



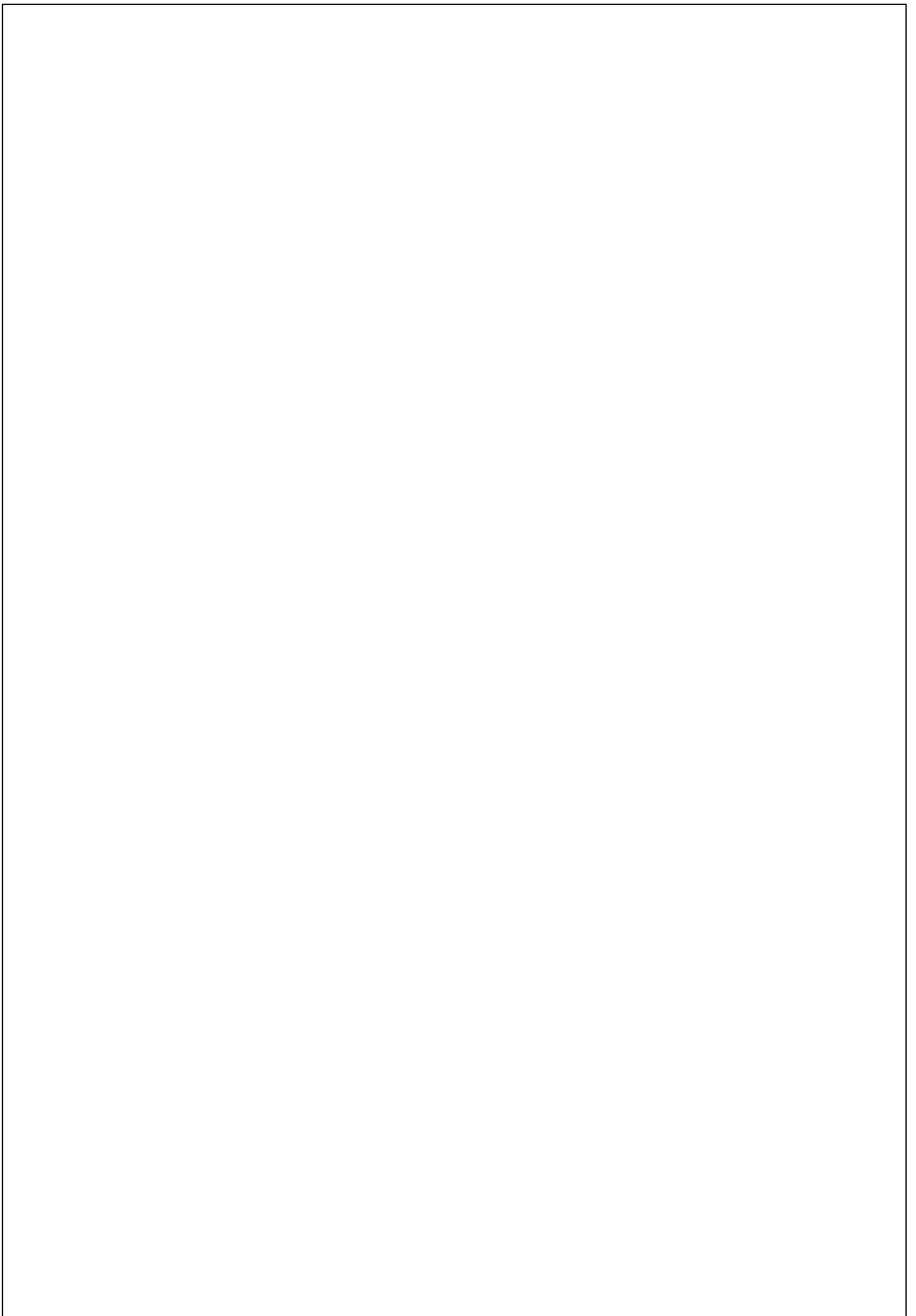
**CHARTERED INSTITUTE FOR
SECURITIES & INVESTMENT**

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

**LEVEL 3
CERTIFICATE IN INVESTMENTS**

**UNIT 8
INVESTMENT & RISK**

EFFECTIVE FROM SEPTEMBER 2009



OBJECTIVE OF THE EXAMINATION

The object of the examination is to ensure candidates have a knowledge and understanding of how to analyse client's circumstances and apply suitable investment product recommendations to meet the client's needs.

The examination will test candidates' knowledge and understanding of the following elements:

- The economic environment and the macro-economic context of financial advice
- The main asset classes and their characteristics
- The main investment products and their characteristics
- The characteristics, uses and benefits of collective schemes for offshore investment
- The role of ethical and socially responsible investment
- Investment returns and risk measurement
- The principles of taxation in the UK
- The investor's risk profile
- To test candidates' ability to analyse clients' circumstances and apply suitable investment product recommendations to meet clients' needs

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
- *be able to analyse* require the candidate to review information content in detail and draw conclusions

CANDIDATE UPDATE

Candidates are reminded to check the 'Candidate Update' area of the Institute's website (www.sii.org.uk) 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. However, the number of questions tested in each element should not change by more than plus or minus 2.

Examination specification 60 multiple choice questions		
Element number	Element	Questions
1	Macro-Economic Factors that affect Investment Returns	5
2	Asset Classes and Investment Vehicles	12
3	The Role of Ethical and Socially Responsible Investment Advice	3
4	The Process of Financial Advice	4
5	Principles of Taxation for UK Resident and Domiciled Individuals	13
6	Investment Risk	12
7	Investment Advice	11
Total		60

ASSESSMENT STRUCTURE

A 1½ hour examination comprising 60 questions which will include 5 Application and 5 Analysis multiple choice questions.

Candidates sitting the examination by Computer Based Testing may have, in addition, a small number of 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 MACRO-ECONOMIC FACTORS THAT AFFECT INVESTMENT RETURNS

- 1.1 Socio-economic trends
- 1.2 The role of the government in the economy
- 1.3 The role of investment in the economy

ELEMENT 2 ASSET CLASSES AND INVESTMENT VEHICLES

- 2.1 Cash deposits
- 2.2 Government securities and corporate bonds
- 2.3 Equities
- 2.4 Property – residential and commercial
- 2.5 Collective investments
- 2.6 Specialist funds
- 2.7 UK onshore and offshore life assurance company products
- 2.8 Alternative (Specialist) Investments

ELEMENT 3 THE ROLE OF ETHICAL AND SOCIALLY RESPONSIBLE INVESTMENT ADVICE

- 3.1 Ethical and socially responsible investment
- 3.2 Islamic Finance
- 3.3 Faith Based Investment Products
- 3.4 Investment for Charities

ELEMENT 4 THE PROCESS OF FINANCIAL ADVICE

- 4.1 The main financial advice areas

ELEMENT 5 PRINCIPLES OF TAXATION FOR UK RESIDENT AND DOMICILED INDIVIDUALS

- 5.1 Income Tax
- 5.2 Capital Gains Tax (CGT)
- 5.3 Inheritance Tax (IHT)
- 5.4 Corporation Tax
- 5.5 Stamp duty
- 5.6 Other taxation issues
- 5.7 Taxation of investment income
- 5.8 Tax wrappers
- 5.9 Tax planning strategies

ELEMENT 6 INVESTMENT RISK

- 6.1 Investment returns and risk measurement
- 6.2 The risks faced by investors and how to determine an investor's risk profile

ELEMENT 7 INVESTMENT ADVICE

- 7.1 Portfolio Construction and Measurement
- 7.2 Other issues affecting investment planning
- 7.3 Clients' circumstances and suitable investment products, taking account of existing arrangements
- 7.4 Suitable investment product solutions to specific clients' circumstances

ELEMENT 1 MACRO-ECONOMIC FACTORS THAT AFFECT INVESTMENT RETURNS

1.1 Socio-economic trends

On completion, the candidate should:

1.1.1 *understand* the main long-term UK trends and the effects of:

- ageing population
- rising living standards
- growth of the service sector
- changing patterns of the economy
- productivity of capital and labour
- wealth and income distribution
- technological changes/advancements

1.1.2 *understand* global trends and the impacts of:

- international markets
- globalisation of business and finance
- impacts of technology

1.2 The role of the government in the economy

On completion, the candidate should:

1.2.1 *know* the role of government and central banks in fiscal and monetary policy

- interest rate setting process
- money market operations
- fiscal easing
- other interventions

1.2.2 *understand* how the money supply affects:

- inflation
- deflation
- disinflation
- interest rates
- relationship between money supply, inflation and employment

1.2.3 *understand* the importance of the balance of payments to the:

- capital and current accounts
- exchange rates

1.3 The role of investment in the economy

On completion, the candidate should:

1.3.1 *understand* the main stages of economic, financial and stock market cycles, including:

- national income
- global influences
- long term growth trends

1.3.2 *understand* the role of financial investment in the economy:

- Primary markets as introducers of new funds to business and government
- Secondary markets enabling investors to adjust investments to meet individual needs

1.3.3 *understand* the use of key economic indicators:

- Gross Domestic Product
- inflation indices
- Public Sector Net Cash Requirement
- volume of fixed investment
- volume of consumer spending
- balance of payments
- money stock
- foreign exchange rates
- base rates
- bond yields
- stock market indices

ELEMENT 2 ASSET CLASSES AND INVESTMENT VEHICLES

2.1 Cash deposits

On completion, the candidate should:

2.1.1 *understand* the characteristics of cash deposits:

- liquidity
- rates of interest
- past returns
- real returns
- deposit takers
- statutory protection
- risk
- foreign currency deposits

2.1.2 *know* the main types of deposit account:

- current
- instant access
- national savings and investment products
- notice
- fixed rate
- term
- money market

2.1.3 *know* the main characteristics, risks and returns of money market funds

- cash assets only
- near cash assets

2.2 Government securities and corporate bonds

On completion, the candidate should:

2.2.1 *understand* the main characteristics, risks and returns of bonds and bond funds

2.2.2 *understand* the investment returns on debt securities:

- running yields
- capital returns
- yields to redemption
- volatility and risk
- yield curves

2.2.3 *understand* the characteristics, risk and past performance:

- liquidity
- rates of interest
- real returns
- issuing institutions
- credit ratings
- credit enhancements

2.2.4 *understand* the factors that should be taken into account when selecting bonds and bond funds:

- main bond strategies
- indirect investment
- investing in bonds through funds
- advantages and disadvantages of investing in bonds

2.2.5 *understand* dealing and settlement of debt securities:

- cost of purchase and sale
- coupon
- nominal value
- market price
- clean and dirty prices
- redemption date

2.3 Equities

On completion, the candidate should:

2.3.1 *know* the main types of shares:

- ordinary
- A & B shares
- non-voting shares
- preference shares

2.3.2 *understand* that shares can be listed, quoted or unquoted, but that not all listed shares are admitted to trading

2.3.3 *understand* the factors that affect share values:

- demand and supply
- liquidity
- impact of corporate actions
- liquidation
- market conditions

2.3.4 *understand* performance measurements of shares:

- price earnings ratio (PE)
- earnings per share
- dividend yield
- dividend cover
- borrowings
- net asset value per share
- past performance

2.3.5 *understand* the investment returns on shares:

- dividends
- capital gains

2.3.6 *understand* the characteristics, risk and past performance:

- liquidity
- growth
- volatility
- issuing institutions
- UK and overseas markets
- unquoted shares

2.3.7 *know* the factors that should be taken into account when selecting equities and equity funds

2.3.8 *understand* the dealing and settlement of equities, including:

- liquidity
- cost of purchase and sale
- nominal value
- market price
- cum and ex dividend

2.3.9 *understand* the main features and uses of derivatives in equity investment:

- warrants
- contracts for differences
- futures
- options
- structured products

2.4 Property – residential and commercial

On completion, the candidate should:

2.4.1 *understand* the characteristics, risk and returns of commercial and residential property:

2.4.2 *understand* the use of indirect property investment vehicles:

- unit trusts
- OEICs
- property shares
- life assurance property bonds
- offshore funds
- Real Estate Investment Trusts (REITs)
- investment trusts
- limited partnerships
- fund of funds

2.5 Collective investments

On completion, the candidate should:

2.5.1 *understand* the common investment characteristics of funds, the main differences and relative merits of direct investment versus investment in funds

2.5.2 *understand* the uses and benefits of collective investment schemes:

- open-ended investment companies (OEICs)
- investment companies with variable capital
- unit trusts
- UCITS (Undertakings for Collective Investment in Transferable Securities) III registered funds
- multi-manger funds
- close ended funds
- exchange-traded funds
- Real Estate Investment Trusts (REITs)
- SICAV
- FCP

2.5.3 *understand* the charges and pricing of collective investments:

- Initial, annual, exit and performance fee charging structures
- single pricing
- bid/offer pricing
- dilution levies
- forward pricing
- premiums
- discounts

2.5.4 *understand* when and why borrowing/gearing is used by funds and the benefits and risks associated with it.

2.6 Specialist funds

On completion, the candidate should:

2.6.1 *know* the main types of specialist funds:

- venture capital trusts
- hedge funds
- private equity

2.6.2 *understand* the structure of the main types of private equity funds and private venture funds:

- tax characteristics
- past performance in terms of risk and returns
- discounts
- premiums

2.6.3 *understand* the structure of hedge funds including:

- main types of hedge fund
- regulatory environment
- investment risk
- use of short and long positions
- custody and safe keeping practices
- limitations in respect of voting capital
- funds of hedge funds (FOH)

2.6.4 *understand* the structure of multi manager funds

2.6.5 *understand* the characteristics, risk and returns of retail structured products and investment notes

2.7 UK onshore and offshore life assurance company products

On completion, the candidate should:

2.7.1 *know* the main types of onshore investment bonds:

- unit linked
- with profit bonds
- single premium bonds
- with profit bonds
- distribution bonds

2.7.2 *know* the main classes of single-premium offshore bonds:

- portfolio bonds
- capital redemption bonds

2.7.3 *understand* the impact of the Policy Holder Protection Act 1997

2.8 Alternative (Specialist) Investments

On completion, the candidate should:

2.8.1 *understand* how exposure to alternative investments can be achieved through indirect investment vehicles and the risks, returns and past performance:

- Gold and other metals
- Commodities
- Art
- Antiques

ELEMENT 3 THE ROLE OF ETHICAL AND SOCIALLY RESPONSIBLE INVESTMENT ADVICE

3.1 Ethical and socially responsible investment

On completion, the candidate should:

3.1.1 *know* the main types of ethical and socially responsible investment strategies

3.1.2 *know* the main types of ethical and social governance issues

3.2 Islamic Finance

On completion, the candidate should:

3.2.1 *know* the main considerations for investing in accordance with Sharia'a Law

3.3 Faith Based Investment Products

On completion, the candidate should:

3.3.1 *know* the main considerations for investing in accordance with other faith values

3.4 Investment for Charities

On completion, the candidate should:

3.4.1 *know* the main considerations that should be taken into account when investing for charities

ELEMENT 4 THE PROCESS OF FINANCIAL ADVICE

4.1 The main financial advice areas

On completion, the candidate should:

4.1.1 *understand* the main financial advice areas:

- budgeting
- borrowing
- protection
- retirement planning
- investment and saving
- estate planning
- tax planning

4.1.2 *understand* the process of giving financial advice, including the importance of regular reviews of the client's circumstances:

- The nature of the client relationship, confidentiality, trust and client protection
- The information required from clients and methods of obtaining it
- The importance of monitoring and review of clients' circumstances
- The information clients must be given under the current regulatory requirements

4.1.3 *understand* how financial advice can be paid for:

- fees
- commission
- the service to be provided (one off versus ongoing review)

4.1.4 *understand* the six outcomes of treating customers fairly

4.1.5 *understand* the basic legal concepts relevant in financial advice:

- legal persons – individuals, wills, intestacy, personal representatives (and administration of estates), trustees, companies, limited liability partnerships
- contract, capacity
- agency
- real property, personal property and joint ownership
- powers of attorney, receiverships and managing the donor's affairs.
- insolvency and bankruptcy

ELEMENT 5 PRINCIPLES OF TAXATION FOR UK RESIDENT AND DOMICILED INDIVIDUALS

5.1 Income Tax

On completion, the candidate should:

5.1.1 *understand* how a private individual's income tax liability is determined using:

- tax rates
- tax rate bands
- personal allowances

5.2 Capital Gains Tax (CGT)

On completion, the candidate should:

5.2.1 *understand* the application of Capital Gains Tax in respect of:

- individuals
- trusts
- charities

5.2.2 *understand* the application of CGT to the sale of assets, such as:

- shares
- government bonds
- corporate bonds
- real estate
- chattels

5.3 Inheritance Tax (IHT)

On completion, the candidate should:

5.3.1 *understand* the application of inheritance tax:

- chargeable transfers
- potential exempt transfers
- transfers on death
- nil rate band
- exemptions and reliefs
- gifts with reservation
- valuation of assets
- deed of variation

5.3.2 *understand* how intestacy rules may apply in England

5.4 Corporation Tax

On completion, the candidate should:

- 5.4.1 *understand* how corporation tax is charged
- 5.4.2 *know* that different rates of corporation tax may apply
- 5.4.3 *know* that capital allowances may apply
- 5.4.4 *know* the taxation of franked income

5.5 Stamp duty

On completion, the candidate should:

- 5.5.1 *understand* the application of Stamp Duty and Stamp Duty Reserve Tax to the purchase of securities, including:
 - company shares
 - share options
 - unit trust units
 - government bonds
 - corporate bonds
- 5.5.2 *understand* the application of Stamp Duty Land Tax to the purchase of property

5.6 Other taxation issues

On completion, the candidate should:

- 5.6.1 *know* the implications of residency and domicile
- 5.6.2 *understand* the use of double taxation treaties

5.6.3 *understand* how withholding tax is applied based on:

- residency
- product
- tax regime (at source or reclaimable)
- beneficiary
- European Savings Directive
- Qualified Intermediaries Scheme

5.7 Taxation of investment income

On completion, the candidate should:

5.7.1 *understand* the tax treatment of investment income:

- cash type assets
- debt securities
- shares

5.7.2 *understand* the tax treatment within the fund and for UK investors of income arising from collective investments:

- open-ended investment companies (OEICs)
- investment companies with variable capital
- unit trusts
- investment trusts
- exchange-traded funds
- real estate investment trusts (REITs)

5.7.3 *understand* the tax treatment of rental income from property

5.7.4 *understand* the tax treatment of UK investors investing in offshore funds, including:

- differences between distributor and non-distributor offshore funds
- taxation of offshore funds

5.8 Tax wrappers

5.8.1 *understand* the use of the main types of tax wrappers:

- ISAs
- Child Trust Funds (CTFs)
- Investment Bond
- Venture Capital Trusts (VCT)
- Enterprise Investment Scheme (EIS)
- Personal Pension Plans (PPPs)
- Small Self-Administered Schemes (SSAs)

5.8.2 *understand* the structure and components of tax wrappers:

- annual investment limits
- eligible investments
 - cash
 - shares & bonds
 - property
 - life assurance
- ineligible investment
- restrictions on investments

5.8.3 *know* the restrictions in terms of age, residence and transfer rights

5.9 Tax planning strategies

On completion, the candidate should:

5.9.1 *understand* basic investment tax planning:

- use of personal allowances
- spouses' personal allowances
- children's tax position
- pension contributions
- use of tax wrappers
- use of capital gains tax exemptions
- tax deferral
- use of life assurance bonds

5.9.2 *understand* the criteria for selecting a tax planning strategy

5.9.3 *understand* the legal requirements applying to confidentiality and disclosure of personal tax information

ELEMENT 6 INVESTMENT RISK

6.1 Investment returns and risk measurement

On completion, the candidate should:

6.1.1 *understand* inflation and investment returns:

- nominal returns
- real returns
- total returns

6.1.2 *understand* the effects of compound interest

6.1.3 *understand* the time value of money

6.1.4 *understand* that investment returns from the main asset classes vary by their risk premiums in relation to the risk-free rate

6.1.5 *understand* the principle of measuring risk using standard deviation; volatility; benchmarks

6.1.6 *understand* how holding period return can be used in risk measurement

6.1.7 *understand* the significance of beta and alpha and Key Investor Ratios

6.1.8 *understand* the concept of correlation of performance between asset classes

6.1.9 *understand* how benchmarking can be used in risk measurement

6.1.10 *understand* investment portfolio planning and how to reduce risk through diversification:

- systematic risk
- non-systematic risk
- sectors
- markets
- asset classes

6.1.11 *understand* the measurement and evaluation of performance

6.2 The risks faced by investors and how to determine an investor's risk profile

On completion, the candidate should:

6.2.1 *understand* the main types of risk and the implications for investors:

- capital risk
- income risk
- domestic and foreign currency risk
- inflation risk
- interest rate risk
- issuer risk

6.2.2 *understand* how to determine an investor profile using objective factors:

- level of wealth
- timescale
- commitments
- life cycle
- life goals
- investment objectives

6.2.3 *understand* how to determine an investor risk profile using subjective factors:

- attitudes
- experiences
- knowledge

6.2.4 *understand* types of risk classification and their impact on investment selection

ELEMENT 7 INVESTMENT ADVICE

7.1 Portfolio Construction and Measurement

On completion, the candidate should:

7.1.1 *understand* market behaviour:

- market fluctuations
- fundamental analysis
- market psychology

7.1.2 *understand* the importance of asset allocation:

- achieving performance objectives
- reducing risk
- need for review
- difference between active and passive management
- top down versus bottom up active management
- implications of the various investment styles on portfolio risk and return, ethical, environmental and socially responsible investment

7.1.3 *understand the factors influencing the choice of benchmark and the basis for review*

- portfolio's asset allocation
- risk/return profile
- alternative investments
- taxation
- peer groups
- maintenance of capital value

7.1.4 *understand* the difference between active and passive investment management

7.2 Other issues affecting investment planning

On completion, the candidate should:

7.2.1 *understand* how to compare charges, analysing their impact and relevance, reduction in yield and total expense ratios

7.2.2 *understand* the relationship between investing and borrowing

7.2.3 *be able to calculate* the advantage of paying off mortgage or borrowings as against making investments

7.3 Clients' circumstances and suitable investment products, taking account of existing arrangements

On completion, the candidate should:

- 7.3.1 *Be able to analyse* factors shaping clients' circumstances
- 7.3.2 *understand* how to identify and analyse risk appetite and exposure
- 7.3.3 *understand* how to assess affordability and suitability, including product providers, performance, charges and client service
- 7.3.4 *be able to apply* methods of identifying and reviewing suitable product solutions
- 7.3.5 *be able to analyse* how new solutions impact on existing arrangements

7.4 Suitable investment product solutions to specific clients' circumstances

On completion, the candidate should:

- 7.4.1 *be able to apply* the range of solutions available to suit different types of circumstance
- 7.4.2 *be able to apply* the criteria for matching solutions to client needs and demands
- 7.4.3 *understand* the factors which influence the way in which recommendations are presented
- 7.4.4 *understand* how to check clients' understanding of recommendations
- 7.4.5 *be able to apply* consumer rights and the regulatory requirements to the provision of investment advice