

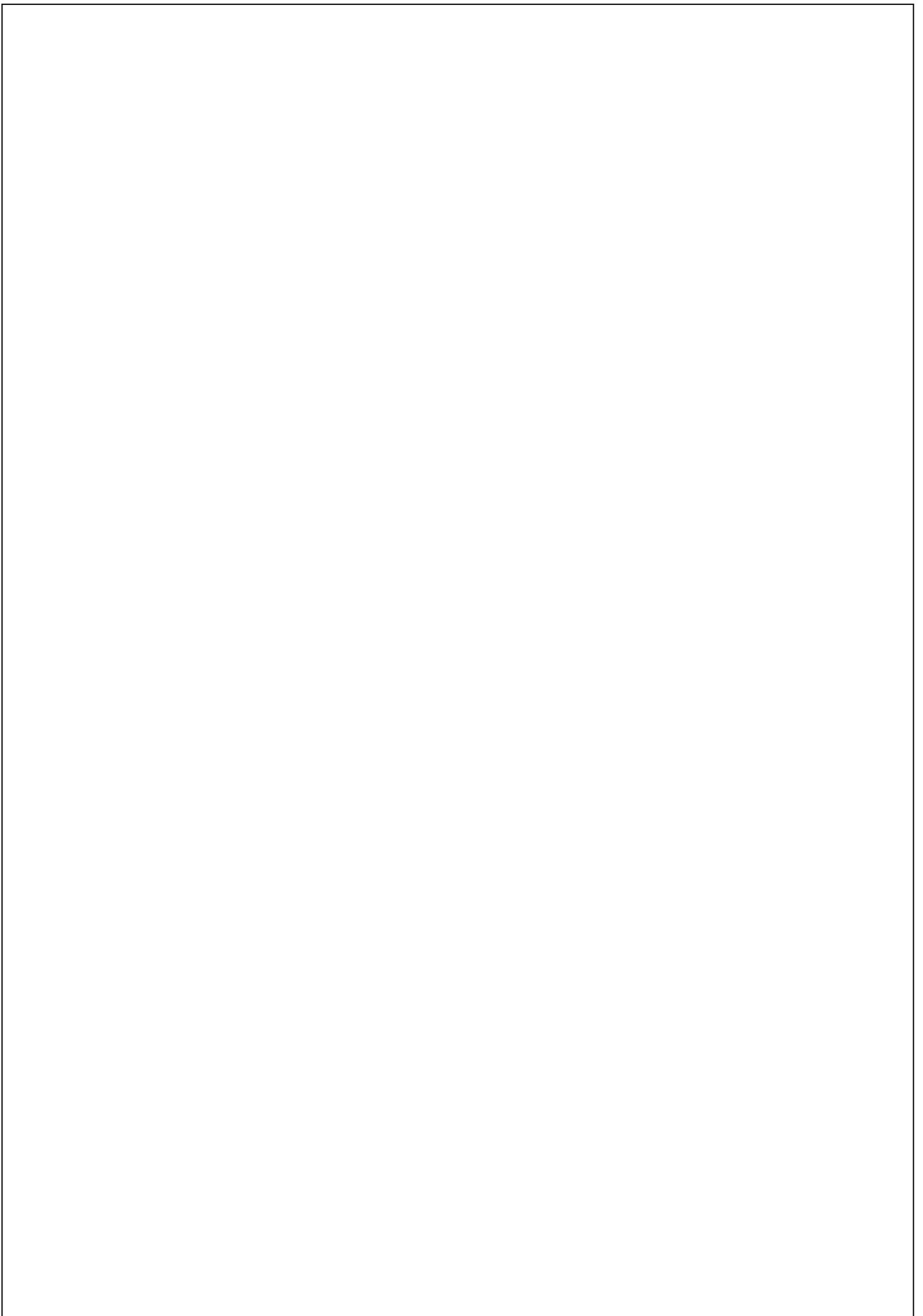


**CHARTERED INSTITUTE FOR
SECURITIES & INVESTMENT**

**CHARTERED WEALTH MANAGER
QUALIFICATION**

**UNIT 1
FINANCIAL MARKETS**

Effective for examination from June 2014



UNIT SUMMARY

The aim of this unit is to enable candidates to think critically and communicate clearly in the context of:

- the analysis, interpretation and comparison of company information, considering performance and prospects and evaluating investments in the light of this analysis;
- the evaluation of and making recommendations on fixed income and real investments; equity, equity related and derivative based investments for private individuals within the context of other investment vehicles.

ASSESSMENT STRUCTURE

This is a 3-hour examination of 100 marks comprising three sections:

SECTION A worth 20 marks

- candidates answer **FOUR** questions from **SIX**, worth **5 marks** each.

SECTION B worth 40 marks

- candidates answer **BOTH** questions in this section worth **20 marks** each.

SECTION C worth 40 marks

- candidates answer **ALL** parts of the case study-based questions in this section.

SYLLABUS STRUCTURE

The syllabus is divided into **learning outcomes**. These are broken down into a series of **assessment criteria**.

CANDIDATE UPDATE

Candidates are reminded to check the 'Candidate Update' area of the Institute's website (www.cisi.org/masters) on a regular basis for updates that could affect their examination as a result of industry change.

FINANCIAL MARKETS SYLLABUS

LEARNING OUTCOME 01 - Be able to assess the implications of economics and economic policy for financial markets

- 1.1 Explain the macro-economic framework (Classical, Keynesian and Monetarist approaches)
- 1.2 Interpret inflation and interest rates
- 1.3 Summarise fiscal and monetary policy and exchange rate policy
- 1.4 Interpret macro-economic statistics
- 1.5 Explain the role of financial markets and services within the economy

LEARNING OUTCOME 02 - Be able to explain the structure and content of financial statements issued by companies and their impact on the valuation of securities

- 2.1 Explain the core accounting concepts:
 - Dual aspect
 - Money measurement
 - Entity
 - Going concern
 - Asset Management
 - Accruals basis
 - Matching principle
 - Prudence
 - Consistency and comparability
 - Accounting for subsidiaries and overseas business
- 2.2 Explain the principles behind the construction of a balance sheet
- 2.3 Explain the principles behind the construction of an income statement
- 2.4 Explain the principles behind the construction of a cash flow statement
- 2.5 Summarise the financial statement accounting standards:
 - Legal compliance
 - Application and differences between UK GAAP, IFRS and IAS
- 2.6 Critically appraise a valuation based on a number of subjective assumptions
 - True and fair concept
 - Apply a sceptical and critical approach

LEARNING OUTCOME 03 - Be able to select and apply the principal accounting ratios, and explain their advantages and limitations, in the evaluation and comparison of financial statements

- 3.1 Apply the following profitability ratios:
 - Return on capital employed
 - Gross and net profit margins
 - Asset turnover and gearing
- 3.2 Apply the following liquidity ratios:
 - Working capital (current) ratio
 - Quick (acid test) ratio
- 3.3 Apply receivables, payables and inventory ratios

3.4 Apply financial gearing ratios for:

- Debt / equity
- Interest cover
- Asset cover

3.5 Evaluate growth in sales, profitability, capital

3.6 Apply investor ratios: earnings per share including adjustments for capitalisation changes, corporate actions and post-balance sheet events

3.7 Apply other investor ratios:

- Return on equity
- Price /earnings
- Price / book value
- PEG
- EBITDA
- Enterprise value

3.8 Calculate earnings yield, dividend yield and dividend cover

3.9 Interpret the implications and limitations of the analysis in the context of:

- circumstances of the business
- accounting policy and practice
- distorting effects

3.10 Apply other interpretation tools: trend and common size statements

LEARNING OUTCOME 04 - Be able to select and apply the techniques and concepts of investment mathematics to the wealth management process

4.1 Select and apply the techniques of time value of money, present value and discounted cash flow to investment scenarios

4.2 Select and apply discounting and compounding in:

- Perpetuities
- Continuous, annual and non-annual time periods

4.3 Select and apply standardised interest rate calculations:

- APR
- AER

4.4 Evaluate the effects of inflation vs. real returns on cash flows and determine the appropriate discount factor

4.5 Evaluate the internal rate of return and the uses and limits of interpolation

4.6 Apply DCF to securities evaluation:

- Dividend valuation model - assumptions and limitations

4.7 Explain the concepts and measurement of risk, including:

- Types, causes and how it is quantified
- probability
- standard deviation
- interpretation
- risk profile
- indifference curves
- downside risk
- Value at Risk measures
- tracking error

- volatility
- Non parametric measures

LEARNING OUTCOME 05 - Be able to evaluate critically the risks and returns offered by fixed income securities and cash

5.1 Explain the types of cash deposits and their characteristics, including:

- definition and key properties of cash
- risk, price, and return
- historic performance of cash
- principal problems and liquidity issues, plus implications should liquidity fall
- Onshore deposit and savings accounts
- Offshore accounts and tax implications
- Risk of inflation erosion on performance

5.2 Explain the nature of the money markets, money market participants, near cash and short term money market instruments and foreign exchange products and markets

5.3 Explain the characteristics of fixed income securities:

- definition and key properties of bonds
- risk, price, and return
- historic performance of bonds
- principal problems and liquidity issues, plus implications should liquidity fall
- Maturities
- Coupon
- Redemption characteristics

5.4 Explain the characteristics of UK and overseas government bonds:

- Issuance
- Secondary markets
- Types of bond
- Repo market
- Borrowing /lending
- Trading and settlement

5.5 Explain UK and overseas corporate bonds:

- Markets
- Credit ratings
- Security
- Redemption
- Types of bond
- Fixed / floating coupon structures
- Covenants and sweeteners
- Domestic and Eurobond issuance
- Trading and settlement

5.6 Evaluate bond pricing using:

- DCF evaluation
- Clean and dirty pricing of different types of bonds
- Index-linked issues and strips

5.7 Apply the following methods in the calculation of bond returns, understanding their uses and limitation:

- Flat and running yield
- Gross and net redemption yield
- Grossed-up equivalent yield

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- Real yields (inflation linked securities)

5.8 Evaluate the impact of interest rates on the term structure of a bond, including:

- Derivation of, and relationship between, yields, spot and forward rates
- Yield curves
- Liquidity preference and expectations theory
- Demand effects
- Interpretation of yield curves

5.9 Evaluate the risks of holding bonds and management of this risk, including:

- Interest rate, credit, inflation and other risks
- Sensitivity, duration and convexity

LEARNING OUTCOME 06- Be able to evaluate critically the risks and returns offered by equities and derivative investments

6.1 Explain the characteristics of investing in equities

- definition and key properties of equities
- risk, price, and return
- historic performance of equities
- principal problems and liquidity issues, plus implications should liquidity fall

6.2 Explain the types of equities and equity related investments including:

- Characteristics
- Issuance

6.3 Analyse equity market efficiency (EMH), the effects of corporate actions, research, ratings, volume and liquidity and other influences on risk, pricing and valuation

6.4 Explain the characteristics of convertibles, covered and uncovered warrants:

- Features
- Valuation
- Pricing

6.5 Explain for the different types of derivatives:

- Key features of options, futures and forward contracts on equity, index, currency, bond and commodity assets
- Their relationship with underlying asset classes

6.6 Explain the features of speculative and hedging strategies using derivatives: risk / reward profiles and payoff diagrams

6.7 Explain and evaluate the types of swaps and their characteristics:

- Interest rate
- Currency
- Equity and commodity
- Credit default swaps
- Key features, pricing, valuation, risks and uses

LEARNING OUTCOME 07 - Be able to evaluate critically the risks and returns offered by Alternative Investments

7.1 Evaluate private equity as an asset class:

- definition and the key properties of private equity
- problems due to information asymmetry
- risk, liquidity and return
- performance of private equity
- principal problems and liquidity issues, plus implications should liquidity fall

7.2 Evaluate commodities as an asset class:

- definition and key properties of commodities
- problems associated with particular types of commodity investment
- distinguish between direct and indirect investments in commodities
- performance of commodities
- principal problems and liquidity issues, plus implications should liquidity fall

7.3 Evaluate infrastructure funds as an asset class:

- definition and key properties of infrastructure funds
- problems due to lumpiness and indivisibility
- risk, liquidity and return
- performance of infrastructure funds
- principal problems and liquidity issues, plus implications should liquidity fall

7.4 Evaluate hedge funds as an asset class:

- definition and key properties of hedge funds
- unique features of hedge funds
- performance of hedge funds
- charges of hedge funds
- benefits of fund of funds
- principal problems and liquidity issues, plus implications should liquidity fall

7.5 Evaluate enterprise investment schemes, venture capital trusts, woodland, bloodstock, collectibles as asset classes:

- definition and key properties
- problems due to lumpiness and indivisibility
- risk, liquidity and return
- performance
- principal problems and liquidity issues, plus implications should liquidity fall

LEARNING OUTCOME 08 - Be able to evaluate critically the risks and returns offered by property

8.1 Evaluate property as a component of a portfolio:

- definition and the key properties of real estate
- risk, price, value, and return
- historic performance of real estate
- principal problems and liquidity issues, plus implications should liquidity fall

8.2 Explain the characteristics of property investment vehicles and their application in an investment portfolio: performance/risk/reward profiles of direct, indirect and buy to let investment approaches and appraisal methods

LEARNING OUTCOME 09 - Be able to explain the securities market structure, trading venues and custody and settlement processes

- 9.1 Demonstrate an understanding of the structure of the domestic market:
- summarise primary, secondary & dual listing and explain the process of issuing and gaining admission to a recognised investment exchange,
 - distinguish between the requirements of ISDX, the AIM market and the official list and Issuing securities without a prospectus.
 - discriminate between on Exchange & over-the-counter (OTC) trading and detail the transparency obligations
 - illustrate markets for trading government and corporate bonds
- 9.2 Detail the market abuse regime and explain and contrast the role of the UK Listing Authority, ESMA, Takeover panel and London Stock Exchange in market regulation.
- 9.3 Summarise the role of Multilateral Trading Facilities (MTFs), Systematic Internalisers, Dark pools
- 9.4 Demonstrate an understanding of the structure of International markets:
- include both Developed markets & Emerging markets, the Foreign Exchange market
 - demonstrate an understanding of: the Clearing, settlement and custody process including the duties of central counterparty mechanisms and associated risks, the role of International Central Securities Depositories (CSDs), the custody of assets & client money and relevance & impact of corporate actions.

READING LIST

Periodicals and Newspapers

1. Financial Times
2. FT Weekend
3. The Economist
4. Financial sections of The Times, The Daily Telegraph, Independent and Evening Standard.
5. Bank of England Quarterly Bulletin
6. Bank of England Inflation Report (Quarterly)
7. Annual Debt and Reserves Management Report – The UK Treasury (Quarterly)
8. DMO Annual Review (The Debt Management Office)
9. Investors' Chronicle
10. Securities & Investment Review
11. Investment Week
12. Professional Investor (the quarterly journal of the CFA)
13. Money Management
14. What Investment?

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15. Investment Adviser
16. Professional Adviser
17. Money Observer
18. Bloomberg Money

Books

1. The Bond & Money Markets; Choudhry M; Butterworth-Heinemann Finance 2001 (By Moorad Choudhry)
2. Mastering Derivatives Markets; Francesca Taylor; FT Pitman/Prentice Hall
3. Mastering Credit Derivatives; Andrew Kasapi; FT/Prentice Hall
4. Options, Futures and other Derivatives; John C. Hull; Prentice Hall
5. Interpreting Company Reports & Accounts; Holmes, Sugden & Gee; FT/ Prentice Hall; 9th edn 2004
6. Investments: AND S&P; Bodie Z, Kane A, Marcus AJ; McGraw Hill Higher Education; 7th edn 2007
7. Guide to Analysing Companies; 4th Edn 2005; Vause B, Economist Publications
8. An Investor's Guide to Analysing Companies and Valuing Shares; Cahill M; FT Prentice Hall
9. How to read the financial pages; Brett M; Random House; 2003
10. The Financial Times Guide to Using the Financial Pages; Vaitilingham R; FT Prentice-Hall 2005, 5th edn.
11. The Intelligent Guide to Stockmarket Investment; Keasey, K; Hudson, R; Little, K; Wiley 1998
12. Investment Management; Lofthouse S; J Wiley 2001
13. An Introduction to Stock Exchange Investment; Rutterford, J; Davison M; 3rd Edn; 2007
14. A Guide to Stockpicking; O'Connor G; Random House 1996
15. Dictionary of Financial & Securities Terms; Wilson, D; SII; 2002
16. Investments - 6th Edition, Prentice-Hall. By William Sharpe, Gordon Alexander and Jeffrey Bailey.
17. Capital Markets - Institutions and Instruments. 3rd Edition, Prentice-Hall. By Frank Fabozzi and Franco Modigliani.
18. The Handbook of International Financial Terms. Oxford Univeristy Press. By Peter Moles and Nicholas Terry

Websites:

1. www.bankofengland.co.uk
2. www.dmo.gov.uk
3. www.euronext.com
4. www.fca.gov.uk

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5. www.ft.com
6. www.ftse.com
7. www.londonstockexchange.com
8. www.nationalsavings.co.uk
9. www.trustnet.com
10. www.hm-treasury.gov.uk