



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) 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	5
4	Equities	8
5	Bonds	5
6	Derivatives	4
7	Investment Funds	7
8	Financial Services Regulation	6
9	Taxation, Investment Wrappers and Trusts	6
10	Other Financial Products	3
11	Financial Advice	1
Total		50

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

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

7.8 Private Equity

7.9 Other Alternative Investments

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 Investment Bonds

10.4 Life Assurance

10.5 Protection Insurance

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 Industry

On completion, the candidate should:

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

- 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

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 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
- 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

3.2 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

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
- issuer risk

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

4.1.6 *understand* the following terms:

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

(May be tested by the use of a simple calculation)

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

4.1.8 *know* the function of a stock exchange:

- primary / secondary market
- listing

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

4.1.10 *know* how shares are traded:

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

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

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

4.1.13 *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

5.2 Government Bonds

On completion, the candidate should:

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

- types
- yields

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

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

6.6.2 *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 potential advantages and disadvantages 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
- 7.1.4 *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
- 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:

- trading
- replication methods
- synthetic/non-synthetic

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

7.8 Private Equity

On completion, the candidate should:

7.8.1 *know* the basic characteristics of private equity:

- raising finance
- realising capital gain

7.9 Other Alternative Investments

On completion, the candidate should:

7.9.1 *know* some of the other types of alternative investment:

- art / antiques / fine wine

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

8.1.4 *know* the requirements of the Senior Managers and Certification Regime and approved persons regime

8.1.5 *know* the outcomes arising from the FCA's approach to managing conduct risk within firms

8.1.6 *know* the CISI's Code of Conduct

8.1.7 *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 regulations 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:

- income tax
- capital gains tax
- inheritance tax
- stamp duty
- VAT
- 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
- stocks & shares
- innovative ISA
- lifetime ISA
- junior ISA

9.2.3 *know* the ISA rules surrounding:

- subscriptions
- transfers
- eligibility
- withdrawals/flexibility
- additional permitted subscriptions

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 Investment Bonds

On completion, the candidate should:

10.3.1 *know* the main characteristics of investment bonds

10.4 Life Assurance

On completion, the candidate should:

10.4.1 *understand* the basic principles of life assurance

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

- term assurance
- whole-of-life

10.5 Protection Insurance

On completion, the candidate should:

10.5.1 *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

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:

- 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

Unit 1 – Introduction to Securities and Investment

- insolvency and bankruptcy
- identifying, reporting scams