 10 Other Retail 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 *understand* the basic principles of life assurance

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

- term assurance
- whole-of-life

10.4 Protection Insurance

On completion, the candidate should:

10.4.1 *know* the main areas in need of protection:

- Family/personal
- Mortgage
- Long term care
- Business protection

10.4.2 *know* the main product features of the following:

- Critical illness
- Income protection
- Mortgage protection
- Accident and sickness
- Household cover
- Medical insurance
- Long term care
- Business insurance
- Liability insurance