



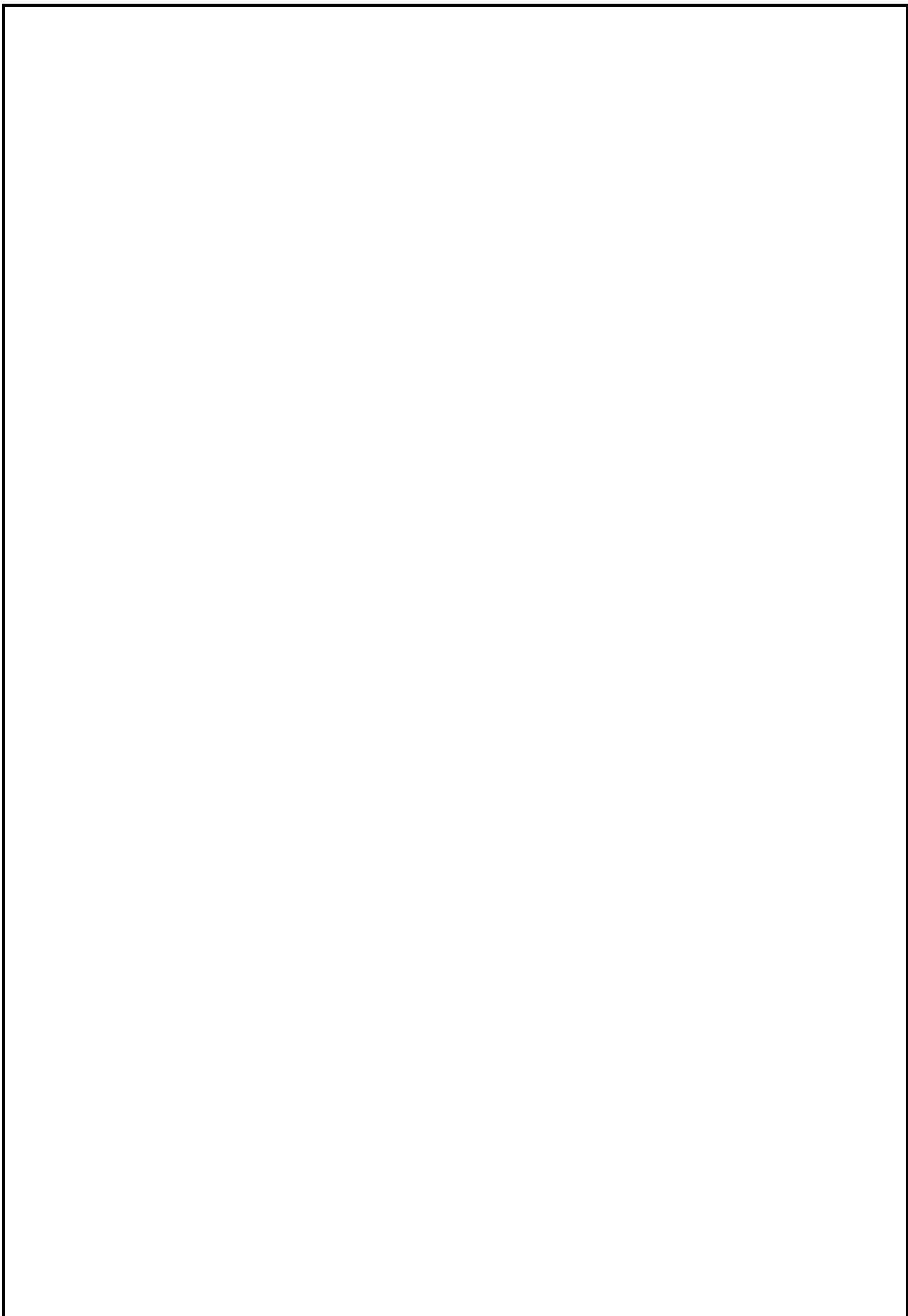
CHARTERED INSTITUTE FOR
SECURITIES & INVESTMENT

CHARTERED INSTITUTE FOR
SECURITIES & INVESTMENT
(Formerly Securities & Investment Institute)

LEVEL 3
CERTIFICATE IN INVESTMENTS

UNIT 2
SECURITIES

EFFECTIVE FROM 1 APRIL 2009



AIM OF THE EXAMINATION

The aim of the examination is to ensure that candidates have a basic knowledge of market infrastructure, operation, regulation and practice.

OBJECTIVES OF THE EXAMINATION

To test candidates' knowledge and understanding of:

- Securities
- New issues
- Primary and secondary markets
- Settlement
- Special regulatory requirements
- UK accounting analysis
- Risk and reward

SYLLABUS STRUCTURE

The syllabus is divided into **elements**. These are broken down into sections of **learning objectives**.

Each learning objective begins with the prefix **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 candidates to recall information such as facts, rules and principles

understand – require candidates to demonstrate comprehension of an issue, fact, rule or principle

be able to calculate - require candidates to be able to use formulae or tax rates to perform calculations

be able to apply - require candidates 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

EXAMINATION CONTENT

Candidates are reminded to check the 'Candidate Update' area of the Institute's website (www.cisi.org) on a regular basis for updates that could affect their examination as a result of industry change. You may access this page via the 'Qualifications & Exams' menu and selecting 'Candidate Update'.

EXAMINATION SPECIFICATION

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

It is important to note that the numbers quoted may vary from examination to examination as there is an element of flexibility to ensure that each examination has a consistent level of difficulty. However, the number of questions from each element should not change by more than 2.

	Questions
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TOTAL	100

ASSESSMENT STRUCTURE

A 2 hour examination consisting of 100 multiple choice questions.

Candidates sitting the exam by Computer Based Testing will have, in addition, up to 10% 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 SECURITIES

- 1.1 Shares
- 1.2 Debt instruments
- 1.3 Government Debt
- 1.4 Corporate Debt
- 1.5 Money Markets
- 1.6 Eurobonds
- 1.7 Other securities
- 1.8 Foreign Exchange
- 1.9 Prime brokerage and equity finance

ELEMENT 2 NEW ISSUES

- 2.1 The Primary and Secondary markets
- 2.2 Stock Exchanges
- 2.3 London Stock Exchange
- 2.4 AIM
- 2.5 Listing Securities
- 2.6 Bond offerings
- 2.7 Share capital and changes to share ownership
- 2.8 Corporate Actions

ELEMENT 3 PRIMARY & SECONDARY MARKETS

- 3.1 Methods of Trading and Participants
- 3.2 Transaction Reporting
- 3.3 London Stock Exchange (LSE) – UK Equity
- 3.4 London Stock Exchange International Equity Market
- 3.5 Other Equity Markets
- 3.6 Government Bonds
- 3.7 Corporate Bond Markets
- 3.8 Dealing Methods
- 3.9 Market Data
- 3.10 Regulatory Information and Financial Communications

ELEMENT 4 SETTLEMENT

- 4.1 Settlement

ELEMENT 5 SPECIAL REGULATORY REQUIREMENTS

- 5.1 Takeovers and Mergers
- 5.2 Disclosure of interests
- 5.3 Specific regulations in US, Canada and Japan

ELEMENT 6 ACCOUNTING ANALYSIS

- 6.1 Basic principles
- 6.2 Company Balance Sheets
- 6.3 Income Statement
- 6.4 Cash Flow Statement
- 6.5 Financial Statements Analysis

ELEMENT 7 RISK AND REWARD

- 7.1 Investment management
- 7.2 Institutional Investment Advice

ELEMENT 1 SECURITIES

1.1 Shares

On completion, the candidate should:

1.1.1 *know* the principal features and characteristics of ordinary shares and non-voting shares:

- 'A' ordinary shares
- 'B' shares
- preference shares
- bearer shares
- partly paid shares and calls
- ranking for dividends
- ranking in a liquidation
- voting rights
- purpose of non-voting shares

1.1.2 *understand* the differences and principal characteristics of the following classes of preference shares:

- cumulative
- participating
- redeemable
- convertible

1.1.3 *know* the broad composition and geographical scope and use of the following stock indices :

- DJ STOXX
- FTSE Eurofirst 300
- MSCI World
- FTSE 100
- Dow Jones Industrial Average
- Nikkei Stock 225
- Hang Seng

1.1.4 *understand* the use of a tax credit on a dividend

1.2 Debt instruments

On completion, the candidate should:

1.2.1 *know* the principal features and characteristics of debt instruments

1.2.2 *understand* the uses and limitations of the following:

- flat yield
- gross redemption yield (using internal rate of return)
- net redemption yield
- modified duration
- calculation of price change
- convexity

- 1.2.3 *be able to calculate:*
- simple interest income on corporate debt
 - conversion premiums on convertible bonds
 - flat yield
- 1.2.4 *understand* the concept of spreads and be able to convert spread over a Government benchmark to a LIBOR based spread
- 1.2.5 *understand* the role of the yield curve and the relationship between price and yield with reference to the yield curve (normal and inverted)
- 1.2.6 *be able to calculate* the present value of a bond (maximum 2 years) with annual coupon and interest income

1.3 Government Debt

On completion, the candidate should:

- 1.3.1 *know* the principal features and characteristics of the following classes of government debt:
- short, medium, long dated
 - dual dated
 - undated
- 1.3.2 *understand* the following features and characteristics of government debt:
- redemption price
 - interest payable
 - accrued interest
 - effect of changes in interest rates
- 1.3.3 *understand* the following features and characteristics of index linked debt:
- index-linking
 - the retail price index and index-linking
 - effect of the index on price, interest and redemption
 - return during a period of zero inflation
- 1.3.4 *know* the features and characteristics of French, German, Japanese and US bonds:
- settlement periods
 - coupons
 - terms and maturities

1.4 Corporate Debt

On completion, the candidate should:

- 1.4.1 *understand* the principal features and uses of secured debt:
- fixed charges and floating charges
 - asset backed securities
 - mortgage backed securities
 - securitisation process

- 1.4.2 *understand* the principal features and uses of unsecured debt:
- subordinated
 - guaranteed
 - convertible bonds
- 1.4.3 *understand* the principal features and uses of credit ratings:
- rating agencies
 - impact on price
 - use of credit enhancements
 - difference between investment grade and sub-investment grade bonds
- 1.4.4 *know* the principal features and uses of Commercial Paper
- issuers, including CP Programmes
 - investors
 - discount security
 - unsecured
 - asset backed
 - rating
 - normal life

1.5 Money Markets

On completion, the candidate should:

- 1.5.1 *understand* the features and characteristics of Treasury Bills:
- issuer
 - purpose of issue
 - minimum denomination
 - normal life
 - no coupon and redemption at par
 - redemption
- 1.5.2 *understand* the basic purpose and characteristics of the repo markets
- sale and repurchase at agreed price, rate and date
 - reverse repo – purchase and resale at agreed price and date
 - documentation
 - benefits of the repo market

1.6 Eurobonds

On completion, the candidate should:

- 1.6.1 *understand* the principal features and uses of Eurobonds
- issued through syndicates of international banks
 - concept of continuous pure bearer
 - immobilised in depositories
 - ex-interest date
 - accrued interest
 - interest payments

1.7 Other securities

On completion, the candidate should:

1.7.1 *know* the principal features and characteristics of Depositary Receipts:

- American Depositary Receipts
- Global Depositary Receipts
- transferability
- means of creation including pre-release facility
- how registered
- rights attached
- dividends
- transfer to underlying shares

1.7.2 *know* the rights, uses and differences between warrants and covered warrants

- benefit to the issuing company and purpose
- issuer
- right to subscribe for capital
- affect on price of maturity and the underlying security
- detachability
- exercise and expiry
- the calculation of the conversion premium (discount) on a warrant
(warrant price + exercise price minus the share price)

1.8 Foreign Exchange

On completion, the candidate should:

1.8.1 *know* the principal features and uses of spot, forward and cross rates:

- quotation as bid-offer spreads
- forwards quoted as bid-offer margins against the spot
- quotation of cross rates

1.8.2 *be able to calculate* spot and forward settlement prices using:

- premiums or discounts
- interest rate parity

1.9 Prime brokerage and equity finance

On completion, the candidate should:

1.9.1 *know* the main services provided by an Equity and Fixed Income prime broker, including:

- securities lending and borrowing
- leverage trade execution
- cash management
- core settlement
- custody
- rehypothecation

1.9.2 *know* the use of the main sources of equity financing:

- stock borrowing and lending
- repurchase agreements
- collateralised borrowing
- tri-party repos
- synthetic financing

ELEMENT 2 NEW ISSUES

2.1 The Primary and Secondary markets

On completion the candidate should:

2.1.1 *know* the principal characteristics of, and the differences between, the primary and secondary markets. In particular:

- the role of the listing authority
- users of the primary market and why
- users of the secondary market and why

2.2 Stock Exchanges

On completion the candidate should:

2.2.1 *know* the purpose, role and main features of the major stock exchanges. In particular

- scope
- provision of liquidity
- price formation
- brokers versus dealers
- different types of stock exchanges
 - electronic
 - 'open outcry'
- major exchanges
 - Deutsche Börse
 - London Stock Exchange
 - NASDAQ
 - NYSE Euronext
 - Tokyo Stock Exchange

2.2.2 *know* the role of advisors

- Listing Agent
- Corporate Broker

2.2.3 *know* the Issuer's obligations

- corporate governance
- reporting

2.3 London Stock Exchange

On completion, candidate should:

2.3.1 *know* the regulatory framework for the LSE

- Companies Act
- FSA
- Exchange Rule Book

2.3.2 *know* the admissions criteria for listing

- trading record
- amount raised
- percentage in public hands
- market capitalisation
- payment of a fee

2.4 AIM

On completion, candidate should:

2.4.1 *know* the admissions criteria

- appointment and role of a nominated advisor
- appointment and role of a broker
- transferability of shares
- no minimum shares in public hands
- no trading record required
- no shareholder approval needed
- no minimum market capitalisation

2.4.2 *know* the issuer's obligations

- corporate governance
- reporting

2.4.3 *know* the regulatory framework for AIM

- London Stock Exchange
- AIM Rules
- Companies Act
- FSA

2.5 Listing Securities

On completion, candidate should:

2.5.1 *understand* the role of the Origination Team

2.5.2 *understand* the role of the Syndicate Group

- different roles within a Syndicate
 - bookrunner
 - co-lead
 - co-manager
- marketing and bookbuilding

- 2.5.3 *understand* the purpose and practice of underwriting, rights and responsibilities of the underwriter
- benefits to the issuing company
 - risks and rewards to the underwriter
- 2.5.4 *understand* stabilisation and its purpose:
- governing principles and regulation with regard to stabilisation activity
 - who is involved in stabilisation
 - what does stabilisation achieve
 - benefits to the issuing company and investors
- 2.5.5 *understand* the use of an initial public offering
- why would a company choose an IPO
 - structure of IPO – base deal plus greenshoe
 - stages of an IPO
 - underwritten versus best efforts
- 2.5.6 *understand* the use of follow on offerings
- why would a company choose a follow on offering
 - structure of follow on – base deal plus greenshoe
 - stages of follow on offering
 - underwritten versus best efforts
- 2.5.7 *understand* the use of open offers and offers for subscription
- why would a company choose an open offer
 - structure of offer
 - stages of offer
 - tenders, strike price, who is involved in the offer process
- 2.5.8 *understand* the use of offers for sale
- why would a company choose an offer for sale
 - structure of an offer for sale
 - stages of an offer for sale
 - tenders, strike price, who may receive an allotment, who is involved in the offer process
- 2.5.9 *understand* the use of Introductions
- why would a company undertake an Introduction
 - structure of a introduction
 - stages of a introduction
- 2.5.10 *understand* the use of exchangeable / convertible bond offerings
- the difference between exchangeable and convertible Bonds
 - structure of offering – base deal plus greenshoe
 - stages of offering
 - underwritten versus best efforts

2.6 Bond offerings

On completion, the candidate should:

- 2.6.1 *know* the different types of issuer:
- supranationals
 - governments
 - agency
 - municipal
 - corporate
 - financial institutions & special purpose vehicles
- 2.6.2 *understand* the seniority of debt and how they rank in default:
- senior
 - subordinated
 - mezzanine
 - PIK
- 2.6.3 *understand* the pricing benchmarks:
- spread over government bond benchmark
 - spread over/under LIBOR
 - spread over/under swap
- 2.6.4 *know* the methods of issuance:
- scheduled funding programmes and opportunistic issuance (e.g. MTN)
 - auction/tender
 - reverse inquiry (under MTN)
- 2.6.5 *understand* the role of the Origination team including:
- pitching
 - indicative bid
 - mandate announcement
 - credit rating
 - roadshow
 - listing
 - syndication
- 2.6.6 *understand* methods of raising new capital to finance takeovers:
- follow on offerings
 - rights issues
 - convertible bond offerings

2.7 Share capital and changes to share ownership

On completion, the candidate should:

- 2.7.1 *understand* why are share buybacks undertaken:
- governing regulation
 - resolution at AGM
 - limits on percentage of shares and price
 - use of company's own money
 - key aspects of share buybacks – criteria to comply with
 - different structures regarding block trades
 - accelerated bookbuild – best efforts basis
 - accelerated bookbuild – back stop price
 - bought deal
- 2.7.2 *understand* how and why stake building is used:
- strategic versus acquisition
 - direct versus indirect
 - direct – outright purchase, i.e. dawn raid
 - indirect – CFDs
 - disclosure thresholds, including mandatory takeover threshold

2.8 Corporate Actions

On completion, the candidate should:

- 2.8.1 *understand* the use of rights issues
- reasons for a rights issue
 - structure of rights issue
 - stages of rights issue
 - impact of a rights issue on share price
 - pre-emptive rights
 - ability to sell nil paid
- 2.8.2 *understand* the use of scrip (also known as bonus or capitalisation) issues
- why a company will undertake a scrip issue
 - impact on share price
 - effect on earnings per share

ELEMENT 3 PRIMARY & SECONDARY MARKETS

3.1 Methods of Trading and Participants

On completion, the candidate should:

- 3.1.1 *understand* the differences between quote driven and order driven markets and how they operate
- 3.1.2 *know* the functions and obligations of:
- market makers
 - broker dealers
 - inter dealer brokers
 - stock lending and borrowing intermediaries

3.2 Transaction Reporting

On completion, the candidate should:

- 3.2.1 *understand* the definition of a reportable transaction
- 3.2.2 *understand* the role and purpose of transaction reporting for the firm and the regulator.
- 3.2.3 *know* which party to a transaction is responsible for reporting including transactions carried out by overseas branches
- 3.2.4 *know* the reporting channels and systems

3.3 London Stock Exchange (LSE) – UK Equity

On completion, the candidate should:

- 3.3.1 *understand* the rules, procedures and requirements applying to dealing through the Stock Exchange Electronic Trading System (SETS) in the following areas:
 - order book features
 - order management
 - worked principal agreements
 - limitations and benefits of trading through SETS
- 3.3.2 *understand* the following order types and their differences
 - limit
 - at best
 - fill or kill
 - execute and eliminate
 - iceberg
 - multiple fills
- 3.3.3 *understand* the operation and purpose of the LSE's Central Counterparty
 - LCH.Clearnet Limited
 - x-clear
 - benefits and any limitations
- 3.3.4 *know* the LSE's right to call for a halt in trading in any listed security
 - for any reason
 - length of trading halt
- 3.3.5 *know* the features and requirements of SETSqx dealing
 - SETSqx as an order driven trading system
 - relative illiquidity
 - securities covered
 - normal market size (NMS)
 - minimum number of market makers

3.4 London Stock Exchange International Equity Market

On completion, the candidate should:

- 3.4.1 *understand* the rules, procedures and requirements applying to dealing through the International Order Book (IOB) in the following areas:
- securities covered
 - minimum and maximum trading sizes
 - who can access the IOB
- 3.4.2 *understand* the rules, procedures and requirements applying to dealing through the International Bulletin Board (ITBB) in the following areas
- market makers' obligations
 - when to enter two way prices
 - price quotes during and outside the mandatory quote period
 - who can access the ITBB
- 3.4.3 *understand* the purpose of and firms' obligations towards the International Retail Service (IRS):
- purpose of the IRS
 - "Committed Principals"
 - Mandatory Quote Period for most European stocks
 - currency of quotation

3.5 Other Equity Markets

On completion, the candidate should:

- 3.5.1 *understand* the rules, procedures and requirements of trading securities on PLUS:
- Recognised Investment Exchange
 - securities covered
 - PLUS listed
 - PLUS quoted
 - PLUS traded – listed or unlisted
- 3.5.2 *know* the functions of SWX Europe as an alternative exchange trading facility for listed company shares
- how trading on SWX Europe compares with trading on the LSE
 - order priority
 - portfolio trades
 - cross border trading
 - real time trading in major European indices
 - competitors
 - the trading system used

3.6 Government Bonds

On completion, the candidate should:

- 3.6.1 *understand* the basic characteristics and purpose of government bond markets in the UK, US, Japan and the Eurozone:
- ratings and the concept of 'risk free'
 - currency, credit and inflation risks
 - inflation indexed bonds
- 3.6.2 *know* the functions, obligations and benefits of the following in relation to government bonds:
- primary dealers
 - broker dealers
 - inter dealer brokers
 - Government issuing authority such as the UK Debt Management Office
- 3.6.3 *know* the basic purpose and characteristics of the strip market
- result of stripping a bond
 - number of securities possible from a strippable bond
 - zero coupon securities
- 3.6.4 *understand* the broad mechanisms by which bond prices are driven by bond future prices

3.7 Corporate Bond Markets

On completion, the candidate should:

- 3.7.1 *understand* the characteristics of corporate bond markets:
- decentralised dealer markets and dealer provision of liquidity
 - the impact of default risk on prices
 - the differences between bond and equity markets
 - dealers rather than market makers
 - bond pools of liquidity versus centralised equity exchange

3.8 Dealing Methods

On completion, the candidate should:

- 3.8.1 *know* the different trading methods for bonds:
- bond trading has moved from voice trading (ie by telephone) to e-trading using systems such as:
 - OTC inter-dealer voice trading (e.g. direct dealer to dealer, dealer to dealer via voice broker)
 - inter-dealer (B2B) electronic market (e.g. electronic trading platforms (ETPs) such as MTS, Brokertec)
 - OTC customer to dealer voice trading
 - customer to dealer (B2C) electronic market (e.g. ETPs such as TradeWeb, BondVision, proprietary Single Dealer Platform (SDP))
 - On Exchange trading

- 3.8.2 *understand* the different trends between trading methods:
- electronic methods characterised by the efficient trading of high liquidity and/or commoditised assets:
 - government and agency
 - debt and liquid corporate debt
 - price driven via Inter-dealer brokers (IDB) – dealer to dealer
 - request for quote (RFQ) –customer to dealer
 - OTC methods characterised by trading in lower liquidity or higher volatility classes, or trades of unusual size:
 - high yield
 - ABS
 - emerging markets

- 3.8.3 *know* the factors that influence bond pricing:
- Issuer factors
 - yield to maturity
 - seniority
 - structure
 - technical factors
 - credit rating
 - specific issuer prospects
 - default risk
 - liquidity
 - benchmark bonds
 - market factors
 - benchmark bonds
 - liquidity premiums for highly-traded bond issues
 - indicative pricing versus firm two-way quotes
 - bid/offer spreads
 - availability of a liquid repo market and the difficulty in offering illiquid bonds
 - inability to borrow or cover shorts
 - impact of interest rates

- 3.8.4 *know* the different quotation methods (i.e yield, spread, price) and the circumstances in which they are used

3.9 Market Data

On completion, the candidate should:

- 3.9.1 *understand* the relationship between inflation and interest rate expectations
- 3.9.2 *understand* how interest rates impact securities pricing

3.10 Regulatory Information and Financial Communications

On completion, the candidate should:

- 3.10.1 *know* the main sources of regulatory information and financial communications within UK equity
- RNS, PIPS & SIPS
 - Bloomberg, Reuters
 - analyst research
 - web sites: FSA, LSE, EU (Europa, CESR)

ELEMENT 4 SETTLEMENT

4.1 Settlement

On completion, the candidate should:

- 4.1.1 *know* the principal details of settlement in UK, EU, USA and Japan
- DVP
 - free delivery
 - trade confirmation
 - settlement periods
 - instruments settled
 - settlement systems
 - Euroclear UK & Ireland
 - LCH.Clearnet
 - Clearstream
 - DTCC
 - Jasdec
- 4.1.2 *understand* the implications of registered title
- registered title versus unregistered (bearer)
 - legal title
 - beneficial interest
 - voting rights
 - right to participate in corporate actions
- 4.1.3 *understand* the effect of designated and pooled nominee accounts on shareholder rights
- 4.1.4 *know* which securities may be subject to UK stamp duty/SDRT
- 4.1.5 *know* which transactions are exempt UK stamp duty

4.1.6 *understand* the concepts, requirements, benefits and disadvantages of deals executed cum, ex, special cum and special ex:

- timetable
- effect of deals on the underlying right
- effect on the share price before and after a dividend
- the meaning of 'books closed', 'ex-div' and 'cum div', cum and ex rights
- effect of late registration
- benefits that may be achieved
- disadvantages / risks
- when dealing is permitted

4.1.7 *understand* what Continuous Linked Settlement (CLS) is and its purpose:

- the settlement of currencies across time zones
- receiving and matching instructions
- advantages
- how it reduces settlement risk

ELEMENT 5 SPECIAL REGULATORY REQUIREMENTS

5.1 Takeovers and Mergers

On completion, the candidate should:

5.1.1 *know* the implications of the EU Takeover Directive:

- that some countries continue with their own rules as minimum standards and that takeover rules vary between states
- application to all EU companies trading on an EU regulated market
- requirement for a designated supervisory authority and scope for shared supervision
- general principles of the Directive (Art. 3)
- consequences of a mandatory bid and different mandatory bid thresholds
- publication of information on the bid (Articles 6 and 10)

5.1.2 *know* the legal nature and purpose of the UK Takeover Code (section 2 of the Introduction); the six General Principles; the definitions of "acting in concert", "dealings", "interest in shares" and "relevant securities"

5.2 Disclosure of interests

On completion, the candidate should:

- 5.2.1 *understand* the principles behind disclosure of interest rules and why they are required
- 5.2.2 *know* the following disclosure of interest rules:
- EU under the Transparency Directive:
 - the disclosure thresholds
 - to whom disclosure has to be made and within what time scale
 - differing implementation of the Transparency Directive across EEA countries
 - US Securities and Exchange Commission:
 - the disclosure thresholds
 - to whom disclosure has to be made and within what time scale
 - UK under the Companies Act 2006, Section 793, in relation to company investigations

5.3 Specific regulations in US, Canada and Japan

On completion, the candidate should:

- 5.3.1 *know* that these markets restrict the promotion and sale of foreign equity
- 5.3.2 *know* that foreign dealer-brokers must be registered with the local regulator in these markets before they can disseminate research

ELEMENT 6 ACCOUNTING ANALYSIS

6.1 Basic principles

On completion the candidate should:

- 6.1.1 *understand* the purpose of financial statements
- 6.1.2 *understand* the requirements for companies and groups to prepare accounts in accordance with applicable accounting standards.
- accounting principles
 - International Financial Reporting Standards (IFRS)
 - IAS
- 6.1.3 *understand* the differences between group accounts and company accounts and why companies are required to prepare group accounts. (Candidates should understand the concept of goodwill and minority interests but will not be required to calculate them).

6.2 Company Balance Sheets

On completion the candidate should:

- 6.2.1 *know* the purpose of the balance sheet, its format and main contents,
- 6.2.2 *understand* the concept of depreciation and amortisation
- 6.2.3 *understand* the difference between authorised and issued share capital, capital reserves and revenue reserves
- 6.2.4 *know* how loans and indebtedness are included within a balance sheet

6.3 Income Statement

On completion the candidate should:

- 6.3.1 *know* the purpose of the income statement, its format and main contents
- 6.3.2 *understand* the difference between capital and revenue expenditure

6.4 Cash Flow Statement

On completion the candidate should:

- 6.4.1 *know* the purpose of the cash flow statement, its format as set out in IAS 7
- 6.4.2 *understand* the difference between profit and cash and their impact on the long term future of the business
- 6.4.3 *understand* the purpose of free cash flow and the difference between enterprise cash flow and equity cash flow

6.5 Financial Statements Analysis

On completion the candidate should:

- 6.5.1 *understand* the following key ratios:
 - profitability ratios (gross profit and operating profit margins)
 - return on capital employed
- 6.5.2 *understand* the following financial gearing ratios:
 - investors' debt to equity ratio
 - net debt to equity ratio
 - interest cover
- 6.5.3 *understand* the following investors' ratios:
 - earnings per share
 - diluted earnings per share
 - price earnings ratio (both historic and prospective)
 - enterprise value to EBIT
 - enterprise value to EBITDA
 - net dividend yield
 - net dividend cover

- 6.5.4 *be able to calculate* the following investors' ratios:
- earnings per share
 - diluted earnings per share
 - price earnings ratio (both historic and prospective)
 - net dividend yield
 - net dividend cover
 - corporation tax

ELEMENT 7 RISK AND REWARD

7.1 Investment management

On completion, the candidate should:

- 7.1.1 *understand* the risk and reward of investment in equities:
- risk/reward profile
 - effect of longer term
 - can offer income and capital appreciation
- 7.1.2 *understand* the risk and reward of investment in money market instruments:
- risk/reward profile
 - use as short term investment
- 7.1.3 *understand* the risk/reward profile of investment in debt (fixed interest, floating rate and index linked):
- compared to equities
 - effect of holding to maturity
 - can combine low risk and certain return
 - can provide a fixed income
 - inflation risk
 - interest rate risk
 - default risk
- 7.1.4 *understand* risk/reward profile of investment in overseas shares and debt:
- country risk
 - exchange rate risk
- 7.1.5 *understand* the risks facing the investor:
- specific / unsystematic
 - market / systematic
- 7.1.6 *understand* how to optimise the risk/reward relationship through the use of:
- correlation
 - diversification
- 7.1.7 *know* the role of hedging in the management of investment risk

7.2 Institutional Investment Advice

On completion, the candidate should:

7.2.1 *know* the differences between institutional client profiles including:

- pension funds,
- life and general insurance funds,
- hedge funds,
- regulated mutual funds
- banks