



Securities & Investment Institute

Introduction to Investment (The Foundation Qualification)

AND

Introduction to Securities and Investment (Unit 1 IAQ)

Effective from 1 July 2007

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This syllabus is valid for examinations from 1 July 2007 onwards.

AIM AND STANDARD OF THE EXAMINATION

The aim of the examination is to provide candidates with a basic introduction to the financial services industry with a focus on investments. Candidates should note that if they are undertaking the exam for regulatory purposes, they would need to achieve the full Investment Administration Qualification within 2 years of starting the regulated activity.

ASSESSMENT STRUCTURE

A 1 hour examination of 50 multiple choice questions.

Candidates sitting the examination by Computer Based Testing will 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.

UNIT 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 or tax rates 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

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 50 Multiple choice Questions	
Element	Questions
1	2
2	3
3	7
4	7
5	2
6	4
7	8
8	6
9	8
10	3
Total	50

Candidate Update

Candidates are reminded to check the Candidate Update area of the Institute's website on a regular basis for updates resulting from industry changes that may affect their examination. (www.sii.org.uk)

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- 10.1 Loans
- 10.2 Mortgages
- 10.3 Life Assurance

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
 - building societies
 - investment banks
 - pension funds
 - insurance companies
 - fund managers
 - stockbrokers
 - custodians
 - third party administrators (TPA's)
 - industry trade bodies
- 1.1.2 *know* the function of and differences between retail and wholesale business and who the main customers are in each case:
 - private clients and institutional clients
 - corporate entities (charities/pensions funds/local authorities)
 - insurance companies
- 1.1.3 *know* the role of the following investment distribution channels:
 - Independent Financial Advisor
 - Tied Advisor
 - Direct Investments

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
 - Economic and Monetary Union
- 2.1.2 *know* the functions of the Bank of England
- 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 on economic behaviour
- 2.1.6 *know* the meaning of the following measures of inflation:
 - Retail Price Index
 - RPIX
 - Harmonised Index of Consumer Prices
- 2.1.7 *know* the impact of the following economic data:
 - Gross Domestic Product (GDP)
 - Gross National Product (GNP)
 - Balance of Payments
 - Public Sector Net Cash Requirement (PSNCR)
 - level of unemployment
- 2.1.8 *understand* the influence of the European Union and European Commission on the UK economic environment in general

ELEMENT 3 FINANCIAL ASSETS AND MARKETS

3.1 Cash deposits

On completion, the candidate should:

- 3.1.1 *know* the features and characteristics of fixed term and instant access deposit accounts
- 3.1.2 *understand* the distinction between gross and net interest payments
- 3.1.3 *be able to calculate* the net interest due given the gross interest rate, the deposited sum, the period and tax rate

3.2 Money Market Instruments

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
- 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 the property market:
 - commercial/domestic property
 - direct/indirect investment
 - risk
- 3.3.2 *know* the advantages and disadvantages of investing in property

3.4 Foreign Exchange Market

On completion, the candidate should:

- 3.4.1 *know* the basic structure of the foreign exchange market including spot and forward rates

3.5 Derivatives/Commodity Markets

On completion, the candidate should:

- 3.5.1 *know* the role of the following markets:
 - Euronext.liffe
 - ICE Futures
 - London Metal Exchange (LME)
 - Lloyd's of London

3.6 World Stock Markets

On completion, the candidate should:

- 3.6.1 *know* the role of the following exchanges:
 - London Stock Exchange
 - New York
 - NASDAQ
 - Euronext
 - Tokyo
 - Deutsche Borse
- 3.6.2 *know* the meaning of a stock exchange index
- 3.6.3 *know* the following London Stock Exchange indices:
 - FTSE 100
 - FTSE 250
 - FTSE 350
 - FTSE All Share
- 3.6.4 *know* to which markets the following indices relate:
 - Dow Jones Industrial Average
 - S&P 500
 - Nikkei 225
 - CAC40
 - XETRA Dax
 - NASDAQ Composite

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 *understand* the terms takeover and merger
- 4.1.3 *know* the features and benefits of ordinary and preference shares:
 - dividend
 - capital gain
 - trade perks
 - right to subscribe for new shares
 - right to vote
- 4.1.4 *understand* the 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
- 4.1.7 *know* the purpose and format of Annual General Meetings
- 4.1.8 *know* the difference between the primary market and secondary market
- 4.1.9 *know* the main requirements for listing on the London Stock Exchange
- 4.1.10 *know* the advantages and disadvantages of a company obtaining a listing of its shares on the London Stock Exchange
- 4.1.11 *know* the role of the Alternative Investment Market (AIM)
- 4.1.12 *know* how shares are traded on the London Stock Exchange - SETS/SEAQ/SETSm
- 4.1.13 *know* the method of holding title – registered v bearer
- 4.1.14 *understand* the role played by CREST in the clearing and settlement of equity trades
 - Uncertificated transfers
 - Participants (members, payment banks, registrars)

ELEMENT 5 BONDS

5.1 Government Bonds

On completion, the candidate should:

- 5.1.1 *know* the definition and features of a government bonds
 - DMO maturity classifications
 - how they are issued
- 5.1.2 *know* the advantages and disadvantages of investing in government bonds

5.2 Corporate Bonds

On completion, the candidate should:

- 5.2.1 *know* the definitions and features of the following types of bond:
 - domestic
 - foreign
 - Eurobond
 - Asset-backed securities
 - Zero coupon

- 5.2.2 *be able to calculate* the flat yield of a bond
- 5.2.3 *know* the advantages and disadvantages of investing in bonds

ELEMENT 6 DERIVATIVES

6.1 Introduction

On completion, the candidate should:

- 6.1.1 *know* the advantages and disadvantages of using derivatives risk/return

6.2 Futures

On completion, the candidate should:

- 6.2.1 *know* the definition and function of a future
- 6.2.2 *understand* the following terms:
 - long
 - short
 - open
 - close

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
 - holding
 - writing
 - premium

6.4 Warrants

On completion a candidate should:

- 6.4.1 *know* the definition and function of a warrant

6.5 SWAPS

On completion a candidate should:

- 6.5.1 *know* the definition and function of an interest rate swap

ELEMENT 7 INVESTMENT FUNDS

7.1 Introduction

On completion, the candidate should:

- 7.1.1 *understand* the rationale behind collective investment
- 7.1.2 *understand* the scope and range of investment styles
- 7.1.3 *know* the differences between authorised and unauthorised funds
- 7.1.4 *know* the purpose and principal features of UCITS
- 7.1.5 *know* the differences between onshore and offshore funds
- 7.1.6 *know* the purpose of the FSA Collective Investment Schemes Sourcebook (COLL)
- 7.1.7 *know* the requirements for the establishment and maintenance of a Register

7.2 Unit Trusts

On completion, the candidate should:

- 7.2.1 *know* the definition of a unit trust
- 7.2.2 *know* the types of authorised unit trust available
- 7.2.3 *know* how unit trusts are priced including charges
- 7.2.4 *know* how units are bought and sold
- 7.2.5 *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
- 7.3.2 *know* how OEICs are priced including charges
- 7.3.3 *know* how OEIC shares are bought and sold
- 7.3.4 *know* the roles of the Authorised Corporate Director and the Depositary
- 7.3.5 *know* the terms ICVC, SICAVs and the context in which they are used
- 7.3.6 *know* the role of fund supermarkets and platforms

7.4 Investment Trusts

On completion, the candidate should:

- 7.4.1 *know* the characteristics of an investment trust:
 - share classes
 - gearing
- 7.4.2 *understand* the factors that affect the price of an investment trust
- 7.4.3 *know* the meaning of the discounts and premiums in relation to investment trusts
- 7.4.4 *know* how investment trust shares are traded

7.5 Real Estate Investment Trusts (REITs)

On completion, the candidate should:

- 7.5.1 *know* the basic characteristics of REITs:
 - tax efficient
 - property diversification
 - liquidity
 - risk

7.6 Exchange-Traded Funds

On completion, the candidate should:

- 7.6.1 *know* the main characteristics of Exchange-Traded Funds
- 7.6.2 *know* how Exchange-Traded Funds are traded

7.7 Hedge Funds

On completion, the candidate should:

- 7.7.1 *know* the basic characteristics of Hedge Funds:
 - what they are and what they are used for
 - risk and risk types
 - cost and liquidity
 - investment style

ELEMENT 8 FINANCIAL SERVICES REGULATION

8.1 Financial Services and Markets Act

On completion, the candidate should:

- 8.1.1 *know* the function of the following in the financial services industry:
 - Regulators (FSA/EC Commission/Committee of European Securities Regulators)
- 8.1.2 *understand* the need for regulation and the purpose of the Financial Services and Markets Act 2000
- 8.1.3 *know* the four statutory objectives of the Financial Services Authority
- 8.1.4 *understand* the reasons for authorisation
- 8.1.5 *understand* the reasons for approved person status
- 8.1.6 *know* the five groups of activity (controlled functions) requiring approved person status
- 8.1.7 *know* the purpose of the FSA's requirement for Senior Management

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- 8.1.8 *know* the FSA's requirement for firms to treat customers fairly
- 8.1.9 *know* the role of the Financial Services and Markets Tribunal

8.2 Financial Crime

On completion, the candidate should:

- 8.2.1 *know* the purpose and the main provisions of the Proceeds of Crime Act 2002 and the Money Laundering Regulations 2003
- 8.2.2 *be able to apply* the terms that describe the three main stages of money laundering
- 8.2.3 *know* the action to be taken by those employed in financial services if money laundering activity is suspected
- 8.2.4 *know* what constitutes satisfactory evidence of identity

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 Act 1998

On completion, the candidate should:

- 8.4.1 *know* the purpose of the Data Protection Act 1998 and the eight Data Protection Principles

8.5 Breaches, Complaints and Compensation

On completion, the candidate should:

- 8.5.1 *know* the difference between a breach and a complaint
- 8.5.2 *know* the responsibilities of the industry for handling customer complaints and dealing with breaches
- 8.5.3 *know* the role of the Financial Ombudsman Service
- 8.5.4 *know* the circumstances under which the Financial Services Compensation Scheme pays compensation and the compensation payable for investment claims

ELEMENT 9 INVESTMENT WRAPPERS, TAXATION AND TRUSTS

9.1 Investment wrappers

On completion, the candidate should:

- 9.1.1 *know* the incentives provided by tax-efficient wrappers to encourage financial planning:
 - ISAs/PEPs
 - CTFs
 - Pensions
 - Investment Bonds
- 9.1.2 *know* HM Revenue & Customs responsibility for issuing regulation for ISAs, PEPs and CTFs

9.2 Personal Equity Plans (PEPs)

On completion, the candidate should:

- 9.2.1 *know* the background, main features and current status of PEPs

9.3 Individual Savings Accounts (ISAs)

On completion, the candidate should:

- 9.3.1 *know* the definition of and aim of ISAs
- 9.3.2 *know* the subscription limits
- 9.3.3 *know* the eligibility conditions for investors

9.4 Child Trust Funds

On completion, the candidate should:

- 9.4.1 *know* the main characteristics of child trust funds

9.5 Pensions

On completion, the candidate should:

- 9.5.1 *know* the reasons for retirement planning
- 9.5.2 *know* the basic characteristics of the following:
 - State Pension Scheme
 - Occupational Pension Schemes
 - Personal Pensions including Self Invested Personal Pensions (SIPPs)/Small Self-Administered Schemes (SSAS)
 - Stakeholder Pensions

9.6 Investment Bonds

On completion, the candidate should:

- 9.6.1 *know* the main characteristics of investment bonds

9.7 Tax

On completion, the candidate should:

- 9.7.1 *understand* the direct and indirect taxes as they apply to individuals:
 - Income tax
 - Capital gains tax
 - Inheritance tax
 - Stamp Duty and Stamp Duty Reserve Tax
 - VAT
- 9.7.2 *know* the main exemptions in respect of the main personal taxes
- 9.7.3 *understand* the application of the main business taxes:
 - Corporation tax
 - Stamp Duty and Stamp Duty Reserve Tax
 - VAT

9.8 Trusts

On completion, the candidate should:

- 9.8.1 *know* the features of the main trusts:
 - discretionary
 - interest in possession
 - bare
- 9.8.2 *know* the definition of the following terms:
 - trustee
 - settlor
 - beneficiary
- 9.8.3 *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

- 10.2.2 *know* the definition of and types of mortgage:
repayment
interest only

10.3 Life Assurance

On completion, the candidate should:

- 10.3.1 *know* the definition of the following types of life policy:
term assurance
non-profit
with profits
unit-linked policies