CHARTERED INSTITUTE FOR SECURITIES & INVESTMENT

CHARTERED WEALTH MANAGER QUALIFICATION

UNIT 1
FINANCIAL MARKETS

Effective for examination from June 2026

UNIT SUMMARY

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

- the analysis of macroeconomic government policy targets, instruments, and their effectiveness.

- the impact of macroeconomics on the behaviour of markets, sectors, companies, and investment themes.

- the analysis, interpretation and comparison of company information and financial statements in order to determine the prospects of a single company and investment class, as well as the relative prospects of different companies and investment classes.

- the determination of prices and values for bonds and equities.

- the evaluation, recommendation, and use of liquidity, bond, equity, and property based investments for wealth management and private client purposes.

- the evaluation, recommendation, and use of alternatives and derivatives based investments for wealth management and private client purposes.

- the analysis and comparison of market structure, trading venues, and financial indexes.

- the analysis of the trading, clearing, settlement, lending, and custody process.

ASSESSMENT STRUCTURE

The assessment is based upon material drawn from across the syllabus. Candidates are strongly advised to undertake, as a minimum, the essential learning activities outlined later in this document. Candidates are also expected to remain informed on any important developments relating to the industry.

The assessment 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 (https://www.cisi.org/cisiweb2/cisi-website/study-with-us/candidate-update) on a regular basis for updates that could affect their examination as a result of industry change.

SYLLABUS

LEARNING OUTCOME 01

Be able to assess the implications of macroeconomics and macroeconomic policy for global financial markets

1.1 Evaluate economic principles in the context of financial markets
1.2 Analyse the impact of use of leading, lagging and coincident indicators of economic activity and their impact on assets classes
1.3 Critically appraise international economic performance comparators
1.4 Evaluate the effect of fiscal and monetary policy on inflation, interest rates, and exchange rates

LEARNING OUTCOME 02

Be able to explain the structure and purpose of financial statements issued by companies and apply the principal accounting ratios, explaining their advantages and limitations as a method of financial analysis

2.1 Explain statutory accounting requirements and how they impact upon the structure of:
- the statement of financial position
- the statement of comprehensive income
- the statement of cash flows
- consolidated accounts

2.2 Evaluate environmental, social and governance (ESG) reporting methodologies

2.3 Apply the following profitability ratios:

- return on capital employed
- gross and net profit margins
- asset turnover and gearing
- return on equity

2.4 Apply the following liquidity ratios:

- current (working capital) ratio
- quick (acid test) ratio

2.5 Apply receivables, payables and inventory ratios

2.6 Apply financial gearing ratios for:

- debt/equity
- interest cover
- asset cover

2.7 Evaluate growth in sales, profitability, and capital

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

2.9 Calculate earnings yield, dividend yield and dividend cover

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

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

2.11 Apply other interpretation tools: trend and common size statements

2.12 Describe and explain fintech and its uses in relation to financial markets

LEARNING OUTCOME 03
Be able to select and apply the techniques and concepts of the time value of money, compounding, discounting, and annualising

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

3.2 Select and apply discounting and compounding to:

- perpetuities
- continuous, annual and non-annual time periods

3.3 Select and apply standardised interest rate calculations:

- APR
- AER

3.4 Evaluate the effects of inflation on cash flows to determine the appropriate discount factor

3.5 Calculate and appraise annualisation techniques

LEARNING OUTCOME 04

Be able to evaluate critically the risks and returns offered by short-term, liquid instruments

4.1 Explain the main 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 (non-domestic) accounts and tax implications

4.2 Explain and evaluate the nature and use by investors of the money markets, money market participants, near cash and short-term money market instruments and cryptocurrencies

4.3 Explain, calculate and appraise the investment performance of Treasury Bills and other short-term government debt issuances

4.4 Explain and evaluate the effect of inflation on the investment risk and return of short-term, liquid instruments

LEARNING OUTCOME 05

Be able to evaluate critically the risks and returns offered by bonds

5.1 Explain the characteristics of bonds:

- definition, types, and key properties of bonds
- risk, price, and return
- historic performance of bonds
- principal problems and liquidity issues, plus implications should liquidity fall
- maturities and redemption characteristics
- coupons
- the main developments in fintech that are changing the bonds landscape

5.2 Explain the characteristics of UK and overseas government bonds:

- issuance
- secondary markets
- types of bond
- repo market
- borrowing / lending
- trading and settlement

5.3 Explain the characteristics of UK and overseas corporate bonds:

- markets
- credit ratings
- security
- redemption
- types of bond
- fixed / floating coupon structures
- covenants and sweeteners
- UK and eurobond issuance
- trading and settlement

5.4 Evaluate bond pricing using:

- DCF evaluation
- clean and dirty pricing of different types of bonds
- index-linked issues and strips

5.5 Apply the following methods in the calculation of bond returns, understanding their uses and limitations:

- flat yield (also known as running yield)
- gross and net redemption yield
- grossed-up equivalent yield
- real yields (inflation-linked securities)

5.6 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

5.7 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 calculate and evaluate critically the risks and returns offered by equities

6.1 Explain and appraise the characteristics of investing in listed equity:

- definition and key properties of equities
- risk, price, and return
- historic performance of equities
- principal problems and liquidity issues, plus implications should liquidity fall
- equity crowdfunding and other innovations changing the equity markets

6.2 Explain the types of listed equity:

- characteristics
- rights attached to classes of shares
- issuance
- equity-related investments

6.3 Explain and appraise the characteristics of investing in private equity

- definition and 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

LEARNING OUTCOME 07
Be able to evaluate critically the risks and returns offered by property and alternative investments

7.1 Evaluate property as a component of a portfolio:

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

7.2 Explain the characteristics of commercial and residential 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

7.3 Explain and evaluate commodities as an investment vehicle:

- 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
- price discovery for commodities

7.4 Evaluate infrastructure funds as an investment vehicle:

- 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
- ability of investors to gain access to infrastructure

7.5 Evaluate hedge funds as an investment vehicle:

- 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

7.6 Evaluate venture capital trusts, enterprise investment schemes, seed enterprise investment schemes, patient capital andother types of alternative investments:

- 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
- ability of investors to gain access at a reasonable price

LEARNING OUTCOME 08

Be able to calculate and evaluate critically the risks and returns offered by derivative investments

8.1 Explain derivatives market structures, features, and the regulatory and trading environment:

- role, structure and regulation of global derivatives markets
- role of regulators, other supervisory bodies
- market terminology
- key market participants and roles

8.2 Explain and appraise the range of derivative instruments and their key features:

- financial derivatives
- commodity derivatives
- property derivatives
- exotic derivatives
- other derivatives

8.3 Evaluate the impact of cryptoassets in the context of derivatives

8.4 Explain and evaluate the principles, components, characteristics and risks of derivatives:

- relationships to underlying
- physically settled versus cash settled
- derivatives strategies, risk / reward profiles and payoff diagrams
- general pricing principles – futures, options
- exercise of options, assignment of obligations, abandonment and expiry
- types of contracts on equity, index, currency, bond and commodity assets
- risks of derivatives:
    - legal
    - counterparty
    - settlement and dealing risks
    - market and other risks associated with derivative investing

8.5 Explain and evaluate the characteristics and risks of margin and collateral:

- purpose, types and application of collateral and margin
- parties involved
- processing, collection and payment
- pricing factors and calculation
- delivery and settlement

8.6 Explain and evaluate the clearing and settlement of exchange-traded and OTC derivatives

- definition and purpose of clearing and settlement
- roles and relationships
- risks and guarantees
- central counterparty clearing
- clearing of OTC transactions
- transparency and confidentiality
- counterparties
- documentation
- settlement of transactions

8.7 Explain the main types, characteristics, and pricing of exchange-traded derivatives:

- convertibles, covered, and uncovered warrants:
    - factors influencing pricing
    - bases for calculation and actual calculation
    - significance and uses
- futures
    - factors influencing pricing
    - bases for calculation
    - significance and uses
- options
    - factors influencing pricing
    - bases for calculation and actual calculation
    - significance and uses

8.8 Describe and explain the trading of exchange-traded derivatives:

- main UK and international exchanges
- trading platforms
- mechanisms, procedures, and processes
- wholesale trading facilities
- standardisation of deals, contracts, and agreements
- market transparency, reporting and monitoring
- order / instruction flow and order type
- input and matching, trade registration processes
- maturity, expiry, margin, liquidity, exercise and delivery

8.9 Explain the main types, characteristics, risks, and pricing of OTC derivatives:

- forwards and forward rate agreements (FRAs)
- OTC option products
- contracts for difference
- swaps: interest rate, currency, equity and commodity, bond
- credit default swaps
- credit derivatives
- structured products

8.10 Describe and explain the trading of OTC derivatives

- mechanisms, procedures, and processes
- wholesale trading facilities
- standard and bespoke deals, contracts, and agreements
- market transparency, reporting and monitoring
- order/instruction flow and order type
- confirmation, maturity, expiry, margin, liquidity, exercise and delivery

LEARNING OUTCOME 9

Be able to explain the UK securities market structure, trading venues and custody and settlement processes

9.1 Demonstrate an understanding of the structure of the UK 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 AQSE, the AIM and the official list and issuing securities without a prospectus.
- discriminate between on exchange and OTC) trading, and detail the transparency obligations
- illustrate markets for trading government and corporate bonds
- stock lending and CREST

9.2 Appraise the post-2008 financial crisis innovations and their impact on the financial markets

9.3 Analyse the changes blockchain brings to the securities market structure

9.4 Detail the market abuse regime and explain and contrast the role of the FCA (in its capacity as listing authority), ESMA, the Panel on Takeovers and Mergers (POTAM) and London Stock Exchange (LSE) in market regulation

9.5 Summarise the role of multilateral trading facilities (MTFs), organised trading facilities (OTFs), systematic internalisers (SIs) and dark pools

9.6 Demonstrate an understanding of the structure of International markets:

- include both developed markets and emerging markets
- 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 and client money and relevance & impact of corporate actions.

ESSENTIAL LEARNING ACTIVITIES

Macroeconomics - Professional Assessment module (refer to the CISI's website for further details)

Financial Markets workbook, CISI

FURTHER READING

Periodicals and Newspapers

- Financial Times
- FT Weekend
- The Economist
- Financial sections of The Times, The Daily Telegraph, Independent and Evening Standard.
- Bank of England Quarterly Bulletin
- Bank of England Inflation Report (Quarterly)
- Annual Debt and Reserves Management Report - The UK Treasury (Quarterly)
- DMO Annual Review (The Debt Management Office)
- Investors' Chronicle
- Securities & Investment Review
- Investment Week
- Professional Investor (the quarterly journal of the CFA)
- Money Management
- What Investment?
- Investment Adviser
- Professional Adviser
- Money Observer
- Bloomberg Money

Books

Bodie, Z . & Kane A. et al. (2021) *ISE Essentials of Investments.* Irwin Finance

Davis, G. & Shahrestani, D. (2021) *Navigating the Street A Better Approach to Investing.* (Independently published)

Sloman, J. (2019) *Essential Economics for Business.* Pearson

La Rosa, N. 1st Ed. *Analysing Financial Performance: Using Integrated Ratio Analysis.* Routledge

Sharma, RK. (2020). *Ratio Analysis: Financial Ratios.* (Independently published)

Schilit, H., Perler, J. et al. (2018) *Financial Shenanigans: How to Detect Accounting Gimmicks and Fraud in Financial Reports.* McGraw Hill

Fabozzi, FJ & Fabozzi AF. (2021) *Bond Markets, Analysis, and Strategies.* MIT Press

Hull, J. (2021) *Options, Futures, and Other Derivatives (Global Edition).* Pearson

Witzany, J. (2020) *Derivatives: Theory and Practice of Trading, Valuation, and Risk Management.* Springer Texts in Business and Economics

Markwalder, U. (2020) *Green Investment: A comprehensive guide.* MAM Media

Shleifer, A. (2000) *Inefficient Markets - an Introduction to Behavioural Finance.* Clarendon Lectures in Economics

Corelli, A. (2019) *Understanding Financial Risk Management.* Emerald Publishing

Parameswaran, SK. (2011) *Fundamentals of Financial Instruments: An Introduction to Stocks, Bonds, Foreign Exchange, and Derivatives.* Wiley Finance

Spencer, PD. (2000) *The Structure and Regulation of Financial Markets.* Oxford Press

Websites:

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- www.trustnet.com
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