

From June 2007

AIM

To ensure that students are qualified to conduct business either as an Agent or as a Principal in Government Bonds and other Fixed Interest Securities in the UK.

OBJECTIVES

Students should be able to demonstrate:

- i) Knowledge of the form and structure of fixed interest, inflation linked and floating rate securities.
- ii) An understanding of the effect of economic, political and related factors on fixed income markets internationally.
- iii) An understanding of and ability to apply the various methods of analysing, valuing and constructing securities and portfolios.
- iv) Knowledge of related derivative instruments and their use in the management of exposure and risk.
- v) An understanding of the roles and characteristics of the various participants in the markets and the suitability of specific forms of instrument to them.
- vi) Detailed knowledge of the UK, US, and Euro government securities markets and an understanding of the practices and conventions in the Japanese Government securities markets.
- vii) Detailed knowledge of the sterling bond markets.
- viii) Broad knowledge of the structure and workings of the international securities market (Eurobond market), but limited to the UK in respect of the role of regulatory authorities and legal considerations for construction and issuance of securities.
- ix) Broad knowledge of securitisation and structuring techniques
- x) Broad knowledge of Money Markets
- xi) Knowledge of current market terminology, structured securities and recent market developments.

ASSESSMENT STRUCTURE

A 3-hour paper divided into three sections:

SECTION A: This section seeks to establish the factual knowledge and basic ability of the student. It may contain elementary calculations. A number of compulsory short answer questions covering the whole syllabus. This section will carry 45% of the marks.

SECTION B: This section seeks to establish the ability of the student to comprehend and apply the syllabus studied. It may contain more advanced calculations. One or more compulsory questions will carry 25% of the marks.

SECTION C: This section enables students to demonstrate the depth and breadth of their comprehension and application of the syllabus material. There will be four essay questions, of which two are to be answered. This section will carry 30% of the marks.

NOTE: Where examples are listed in this syllabus, such lists should not be regarded as exhaustive.

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1. Economics

Students should have a broad understanding and knowledge of international and domestic affairs which impact upon financial markets. This would include current levels of yields and exchange rates and, for those markets for which detailed knowledge is required, a thorough knowledge of current concerns in the marketplace. Taxation might be an example of this latter point. Students should possess a broad understanding of the principal theories of economic and financial behaviour. For example purchasing power parity, capital asset price and arbitrage price theories.

Students should be familiar with the operations and responsibilities of central banks and national treasuries in the management of the economy and, for those markets for which detailed knowledge is required, possess knowledge of operations to manage monetary and fiscal policy. Knowledge is also required of the influence of supranational institutions such as the IMF, BIS and EU.

Students should possess an understanding of the relevance of economic statistics, such as those listed below and for detailed knowledge markets, be capable of criticising the use of such data, for example, on seasonal, cyclical or revision considerations. For detailed knowledge markets, students should be aware of current levels and recent trends in, for example:

- Monetary and credit aggregates
- Balance of payments
- Indicators of economic growth
- Inflation/price indices

Students should be aware of the relevance of domestic and international capital flows for capital market prices. For detailed knowledge markets, students should be aware of current market conditions and recent trends.

While historic analogy may be useful to illustrate or explain some of these subjects, no knowledge of affairs more than two years prior to the examination will be required. Knowledge of money markets will be limited to the activities of the authorities in the management of interest rate, exchange rate and monetary policy and implications for prices of securities and financing of positions.

Students should be able to demonstrate that they are capable of conducting further research into market behaviour. For example, they should be aware of information and data sources.

2. Form and Structure of Securities and Related Derivatives

Students should be familiar with the form and structure of fixed income securities.

Accrual Conventions

Conventional

Index-linked

Zero coupon

Convertible

Floating rate

Asset-backed

Structured Bonds

Synthetic e.g. strips

Security

Covenants

Negative pledge

Charges and liens

Events of default

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Sinking funds
Purchase funds
Call features
Embedded options
Bearer/Registered
Type of documentation
Listing

Students should be familiar with the form and structure of British Government Bond Futures (both Sterling and Euro). They should have abroad knowledge of other bond-related derivatives:

Futures
Options
Warrants
Credit Derivatives
Interest rate and Currency Swaps
Financial Guarantors

Structured securities eg
Collateralised Debt Obligations (CDO's)
Collateralised Bond Obligations (CBO's)
Collateralised Loan Obligations (CLO's)

3. Analysis

Students should possess a broad understanding of both static and dynamic methods for the analysis and construction of fixed income securities containing both certain and contingent cashflows. Variable rate & index linked securities will be included. Students should be aware of the limitations of assumptions and mathematical techniques upon results. Analysis will be concerned with both Government and non-Government securities. Students should possess a thorough comprehension of single-period and multi-period, single currency and multi-currency portfolio management theory.

Present and Future Value
– Certain & Contingent

Yields (*)
– Term structures of interest rates

Duration and convexity (*)

Swap analysis
– Interest rate & currency

Forecasting techniques
– Simulation and simple time series modelling (with an awareness of the limitations imposed by the assumptions and mathematical techniques employed)

Chart analysis

Methods of comparing securities

Credit Analysis
– Sovereign and corporate
– Ratings
– Default experience

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- Portfolio analysis and construction
- Optimisation and Simulation
- Credit Ratios

Classes of Securities

Securitisation Issues
Hybrid capital

Security and portfolio management techniques
Risk Assessment

- Basis and Hedging

Performance Measurement & benchmarking
Performance Attribution

Students will not be required to perform higher mathematical calculations, to derive any theoretical proofs, or to know any formulae other than for the topics marked (*) above to satisfy the requirements of the paper. Should other formulae be necessary they will be given. An awareness of the limitations of the mathematical techniques is necessary. Students may expect applications of analytic techniques in practical examples.

Students should be familiar with the techniques for comparing index-linked and conventional gilts, corporate bonds with gilts and for comparing convertible bonds and equity. An awareness of the impact of taxation upon financial analysis is also required.

4. Investors

Students should be able to demonstrate the suitability of specific securities to specific requirements of domestic and international investor classes.

Central banks
Supranational institutions
Official institutions
Banks
Savings Banks – Building Societies
Corporations
Pension Funds
Mutual Funds/Unit Trusts/OEICs
Life & General Insurance Companies
Hedge Funds/Speculators
Individuals
Market makers

Students should possess a broad understanding of the preferences of and constraints on, these types of investor and any implications for their investment policy.

5. Government Securities Markets

Students should possess a detailed knowledge of the government securities markets of the UK, US, and major markets of the eurozone and a general knowledge of the Japanese Government Securities market. Beyond a knowledge of their existence and relative size this need not extend to agency, government sponsored enterprise, mortgage or corporate bond markets outside the UK.

Students should be familiar with:

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Regulatory Authorities
Methods and types of Issuance
Withholding Taxation

Secondary Market
Structure
Dealing Practices
Price Transparency
Transaction publication

Settlement and Custody Practices
Funding
Repo/securities lending

For the three detailed markets, knowledge should extend to securities which are anomalous for specific reasons eg strippability. Students should be aware of the procedures for stripping securities and the implications for rump issues. Students should be aware of the existence of cash – derivative arbitrages and their potential impact upon market price behaviour. Students should be familiar with the cash/futures price relationship. Students should be familiar with the taxation of UK residents.

6. Sterling Fixed Interest Market

Students should be familiar with the sterlingfixed interest market including both domestic and ‘eurosterling’ issues. Students should be familiar with the common issuance forms and structures in this market.

Role of the Authorities
– UK Listing Authority
– Listing Rules
– Primary Market
– Methods of Issuance

Secondary Market
– Structure and Methods of Dealing
– Code of Practice

Settlement
– CREST
Repos/Securities Lending

7. International Securities (Eurobonds)

Students should be thoroughly familiar with the International (or Eurobond) Markets. Students should be familiar with the various types of issue and, in particular, with common issuance forms and structures in the Eurosterling market.

Regulatory bodies

ICMA

Listing arrangements

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Primary markets

– Methods of issuance

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Secondary market

- Methods of dealing

Settlement and custody

- Clearstream and Euroclear
- Repo/Securities Lending

READING LIST

Periodicals and Newspapers

Financial Times

The Economist

Quarterly Bulletin of The Bank of England

Bank of England Inflation Report (quarterly)

Annual Debt Management Report from the UK Treasury

Quarterly Gilt Review from the Debt Management Office

Students are advised to read the periodic research of the major broker–dealers, such as is available to them.

Government Securities Markets

Students are referred to the descriptions and reviews of markets published in most countries by the central bank, treasury or debt management office and additionally to broker–dealer publications from companies active in the relevant markets. Attention is also drawn to the many excellent publications of the futures and options exchanges such as EuronextLiffe , Eurex and Matif. Reuters, Datastream and Bloomberg also publish useful reading material.

The Bond & Money Markets

Choudhry; Butterworth-Heinemann 2001

(by Moorad Choudhry)

INTERNET

Students may find it easier to access information and reviews over the Internet:

Bank of England: www.bankofengland.co.uk

Debt Management Office: www.dmo.gov.uk