CISI

CHARTERED INSTITUTE FOR SECURITIES & INVESTMENT

CISI Diploma in Finance, Risk & Investment
(601/6040/8)
Specification

gains up to 120 UCAS points

Contents

Diploma Overview

Unit 1

Money, Economies & Uncertainty

50% of Cert FRD / 25% of Diploma
1 hour 45 minutes examination
80 marks
Data response: short answer and extended responses based on an unseen case study
Essay questions covering the unit syllabus
Available in May and November for first time sitters and resits
Externally assessed

Unit 2

Investment Decision Making, Accounting & Governance

50% of Cert FRD / 25% of Diploma
1 hour 45 minutes examination
80 marks
Data response: short answer and extended responses based on unseen set of accounts
Essay questions covering the unit syllabus
Available in May and November for first time sitters and resits
Externally assessed

Successful completion of units 1 and 2 leads to the award of the CISI Level 3 Certificate in Finance, Risk & Decision Making.

Unit 3

Financial Products, Markets & Services

20% of Diploma
1 hour examination
50 marks
50 multiple choice questions delivered by Computer Based Testing
Available all year round
Externally assessed

Unit 4

The Extended Project

30% of Diploma
Coursework: 3,000 – 4,000 word report + 500 word Self-Evaluation
54 marks
Project Submissions in May and resubmissions in December
Internally assessed / externally moderated

Qualification Aim

The aim of the CISI Level 3 Diploma in Finance, Risk & Investment is to give candidates an understanding of the key characteristics, mechanisms and influences on financial markets and institutions, and includes a grounding in data analysis, investment appraisal and accounting and the role and responsibility of financial services in society as a whole. Candidates should attempt the units in the order shown to ensure they have acquired the required learning and skills to attempt the final synoptic unit, the Extended Project, which assesses the knowledge gained in the first three units.

Certificate in Finance, Risk and Decision Making

Unit 1: Money, Economies & Uncertainty

Unit Overview

Starting with an exploration of the characteristics and functions of money, candidates will acquire a practical grasp of macro-economics. They will be required to acquire and apply detailed knowledge of the various policy prescriptions available to governments both in the UK and around the world, and the statistical means by which the efficacy of such policies can be measured and analysed.

Candidates will be required to be able to combine, re-arrange and interpret economic and financial data in graphical and tabular formats. Using the analytical tools they have acquired, candidates will be required to evaluate risk and uncertainty in decision-making, and assess the probability of a successful outcome.

The number of anticipated guided learning hours per topic is indicated below in the right hand column.

This unit can be taken in May and November each year.

Unit Content

Learning objective	Content	Amplification	GLH 70
1	**THE NATURE OF MONEY**		12
	Candidates should understand the concept of fiat money and that fiat money has no intrinsic value. Candidates should know how money is created in a modern financial system and the relationship between money supply and the erosion of wealth.		
1.1	**What is money?**	**Candidates should have a basic understanding of the history of money: how gold and silver came gradually to be replaced by promissory notes.**	2
1.1.1	Characteristics of money	Acceptability; portability; durability; divisibility; limited supply.	
1.1.2	Functions of money	Medium of exchange; store of value; unit of account; standard for deferred payment.	
1.1.3	Forms of money	Notes and coins vs electronic money.	
1.2	**Interest**	**Candidates should understand the concept of interest being the 'price' of money and how market forces drive that price.**	2
1.2.1	The three components of interest	Time preference; inflation premium; risk premium.	
1.3	**The creation of money**	**Candidates should understand that most money is created through fractional reserve banking and the creation of debt.**	3
1.3.1	How lending creates money	Candidates should know how fractional reserve banking works.	
1.3.2	Money supply	Candidates should know that money supply is the total amount of money circulating in the economy. Candidates must understand why hoarding of cash by households outside the banking system can reduce growth in the money supply.	

1.3.3	Cash reserve ratios and capital adequacy	Candidates should understand why banks need to retain cash and maintain near-cash reserves. Candidates should know that international agreements, such as the Basel Accords, aim to establish minimum prudent levels of cash reserve ratios for banks.	
1.4	**Money and inflation**	**Candidates should know what creates inflation and how inflation erodes wealth.**	3
1.4.1	Quantity theory of money	Candidates should be familiar with the theory that money supply has a direct proportional relationship with the price level.	
1.4.2	Demand-pull and cost-push	Candidates should know both mechanisms.	
1.4.3	Real versus nominal	Purchasing power.	
1.5	**Index numbers**	**Candidates will understand how index numbers can aid comparisons over time and comparisons of unlike quantities. The importance of inflation indices in business planning is also explored in detail.**	2
1.5.1	Simple binary index numbers	Candidates will be required to know and be able to calculate the formula for a simple binary index.	
1.5.2	Uses of the Consumer Prices Index and the Retail Prices Index	Candidates should know the main differences between the components of the CPI and the RPI and the main uses of each.	
1.5.3	Weighted index numbers	Candidates should understand why index numbers need to be weighted and updated. Candidates must be able to apply weights to index numbers. Candidates should understand that indices can be constructed in different ways and there are often value judgements inherent in the choice of method.	
2	**THE ECONOMY**		**13**
		Candidates should understand how the price mechanism allocates scarce resources between competing users and how that pricing mechanism can sometimes break down. Candidates should also be aware of the need for savings to be mobilised for investment and the intermediary role that financial services play in that process.	
2.1	**The circular flow of income**	**Candidates should understand that the circular flow is a macro-economic model that demonstrates the workings of a mixed economy in a simplified form. Candidates should be familiar with income and consumption, savings and investment; and identify injections and withdrawals.**	3
2.1.1	Income and expenditure	Candidates should know / understand why total expenditure in an economy will always equal total income.	
2.1.2	Injections and withdrawals	Candidates should understand why investment is an injection into the circular flow and savings are a withdrawal.	
2.1.3	Imports and exports	Candidates should understand why exports are an injection into the circular flow and imports are a withdrawal.	
2.1.4	Multiplier effect	Candidates should be able to demonstrate how the money multiplier works and apply the principle to other multipliers, such as the fiscal and Keynesian multipliers.	

2.2	Scarcity	Candidates should understand that the fundamental driver of an economy is the need to allocate scarce resources as efficiently as possible. Candidates should be familiar with Supply and Demand diagrams but will not be required to draw them. Candidates will need to know the four factors of production and understand how the price mechanism allocates them in an economy. They need to be able to apply this understanding in price elasticity calculations.	2
2.2.1	Unlimited wants, limited supply	Candidates should understand the fundamental economic problem is the insufficiency of resources to satisfy all wants.	
2.2.2	Opportunity cost and the fundamental economic problem	Candidates should know the definition of opportunity cost.	
2.3	The market economy	Candidates should know that scarce resources can be allocated centrally by governments, or though the price mechanism in competing markets, or through a combination of the two.	3
2.3.1	The four factors of production	Candidates should know that the four factors of production are: land, labour, capital and enterprise. Respectively, these factors earn rent, wages, interest and profit.	
2.3.2	The price mechanism	Candidates must understand how price establishes equilibrium between supply of goods or services and demand. Candidates must know and be able to calculate the formulae for price elasticity of supply. Candidates must be able to apply these formulae to assess the likely impact of price changes on demand for a good or service.	
2.3.3	Market equilibrium; the Invisible Hand at work in the modern economy	Candidates should know that price signals to producers and consumers which and how many products they should be producing or consuming.	
2.4	The role of the private sector	Candidates should understand that markets provide the mechanism which decides which goods and services will be produced by the private sector and how much consumers will pay for them. They should also understand that markets are not infallible and government intervention is often required.	2
2.4.1	Profit maximisation	Candidates should know that firms operating in the markets are often assumed to wish to maximise their profits. Candidates must also be familiar with the concept of profit satisficing.	
2.4.2	Market failure and government intervention and regulation	Candidates should know that markets can fail when the price mechanism fails to allocate resources in the most efficient way. Candidates should understand why governments intervene to combat market failure, including monopolies, and know the main bodies set up by the UK government to deal with them: utility industry regulators, Office of Fair Trading, and Competition Commission.	
2.5	The role of financial services in an economy	Candidates should be aware of the role that the Financial Services industry plays in the mobilisation of savings and the efficient allocation of capital. They should also be aware of the importance of Financial Services to the UK economy.	3

2.5.1	Mobilisation of savings	Candidates should understand the relationship between savings and investment. Candidates should be familiar with the theories of Rostow and the Harrod-Domar model of growth, but will not be required to know the formula.	
2.5.2	Allocation of capital	Candidates should understand the mechanism by which capital is allocated among competing uses in market economies.	
2.5.3	Types and role of different agents in the financial markets	Candidates should know the roles of banks and securities exchanges in allocating capital.	
3	**GOVERNMENTS AND THE ECONOMY**		**14**
		Candidates should understand the role of governments – not just as regulators but as active participants in economies. They should know the means by which governments and central banks seek to control the supply of money and credit.	
3.1	**The role of the government in the economy**	**Candidates should be aware that the government still plays a key role in a mixed economy, even though interest rate decisions have largely been devolved to independent central banks. Candidates must be apply to apply their knowledge of merit and public goods to understand why governments spend tax-payers' money. They must know the main macro-economic objectives of governments and understand why some of these policies are in conflict.**	2
3.1.1	Central banks	Candidates should know the role of national central banks and regional central banks and the way in which they control the availability of money through interest rates and quantitative easing.	
3.1.2	Sovereign wealth funds	Candidates should be aware of the increasing role of sovereign wealth funds in allocating capital.	
3.1.3	State-owned enterprises	Candidates should understand the role of state-owned enterprises in mixed economies and be aware of the rise of state capitalism in newly industrialising economies.	
3.2	**Monetary policy**	**Candidates should understand why central banks and governments seek to control the quantity of money in the economy in order to influence other economic variables.**	3
3.2.1	Velocity of circulation	An understanding of the velocity of circulation is required but candidates will not be required to know the monetarist and Keynesian positions on speculative demand for money.	
3.2.2	Controlling the supply of loans	Candidates must know that in some economies around the world, central banks direct the allocation of credit.	
3.2.3	Controlling the demand for loans	Candidates must know that in most market economies, central banks seek to influence the allocation of credit through the pricing mechanism for loans and the pricing mechanism is the policy interest rate.	
3.3	**Fiscal Policy**	**Candidates must understand that governments pursue political and economic objectives through taxation and public spending. The fiscal policy can be expansionary (reflationary) or contractionary (deflationary).**	4

3.3.1	Taxation	Taxation is the main source of revenue for governments. Candidates should understand how taxation affects people's spending power and understand the difference between progressive and regressive taxes. Knowledge of incidence of taxation is not required.	
3.3.2	Budget deficits and surpluses	Candidates should understand how budgets affect the Public Sector Net Cash Requirement (PSNCR) with a resultant impact on government bond markets.	
3.4	**Supply-side policy**	**Candidates should understand that the three main objectives of supply-side economics are: the creation of stable economic conditions to permit effective forward planning; the improvement of an economy's productive capacity; and the flexibility to withstand shocks.**	2
3.4.1	Main objectives of supply-side approach	Candidates should know that supply-side fiscal policy aims to increase an economy's ability to produce goods, through the creation of incentives to work, save and invest.	
3.5	**Different philosophical approaches to the role of capital and the private sector**	**Over the past 150 years, different economic systems have been implemented by countries with varying degree of success. Candidates should be aware of the advantages and disadvantages of pure laissez-faire and centrally-planned economic systems.**	3
3.5.1	Pure laissez-faire	Candidates should know the meaning and intent of laissez-faire and understand that no country in the world has a pure laissez-faire economy.	
3.5.2	Mixed economies	Candidates should know how to measure government involvement in an economy and be aware of the varying degrees of government participation in the major economies of the world.	
3.5.3	Marxism	Candidates should know that Marxism advocates the state ownership of all means of production and the allocation of resources according to needs determined by central planners.	
3.5.4	Islamic Finance	Candidates should know that some religions forbid the charging and earning of interest. Candidates should know that Islamic Finance seeks to provide a lending system based on investment and profit-sharing.	
4	**THE INTERNATIONAL DIMENSION**		**12**
		Candidates must understand that a system of trade and exchange is necessary to enable the benefits of division and specialisation of labour to be realised. Candidates should know how to distinguish comparative advantage from relative advantage.	
4.1	**International trade**	**Candidates should understand the principles of absolute and comparative advantage and how trade enables economies to benefit from specialisation.**	3
4.1.1	Absolute and comparative advantage	Candidates should understand how lower opportunity cost for one product can confer comparative advantage in producing another.	
4.1.2	Free trade and protectionism	The full benefits of specialisation can only be enjoyed if countries are able to trade freely with one another. Candidates should understand why some countries seek to protect their own industries and discriminate against those of other countries.	

4.1.3	Globalisation and the role of MNCs	Candidates should know what a Multi-National Corporation is and the controversy surrounding their operations in the global economy.	
4.2	**Balance of payments**	**Candidates should know the structure of the balance of payments. Candidates should also be aware of the changing composition of the UK's balance of payments over the past 30 years and the importance of the non-merchandise account.**	3
4.2.1	Current account: merchandise	Candidates should understand why the current account of the balance of payments reflects a country's international competitiveness and the extent to which it is living within its means. They should know that the UK has gone from being an exporter of goods to being a major importer of goods in less than 50 years.	
4.2.2	Current account: services	Candidates should know the importance of services to the UK's balance of payments and the main components of those services.	
4.2.3	Capital account	Candidates should know that the balance of payments also includes net transactions in external assets and liabilities. A capital account surplus can cover shortfalls in the current account.	
4.3	**Exchange rates**	**Candidates should understand that demand for a currency is ultimately a measure of an economy's international competitiveness. Candidates should be aware that exchange rates can be freely floating, fixed or managed.**	4
4.3.1	Nature of exchange rates	An exchange rate indicates the demand for one country's currency compared with another's. Candidates should be able to apply exchange rates.	
4.3.2	Balance of payments equilibrium	Candidates should know that current account equilibrium occurs when the monetary value of exports equals the monetary value of imports. With most countries being willing to allow their exchanges to float freely, equilibrium is not considered to be as important as it was in the 20th century.	
4.3.3	Currency zones; optimal currency zones; unstable currency zones	Candidates should know that some countries have adopted the same currency across international boundaries. They should understand the difficulties of maintaining a currency union without a fiscal union.	
4.3.4	Devaluation and depreciation	Candidates should understand how countries can deliberately reduce the value of their currencies against those of their trading partners to improve their balance of payments.	
4.4	**Sovereign debt**	**Candidates should know that sovereign debt is debt owed by governments. The credit-worthiness of governments will often depend on their budgetary position and the competitiveness of their economies.**	2
4.4.1	Default	Government sometimes default on their debt if they are unable to service the interest or repay the principal as scheduled. Candidates should be aware of the role of rating agencies in predicting the likelihood of a default.	

4.4.2	Risks of contagion	Candidates should be aware of the risk of concern over the credit-worthiness of one country spreading to that of another country. Candidates should know the reasons for the Eurozone crisis of 2011-12.	
5	**ANALYSING AND INTERPRETING DATA**		**9**
		Candidates must know basic techniques for the analysis and interpretation of data. They must be able to apply this knowledge in the use of spreadsheets to analyse and interpret data.	
5.1	**Data analysis**	**Candidates must be able to demonstrate spreadsheet skills, such as creating pivot tables and recording simple macros. Candidates must be able to apply these to sample data.**	4
5.1.1	Collecting statistics	Candidates should know that data can be gathered by primary research and/or secondary research. They should be familiar with the advantages and disadvantages of both methods.	
5.1.2	Presenting statistics	Candidates must know how to use computer spreadsheet programs for the presentation of statistics. They must be able to use pivot tables.	
5.1.3	Analysing data, including current economic data	Candidates must be able to write simple macros for the organisation of data.	
5.2	**Basic chart analysis**	**Candidates must understand how charts and graphs can be used to depict long- and short-term trends. They should know that charts are used for economic and financial information, including financial instruments. Candidates should know that charts are used for "technical" analysis of financial instruments, as opposed to fundamental analysis which focuses on underlying data.**	2
5.2.1	Candlestick charts	Candidates should understand how a candlestick chart is used to depict price movements for financial instruments.	
5.2.2	Price / volume charts	Candidates are required to understand how price / volume charts are used to depict price movements of financial instruments.	
5.2.3	Basic patterns	Candidates should be familiar with the basic patterns of price / volume charts: head and shoulders or double top / bottom reversal patterns. They should also know how to recognise lines of support and resistance. They will not be required to know or recognise formations such as flags, pennants, and cup and handle.	
5.3	**Sampling**	**Candidates should be aware that sampling is a key tool in economic planning but the choice of types of samples can skew results.**	2
5.3.1	Types of samples	Candidates should understand that direct and indirect research methods are both likely to involve sampling, and should know the main types of sampling: random; systematic, stratified, quota and cluster.	
5.4	**Limitations of data and sampling error**	**Candidates should understand that data obtained through selective sampling can often be tainted by errors in the samples used. Sampling bias is one such problem.**	1

6	RISK AND UNCERTAINTY		10
	Candidates must understand the impact of risk and uncertainty on investment appraisal. They should be able to apply basic forecasting techniques and be able to calculate basic and combined probabilities.		
6.1	**Risk and uncertainty**	**Candidates should know and be able to apply several different ways of allowing for risk and uncertainty.**	3
6.1.1	Definitions	Candidates must be able to distinguish between types of event where the probability of occurrence can be calculated and where it cannot.	
6.1.2	Allowing for risk and/or uncertainty	Candidates should be familiar with the techniques of: conservatism; payback; best / worst case forecasts; sensitivity analysis; adjusted discount rates; and expected values, using subjective probability estimates. Candidates should understand why different techniques are used.	
6.2	**Sources of uncertainty**	**Candidates should be aware of the main sources of uncertainty in the contexts of economics, business and finance.**	1
	Different sources of business uncertainty	Future market conditions; technological changes; senior management change; political change.	
6.3	**Forecasting**	**The difficulties of forecasting when no hard data is available presents a major challenge to planners. Candidates must know and understand the main techniques of qualitative forecasting, and how past series of data can be organised to reveal trends which may predict the future**	3
6.3.1	Qualitative forecasting	Candidates should know and be able to describe the two common methods of qualitative forecasting: the Delphi technique and panel consensus.	
6.3.2	Time series analysis	Candidates must be able to extract the trend from a time series of data using moving averages. Candidates should be able to identify and calculate cyclical, seasonal and random variations.	
6.3.3	Macro-economic forecasting	Candidates should understand the importance of macro-economic forecasts on investment appraisal. Candidates should know how economic growth and inflation impact interest rate decisions, and the importance of interest rates in investment appraisal.	
6.4	**Probability**	**Candidates should be aware that probability is a quantified estimate of how likely a specified outcome will be. They should know the techniques for calculating basic probability and combining probabilities.**	3
6.4.1	Basic probability	Candidates should know that probability can be measured on a scale ranging from 0 to 1, or in percentages from 0% to 100%. Candidates should know and be able to calculate the formula for Px.	
6.4.2	Combining probabilities	Candidates must be able to calculate combined probabilities using the addition rule, the multiplication rule and probability trees.	

Unit 2: Investment Decision Making, Accounting & Governance

Unit Overview

This unit equips candidates with the means to apply their knowledge at the micro level, in a business context.

Starting off with a thorough understanding of the structure of the company and the implications of limited liability for risk appetite, candidates will learn to comprehend the difference between assets, profit and cash-flow. This will enable them to assess and compare different sets of accounts, and to appraise investment proposals using payback and discounted cash-flow techniques. Valuation techniques are then applied to financial securities, including equities, bonds and derivatives. An introduction to derivatives and exotics will enable candidates to start evaluating the social and ethical aspects of financial engineering and corporate governance, and to assess the various remedies available to governments.

The number of anticipated guided learning hours per topic is indicated below in the right hand column.

This unit can be taken in May and November each year.

Unit Content

Learning objective	Content	Amplification	GLH 90
1	**INCORPORATION, LIMITED LIABILITY AND THE PRINCIPLES OF ACCOUNTING**		11
	Candidates should know the separate roles of owners and managers of incorporated businesses and the systems of monitoring and control required by this separation. Candidates should also understand the advantages and disadvantages of incorporation. Candidates should be able to apply their knowledge of company accounts to the analysis of a set of accounts.		
1.1	**Incorporated businesses**	**Candidates should know the procedure for incorporating a company in the UK, including Memorandum and Articles of Association, and the main legal obligations placed on directors.**	2
1.1.1	Legal persons	Candidates should understand that incorporated associations are legal persons which have rights and protections similar in some respects to those of natural persons (i.e. humans).	
1.1.2	The board of an incorporated business	Candidates should understand the difference between executive and non-executive directors. Candidates should know that boards have a responsibility to safeguard the long-term interests of the shareholders and must provide each shareholder with an audited annual set of accounts and a report on the activities and progress of the company.	
1.2	**Limited liability**	**Candidates should know that the liability of the owners of incorporated businesses is limited to the size of their investment in that business.**	2
1.2.1	Limits to limited liability	Candidates should know that there are limits to limited liability: owners of corporations cannot use them to protect the proceeds of their personal criminal activity, such as fraud or money-laundering.	

1.2.2	Agency theory: managers versus shareholders	Candidates should understand the conflict of interest that can arise between the owners of a corporation (the principals), and the executives chosen by the principals to run their corporation (the agents). Candidates should understand the importance of trying to ensure that the self-interested rational choices of the agent coincide with the wishes of the principal.	
1.3	**Financial accounts**	**Candidates should understand that financial accounts are prepared by companies to inform stakeholders such as shareholders, lenders and employees about the past and present financial position of company.**	5
1.3.1	Dealing with past performance and the present position	Candidates should know that financial accounts provide details of profits or losses made over a past period (usually a year or portion of a year), and a statement of assets and liabilities at a single fixed point in time (such as the end of the company's financial year). Financial accounts do not predict future performance.	
1.3.2	The underlying fundamental concepts	Candidates must know the underlying fundamental concepts of accounting: Consistency (treating similar items in the same way to allow comparisons over time); Going Concern (assuming that a corporation will continue in business for the foreseeable future); Accruals (matching expenses against revenues); and Prudence (providing for all known losses but recognising revenue only when reasonable certainty exists).	
1.3.3	Legal and other requirements	Candidates must know that companies have a legal obligation to prepare accounts which show a true and fair view of their financial position and profit or loss for a given period. Candidates must know that UK companies listed on an investment exchange are required to follow International Financial Reporting Standards (IFRS) in the preparation of their accounts. Listed companies have additional requirements to publish their accounts and any material change to their financial position.	
1.4	**The annual report**	**Candidates should know the components of a company's annual report and be able to explain the purpose of each component.**	2
1.4.1	The company accounts and notes to the accounts	Candidates should know that company accounts must comprise a profit and loss account, and a statement of assets and liabilities, called a balance sheet. The accounts must also be accompanied by notes to the accounts, which provide additional information such as details of fixed assets and changes in shareholders' funds.	
1.4.2	The Directors' report, the Chairman's statement	Candidates should know that financial statements must be accompanied by a directors' report containing such information as numbers of employees, changes in the board of directors, directors' remuneration etc. The chairman's statement is often a more broad discussion of the company's performance and future prospects.	

1.4.3	Statistical tables	Candidates must know that financial accounts are usually accompanied by statistical tables, summarising information over previous years for ease of comparison. Candidates must be able to apply this knowledge to the analysis of a set of accounts.	
1.4.4	The significance of the Auditor's report; going concern; qualifying the accounts	Candidates must know that companies are required to have their accounts audited for truth and fairness by an independent and impartial agency – usually a firm of accountants. If the auditor is unable to attest to the truth and / or fairness of the accounts, or is not satisfied that the company has sufficient funds to continue as a going concern, the auditor may qualify its report to the shareholders.	
2	**BALANCE SHEET AND INCOME STATEMENT**		**13**
		Candidates must know the components of a balance sheet statement and an income statement. They should be able to apply this knowledge to construct a balance sheet and profit and loss account.	
2.1	**The principle of the balance sheet**	**Candidates will be required to know the purpose of the double-entry system and the difference between sources of funds and uses of funds.**	2
2.1.1	Exchanging assets and liabilities	Candidates must understand why the sources of funds always equal the uses of funds; why assets are always matched by liabilities.	
2.2	**Current assets and liabilities**	**Candidates must know that assets are valuable resources used by companies to earn revenue. Candidates must know which assets in a balance sheet are fixed and which are current.**	1
2.2.1	Current assets	Candidates must know that current assets are cash or any asset expected to be used within 12 months.	
2.2.2	Current liabilities	Candidates must know that current liabilities are payable within 12 months.	
2.3	**Long-term assets and liabilities**	**Candidates must understand the difference between current and long-term liabilities and know the main accounting items that fall into either category.**	2
2.3.1	Fixed assets	Candidates must know that fixed assets can be tangible or intangible and are not for sale in the ordinary course of business.	
2.3.2	Long-term liabilities	Candidates must know that long-term liabilities are not payable within 12 months.	
2.3.3	Off-balance sheet liabilities	Candidates must know that some liabilities of a company do not appear on its balance sheet: examples are operating leases and securitised debt.	
2.4	**Shareholders' funds**	**Candidates should know the components of shareholders' funds and also be aware that as long as a company remains in business, such funds may be distributed to shareholders only when the company declares dividends out of profits.**	2
2.4.1	Changes in shareholders' funds	Candidates must know that shareholders' funds can be affected by capital transactions or revenue transactions. Candidates must be able to calculate changes in shareholders' funds from sample balance sheets.	

2.4.2	Ordinary share capital	Candidates must know the difference between authorised and issued ordinary shares, and understand the different impacts on a company's balance sheet of primary and secondary share dealing. Candidates must also understand the concept of nominal share value.	
2.4.3	Reserves	Candidates must know three kinds of reserves: share premiums, revaluations and retained profits.	
2.4.4	Preference share capital	Candidates must know the characteristics of preference shares.	
2.5	**The trading account**	**Candidates must know which items appear in a company's trading account and understand the term "cost of goods sold".**	1
2.5.1	Operating income and expenses	Candidates must know what constitutes operating income and expenses.	
2.6	**Non-operating income and expense**	**Candidates must understand that the non-operating income and expense lines in a profit and loss account can contain significant amounts. Candidates should know which items fall under this heading.**	1
2.7	**Depreciation expense**	**Candidates should understand that the purpose of depreciation is to spread a fixed asset's costs over its usable life, in the period which benefits from its use. Candidates should know that depreciation is an expense charged to the profit and loss account.**	2
2.7.1	Straight line and declining balance methods of depreciation	Candidates should know how both of these methods of depreciation are used. Candidates will be required to calculate depreciation charges using both methods.	
2.7.2	Amortisation of intangible assets	Candidates must know that intangible assets such as patents can have a finite life and therefore must be reduced in value over that life.	
2.8	**Profit and loss**	**Candidates must know and be able to calculate the main measures of profit: operating profit, EBIT, EBITDA, and net profit.**	2
2.8.1	Minority interests	Candidates must understand why some companies need to make deductions for minority interests in their consolidated accounts.	
2.8.2	Retained profit	Candidates must be able to calculate retained profit from a profit and loss account. They must also understand the relationship between retained profit and reserves.	
3	**ANALYSING ACCOUNTS: CASH-FLOW, WORKING CAPITAL AND LIQUIDITY**		**9**
		Candidates must be able to calculate a cash-flow statement for a business. Candidates must know and be able to calculate 12 different profitability, liquidity and shareholder ratios.	
3.1	**Difference between cash-flow and profit**	**Candidates should understand that cash-flow and profit are two different things. Candidates must understand how a profitable company can go out of business because of poor cash-flow management.**	2
3.1.1	Comparative definitions of cash and profit	Candidates should understand that cash is a liquid asset owned by a business, while profit is the surplus earned in respect of a period's trading – it is an accounting measure, not an asset owned by a business.	

3.1.2	Definition of cash-flow, including importance of adding back depreciation	Candidates must understand that although depreciation is charged against operating profits as an expense, no cash has been paid out. Although depreciation is not the only item in the Profit and Loss which is non-cash, it is usually the largest. Candidates must know that cash-flow is often defined for convenience sake as retained profit plus depreciation.	
3.1.3	Cash-flow statements and forecasts	Candidates must know that a cash-flow statement shows the cash inflows and cash outflows of a business over a past period. A cash-flow forecast is an estimate for future periods. Candidates must know that companies use cash-flow forecasts to predict and plan for periods of negative cash-flow. Candidates must be able to calculate cash-flows.	
3.2	**Benefits and drawbacks of holding cash**	**Candidates know the three motives for holding cash: transactions motive; precautionary motive; and the speculative motive. Candidates should also be aware that holding cash means that companies might be passing up the chance of making gains from investing the cash in higher-yielding investments.**	1
3.2.1	Why do firms need to hold cash?	Cash is needed for transactions, to provide a margin of safety, and to enable companies to take advantage of short-term fluctuations in the price of their raw materials.	
3.2.2	Opportunity cost of holding cash	Candidates must understand why keeping too much cash on hand may prevent a company from investing it more profitably.	
3.3	**Working capital**	**Candidates must be able to calculate a firm's working capital from its balance sheet.**	2
3.3.1	The importance of working capital	Candidates must understand why working capital requires long-term financing.	
3.3.2	Debtor and stock turnover ratios	Candidates must be able to calculate debtor and stock turnover ratios and understand why they are good indicators of financial and operational efficiency in a company.	
3.4	**Ratio analysis of companies**	**Candidates should understand that ratio analysis can involve profitability measures, liquidity measures, and shareholder measures.**	3
3.4.1	Use of ratios to compare companies:	In addition to debtor and stock turnover ratios, candidates will be required to know and be able to use these 10 ratios: Gross profit margin; net profit margin; Return on capital employed; Return on equity; Gearing ratio; Acid test ratio; Net cash flow per share; Earnings per share; Dividend per share and dividend yield.	
3.4.2	Interpreting data in the financial press	Candidates must know and understand expressions and abbreviations used commonly in the financial press.	
3.5	**Standards for comparison**	**Candidates should know that comparisons can be made over time; between firms, between firms over time, and with internal budgets.**	1
3.5.1	Problems in using ratios	Candidates should also be aware that ratios can be rendered worthless by factors such as changes in accounting standards and inflation.	

4	THE SOURCES AND COST OF FUNDS		9
	Candidates should know the characteristics of equity and debt and understand the cost of equity and the cost of debt. Candidates must be able to calculate the weighted average cost of capital of a company.		
4.1	**Owner's equity**	**Candidates should know that owner's equity represents its paid-up share capital, share premiums, revaluation reserves and retained profits: it is permanent capital but is not without cost. Candidates will be required to calculate owner's equity from sample balance sheets.**	3
4.1.1	Cost of equity	Candidates should know that companies have to pay dividends to their shareholders to cover their opportunity cost and to compensate them for the risk they undertake by investing their capital.	
4.2	**Borrowings**	**Candidates should understand that borrowings can increase returns on equity but that borrowing can increase losses too. Candidates should also be aware that debt is an allowable expense, so the after-tax cost is usually less than the nominal rate of interest.**	4
4.2.1	Characteristics of financial gearing	Candidates must understand that if the rate of return on assets financed by debt exceeds the cost of borrowing, profits will be higher than if the company had relied only on equity capital, and vice versa.	
4.2.2	Optimal levels of financial gearing	Candidates must understand that companies can have too much financial gearing or too little. As interest is tax-deductible, debt is cheaper to service than equity.	
4.2.3	Cost of debt	Candidates must be able to calculate the average cost of debt of a company.	
4.3	**Cost of capital**	**Candidates should know that cost of capital forms the "criterion" or "hurdle" rate used to assess the viability of capital investment proposals.**	2
4.3.1	WACC – weighted average cost of capital	Candidates should be able to calculate the Weighted Average Cost of Capital.	
5	RETURN ON INVESTMENT AND OPPORTUNITY COST		12
	Candidates must understand why investors measure returns on their investments. Candidates must know and be able to apply investment appraisal techniques, including discounted cash-flow methods.		
5.1	**Returns on investment**	**Candidates must understand that investors always seek an economic return on their investment. Some business projects only offer the prospect of a return after many years, which may be difficult to assess accurately. Other investments, particularly those in financial products, offer greater clarity at the outset, but may carry greater risk.**	3
5.1.1	Yield	Candidates must know that yield is the rate of return on an investment (usually a security). Candidates must be able to calculate dividend yield on a share and running yield on a bond.	
5.1.2	Capital gain	Candidates must know that capital gain is also part of the return on an investment (usually a security), resulting from an increase in its market value.	

5.2	Opportunity cost	Candidates should know that opportunity cost is the cost of the next best alternative foregone. In investment, opportunity cost is usually measured in terms of the best "risk-free" rate of return.	2
5.2.1	Non interest-bearing cash	Candidates should understand why there is an economic cost attached to holding too much cash.	
5.2.3	"Risk-free" returns vs other investments	Candidates must understand that some investments are virtually "risk-free" and that all other investments must be appraised against returns available from such investments.	
5.3	The "time value" of money	Candidates must understand that the rate of interest on money consists of time preference, inflation premium and risk premium.	1
5.3.1	Valuing future returns	Candidates need to understand the concept that future returns must be compared with present value when appraising investments.	
5.4	Investment appraisal	Candidates must be aware of investment appraisal techniques, including the payback method, and the discounted cash flows methods of net present value and internal rate of return. Candidates should understand that the arbitrariness of certain assumptions in discounted cash flow analysis limits these appraisal techniques' usefulness.	6
5.4.1	Payback	Candidates must know that the payback method of appraisal calculates the number of years it takes for the cumulative returns of a capital project to exceed the initial investment.	
5.4.2	Net present value	Candidates should understand compound interest rates and discount factors and use them to compare the total present value of future cash receipts with the initial capital investment in a project.	
5.4.3	Internal Rate of Return	Candidates must know that internal rate of return is a discounted cash flow method that shows the actual rate of return of a project over time, which can then be compared with the hurdle, or criterion rate of return.	
6	VALUATION OF SECURITIES		7
		Candidates should know and be able to apply basic techniques for the valuation of securities. This requires an understanding of modern portfolio theory.	
6.1	Equity shares	Candidates should understand that returns from equities can be in the form of income from dividends and/or capital gains, but the bulk of returns derive from dividends and dividend growth.	4
6.1.1	Dividend discount model	Candidates must know that dividend discount models seek to place a present value on future payments of dividends and an annual assumed rate of growth of those dividends.	
6.1.2	Equity risk premium	Candidates must understand that investors seek higher returns to compensate them for higher risk. They must know that equities are riskier than some other investments, such as cash deposits or government bonds, and therefore must provide a premium rate of return over the "risk-free" rate.	

6.1.3	Modern portfolio theory	Candidates must understand the difference between market, or non-diversifiable risk, and unique, or diversifiable risk. Candidates must understand Beta but they are not required to calculate the Capital Asset Pricing Model.	
6.2	**Bonds**	**Candidates should know the characteristics of bonds and how they are valued, including running (flat) yield and yield-to-maturity.**	2
6.2.1	Government bonds (gilts)	Candidates should understand why the prices of government bonds reflect expectations of future interest rates. Candidates must know the characteristics of UK gilts, including their maturities.	
6.2.2	Yield to maturity	Candidates must know that the yield to maturity of a bond is the overall rate of return that an investor will receive if all interest payments are made on schedule and the principal is repaid upon maturity.	
6.3	**Hybrids**	**Candidates should be aware that some types of bond can be converted into equity. These offer steady income with the potential for capital gains.**	1
6.3.1	Convertible bonds	Candidates must know the characteristics of convertible bonds.	
7	**DERIVATIVES, ASSET-BACKED SECURITIES; ETHICAL ISSUES OF FINANCIAL ENGINEERING**		**11**
		Candidates must understand the role of derivatives in financial markets and the way that financial engineering creates structured, or packaged, products tailored to the specific needs of certain classes of investor. Candidates should know the risks that are associated with these types of investment products.	
7.1	**Options**	**Candidates should be aware of the use of options to hedge risk or provide geared returns. Candidates should be able to understand the characteristics of call and put options and why investors might wish to buy and sell them. Candidates should understand the terms put, call and strike price.**	2
7.1.1	Equity (stock) options	Candidates must know that an equity option is a contract between a buyer and seller to transact a share at a future date at an agreed price. The buyer of the option has the right, but not the obligation, to engage in that transaction, while the seller has an obligation to fulfil the transaction.	
7.1.2	Index options	Candidates must know that options can be bought or sold on a basket of stocks, as represented by a stock market index. Candidates must understand why investors use stock index options.	
7.2	**Futures**	**Candidates should be familiar with the evolution of financial futures from commodity futures. Candidates should be aware of the most widely traded types of financial futures contract and why they are useful to the banks and the wider financial services industry.**	2
7.2.1	Commodity futures	Candidates must understand that a commodity future is an agreement between two parties to exchange a standardised quantity and quality of a commonly traded commodity for a price agreed in the present but with delivery occurring at a specified date in the future.	

7.2.2	Financial futures	Candidates must know that financial futures share similar characteristics to commodity futures but the standardised assets are tangible ones such as currencies or securities, or intangible or referenced assets such as stock indexes and interest rates.	
7.3	**Synthetics**	**Candidates should be aware that different types of financial instrument can be packaged together to create "synthetic" or "structured" products.**	2
7.3.1	Financial engineering	Candidates should know that financial engineering involves the creation of new financial investments, often on a bespoke basis to meet the specific requirements of an investor.	
7.4	**Asset-backed securities**	**Candidates should know the characteristics of asset-backed securities. They should know that one type of ABS, based on mortgages, played a key role in the 2007-8 global financial crisis.**	2
7.4.1	Mortgage-backed securities	Candidates should know the characteristics of mortgage-backed securities.	
7.5	**Ethical issues of financial engineering**	**Candidates should understand that many financial derivatives and structured products are so complex that regulators, auditors and investors find it hard to evaluate the risks involved.**	3
7.5.1	Moral hazard	Candidates should know how to define moral hazard and understand why securitisation of debt can lead to moral hazard.	
7.5.2	Risk transparency	Candidates should understand how the securitisation of bundles of debts of different classes of risk can obscure the true risk associated with the underlying assets.	
7.5.3	Contagion	Candidates should understand how even a small component of "toxic" debt can contaminate a wide range of financial instruments, leading to a contagious loss of investor confidence across markets worldwide.	
8	**ETHICS AND GOVERNANCE**		**18**
	Candidates should understand the importance of ethics in financial systems and that ethics can never wholly be replaced by government regulation.		
8.1	**Goal conflict – objectives of business vs society**	**Candidates must be aware that the goals of business and the goals of society do not always coincide, and that when they are in conflict, compromises must be made.**	4
8.1.1	Concept of stakeholders	Candidates must be able to identify the stakeholders in companies and markets, and understand that tensions between opposing motives and desires can arise.	
8.1.2	CSR - Corporate and Social Responsibility	Candidates must know that companies are required not just to achieve profits for their shareholders, but to do so in a way which is ethical and does not damage the environment or the rights of individuals.	
8.2	**Self-regulation and government regulation**	**Candidates must be aware of the evolution of the regulation of financial markets from self-regulation to government regulation, and understand the danger this poses to the concept of personal responsibility.**	4

8.2.1	"My word is my bond"	Candidates must know the motto of the London Stock Exchange and the Chartered Institute for Securities & Investment and understand the ethos it represents.	
8.2.2	Government prudential regulation and systemic risk	Candidates must know the circumstances of the global financial crisis 2007-8 and understand its basic causes. Candidates must know the main steps that governments took to overhaul their financial regulatory structures.	
8.2.3	"Too big to fail"	Candidates must understand the dangers that very large financial institutions pose to economic stability and know the various measures being taken by regulators to deal with those dangers. In particular, candidates should be aware that the USA's Dodd-Frank Act places restrictions on the ability of banks to trade in securities or run hedge funds.	
8.2.4	Confidence and psychology of the market	Candidates should understand the importance of confidence in financial markets and how the mis-selling of financial products has led to an erosion of the confidence of consumers.	
8.3	**EU regulation of the financial markets**	**Candidates should know the main EU initiatives and the bodies set up to implement them.**	2
8.3.1	ESMA and other bodies	Candidates should know the main EU bodies for regulating securities markets, the pensions industry, the insurance industry and the banking sector.	
8.4	**Shareholder rights and duties**	**Candidates should be aware of the arguments for and against greater shareholder activism. They should also be familiar with initiatives to improve corporate governance in the UK.**	3
8.4.1	Stewardship: the role of the shareholder as owner	Candidates should understand that shareholders are to all intents and purposes the owners of corporations but rarely exercise direct control over the actions of the corporations they own.	
8.4.2	Short-termism: impact on corporate governance	Candidates should understand that the pressure on institutional shareholders to produce immediate returns on their investments can reduce their willingness to support corporate strategies which will only produce results after several years.	
8.5	**Employees, directors and remuneration**	**Candidates should be aware of the debate over the "bonus culture" in the financial services industry and the need for cyclical industries to keep fixed costs to a minimum.**	2
8.5.1	Alignment of interests	Candidates should understand that companies find it hard to align the interests of employees with those of their directors; and the interests of directors with those of their shareholders.	
8.5.2	Appraisals and claw-backs	Candidates should know the role of appraisals and claw-backs in the remuneration process.	
8.6	**Consumers**	**Candidates should be aware of the importance of a culture of stewardship in financial services, and the need to treat customers fairly.**	3
8.6.1	Treating customers fairly	Candidates should understand the principle of treating customers fairly.	
8.6.2	Prudential regulation: government's role in protecting consumers' assets	Candidates should know the main measures taken by the UK and EU governments to protect consumers' financial assets in the retail sector.	

Unit 3: Financial Products, Markets & Services

Unit Overview

The aim of this unit is to provide candidates with an understanding of the financial services industry and its structure with a focus on investments.

Candidates are required to learn the nature and purpose of the retail and wholesale (professional) sectors and main products they sell to customers. Market structures for the trading of equities, debt, commodities and derivatives are all contained in the specification.

Regulation of the industry is also covered in considerable depth.

The number of anticipated guided learning hours is indicated below in the right hand column.

This unit can be taken at any time of the year via Computer Based Testing.

Unit Content			
Learning objective	Content	Amplification	GLH 80
1	**THE FINANCIAL SERVICES INDUSTRY**		
	Candidates should understand the financial services industry and key investment distribution channels within it, distinguishing between retail and professional business.		
1.1	Participants in the financial services industry	Candidates should be able to summarise the role of key participants within the financial services industry, understanding the differences between retail and professional business and who the main customers are in each case. Candidates should also be able to summarise the role of key investment distribution channels.	
2	**ECONOMIC ENVIRONMENT**		
	Candidates must understand the economic environment and the factors which affect it.		
2.1	Economic activity	Candidates should be able to explain the factors which determine the level of economic activity.	
2.2	Central Banks / Monetary Policy Committee	Candidates should know the functions of the Central Banks and the Monetary Policy Committee.	
2.3	Credit	Explain how goods and services are paid for and how credit is created.	
2.4	Inflation: CPI and RPI	Candidates should understand the impact of inflation on economic behaviour as well as the meaning of two measures of inflation: the Consumer Prices Index and Retail Price Index.	
2.5	Economic data	Summarise the impact of specified economic data.	

3	FINANCIAL ASSETS AND MARKETS		
	Candidates should understand financial assets and markets.		
3.1	Cash deposits	Candidates should know the characteristics of fixed term and instant access deposit accounts. Candidates should also be able to distinguish between gross and net interest payments and know the advantages and disadvantages of investing in cash.	
3.2	The Money Market	Candidates should know the difference between a capital market instrument and a money market instrument as well as the definition and features of specified instruments.	
3.3	Property	Candidates should understand the characteristics of the property market and the advantages and disadvantages of investing in property.	
3.4	Foreign Exchange Market	Candidates should understand the basic structure of the foreign exchange market, including currency quotes and settlement.	
4	EQUITIES		
	Candidates should understand how a company is formed and the differences between private and public companies.		
4.1	How a company is formed	Candidates should know how a company is formed and the differences between private and public companies.	
4.2	Ordinary / Preference shares	Candidates should understand the features and benefits of ordinary and preference shares.	
4.3	Owning shares	Candidates should understand the advantages, disadvantages and risks associated with owning shares.	
4.4	Corporate actions	Candidates should know what a corporate action is and be able to differentiate between mandatory, voluntary and mandatory with options. Candidates should also understand bonus / scrip / capitalisation issues / rights issues / dividend payments / takeover /merger and the purpose and format of Annual General meetings.	
4.5	Markets	Candidates should understand the difference between the primary market and the secondary market.\n\nCandidates should also know the characteristics of specified exchanges, the types and uses of a stock exchange index and the advantages / disadvantages of a company obtaining a listing of its shares.\n\nCandidates should know to which markets relate to specified indices.\n\nCandidates should also understand how settlement takes place and the key participants within the settlement process.	

5	BONDS		
	Candidates should understand the main types of bonds and the advantages and disadvantages of investing in different types of bonds.		
5.1	Government Bonds	Candidates should know the definition and features of government bonds.	
5.2	Corporate Bonds	Candidates should know the definitions and features of the following types of bond: domestic; foreign and Eurobond.	
5.3	Bonds	Candidates should know the advantages and disadvantages of investing in different types of bonds and be able to calculate the flat yield of a bond. Candidates should also understand the role of credit rating agencies and the differences between investment and non-investment grades.	
6	DERIVATIVES		
	Candidates should understand the main types of derivatives.		
6.1	Uses of derivatives	Candidates should understand the uses and application of derivatives	
6.2	Futures	Candidates should know the definition and function of a future.	
6.3	Options	Candidates should know the definition and function of an option and understand the terms 'calls' and 'puts'.	
6.4	Terminology	Candidates should understand key terms: long; short; holder; writing; premium.	
6.5	Derivatives / Commodity Derivatives	Candidates should know the characteristics of the derivatives and commodity markets and the advantages / disadvantages of investing in them.	
7	INVESTMENT FUNDS		
	Candidates should understand the different types of investment funds.		
7.1	Collective investments	Candidates should understand the benefits of collective investment and the range of investment strategies.	
7.2	Unit Trusts	Candidates should know the definition and legal structure of a unit trust; the types of funds and how they are classified and the roles of the Manager and the Trustee.	
7.3	Open Ended Investment Companies (OIECS)	Candidates should know the definition and legal structure of an OEIC/ICVC; the roles of the Authorised Corporate Director and the Depositary; the term SICAV and the context in which it is used.	
7.4	Pricing, Dealing and Settling	Candidates should know how shares and units are bought and sold and how collectives are settled.	
7.5	Investment Trusts	Candidates should know the characteristics of an investment trust, the factors that can affect its pricing, the meaning of the discounts and premiums in relation to investment trusts and how investment trust shares are traded.	
7.6	Exchange-Traded Funds	Candidates should know the main characteristics of Exchange-Traded Funds.	
7.7	Hedge Funds	Candidates should know the basic characteristics of Hedge Funds.	

8	FINANCIAL SERVICES REGULATION		
	Candidates should understand financial services regulation and its application.		
8.1	Financial Services Regulation	Candidates should understand the need for regulation and the function of UK regulators in the financial services industry. Candidates should also understand the reasons for authorisation for firms and approved persons and know the groups of activity (controlled functions) requiring approved person status.	
8.2	Financial Crime	Candidates should know what money laundering is, the stages involved, the related criminal offences and the action to be taken by those employed in financial services if money laundering activity is suspected and what constitutes satisfactory evidence of identity. Candidates should also know the purpose and main provisions of the Proceeds of Crime Act; the Money Laundering Regulations and the purpose of the Bribery Act. Candidates should know how firms can be exploited as a vehicle for financial crime: theft of customer data to facilitate identity fraud.	
8.3	Insider Dealing and Market Abuse	Candidates should know the offences that constitute insider dealing / market abuse and the instruments covered.	
8.4	Data Protection Act	Candidates should understand the basic steps firms should take to comply with the Data Protection Act.	
8.5	Breaches, Complaints and Compensation	Candidates should know the difference between a breach and a complaint; the responsibilities of the industry for handling customer complaints and dealing with breaches. Candidates should also know the role of the Financial Ombudsman Service and the circumstances under which the Financial Services Compensation Scheme pays compensation and the compensation payable for investment claims.	

9	**TAXATION, INVESTMENT WRAPPERS AND TRUSTS**		
	Candidates should understand investment wrappers, taxation and trusts.		
9.1	Tax	Candidates should know the direct and indirect taxes as they apply to individuals and be able to calculate the tax due on investment income. Candidates should also know the main exemptions in respect of the main personal taxes.	
9.2	Investment Wrappers	Candidates should know the definition and aim of New Individual Savings Accounts (ISAs); the tax incentives provided by (N)ISAs and the main types available. Candidates should also know the eligibility conditions for investors and specific aspects of investing in them: subscriptions; transfers; withdrawals; number of managers; number of accounts.	
9.3	Pensions	Candidates should know the tax incentives provided by pensions and the basic characteristics of: State Pension Scheme; Occupational Pension Schemes; Personal Pensions including Self-Invested Personal Pensions (SIPPs); Stakeholder Pensions; NEST /Auto Enrolment. Candidates should also know the options for pensions at retirement (annuity/draw down).	
9.4	Trusts	Candidates should know the definition of: trustee; settlor; beneficiary. Candidates should also know the main reasons for creating trusts.	
10	**Other Retail Financial Products**		
	Candidates should understand other retail financial products such as loans, mortgages and life assurance.		
10.1	Loans	Candidates should know the difference between bank loans, overdrafts and credit card borrowing; the difference between the quoted interest rate on borrowing and the effective annual rate of borrowing. Candidates should also be able to calculate the effective annual rate of borrowing given the quoted interest rate and the frequency of payment. Candidates should know the difference between secured and unsecured borrowing.	
10.2	Mortgages	Candidates should understand the characteristics of the mortgage market and the definition of and types of mortgage (repayment / interest only / offset).	
10.3	Life Assurance	Candidates should understand the basic principles of life assurance and the definition of term assurance / whole-of-life life policies.	
10.4	Protection Insurance	Candidates should know the main areas in need of protection: family / personal; mortgage; long term care; business protection. Candidates should also know the definition of the following types of protection insurance; critical illness; income protection; mortgage payment; accident and sickness; household cover; medical insurance; long term care.	

Unit 4: Extended Project (DipFRI)

Unit Overview

This unit requires candidates to apply the knowledge they have acquired in units 1, 2 and 3.

It engages candidates in desk bound research with a view to expanding their skills of planning, independent research, analysis, problem-solving, criticism, synthesis, evaluation, presentation skills and self-reflection, culminating in a 3,000 – 4,000 word report, complemented by a 500 word personal evaluation of their project handling.

Working independently but with the support of their Teacher-Assessor, candidates will gain confidence in their own skills to use their initiative and expand their creative skills. This expansion in skills and confidence will benefit learners regardless of whether they decide to undertake further or higher education or a move into a career.

The number of anticipated guided learning hours is indicated below in the right hand column.

Project submissions can be made in May of each year for the summer session.

Unit Content

Learning objective	Content	Amplification	GLH 120
1	**PLAN AND MANAGE AN INVESTIGATION**		
	Candidates will be able to plan and manage an investigation and specifically • identify the main objectives for the chosen project title using the knowledge gained in units 1-3 of the Diploma • provide an appropriate plan with risks identified • use organisational skills and strategies appropriately		
2	**UNDERTAKE RESEARCH, COLLECT EVIDENCE AND SELECT INFORMATION**		
	Candidates will be able to undertake research, collect evidence and select information using appropriate methodologies and specifically: • select a range of relevant information from appropriate secondary research sources such as textbooks, newspapers, websites and TV programmes • relate resources to research question or hypothesis		
3	**ANALYSE / INTERPRET EVIDENCE AND DRAW CONCLUSIONS**		
	Candidates will be able to analyse and interpret evidence, draw conclusions and write up results in the form of a report. Specifically, candidates will be able to: • interpret evidence gathered and present relevant data appropriately • draw logical conclusions which will form content of project • write up report, using appropriate style and structure		
4	**EVALUATION**		
	Candidates will be able to present an evaluation of the project in which they review and evaluate the project and their own learning.		

Assessment, Results & Grading

Unit 1: Money, Economies & Uncertainty

This unit is assessed by short answer and extended responses based on an unseen case study as well as essay questions covering the unit syllabus.

Available in May only.

A	Likely to require at least 80%
B	Likely to require at least 70%
C	Likely to require at least 60%
D	Likely to require at least 50%
E	Likely to require at least 40%

Candidates who fail to reach the minimum standard for grade E will be recorded as U (unclassified) and will not receive a unit certificate.

Unit 2: Investment Decision Making, Accounting & Governance

This unit is assessed by short answer and extended responses based on an unseen set of accounts as well as essay questions covering the unit syllabus.

Available in May and November.

A	Likely to require at least 80%
B	Likely to require at least 70%
C	Likely to require at least 60%
D	Likely to require at least 50%
E	Likely to require at least 40%

Candidates who fail to reach the minimum standard for grade E will be recorded as U (unclassified) and will not receive a unit certificate.

CISI Resits Policy

Candidates who are unsuccessful in an examination will be allowed a maximum of one resit. Only those candidates who have failed to reach the minimum standard (Grade E) or who have been deemed to have underperformed will be allowed an opportunity to resit the examination.

Certificate in Finance, Risk & Decision Making

Successful completion of units 1 and 2 leads to the award of the CISI Level 3 Certificate in Finance, Risk & Decision Making and an overall grade for this Certificate as shown below.

Raw scores for each unit are converted to a mark on the Uniform Mark Scale (UMS) and the total UMS marks across the two units are used to determine the overall qualification grade.

The UMS available to each unit are equally weighted (100 UMS each) in line with the specification.

Grade	UMS (Maximum 200)
A	160-200
B	140-159
C	120-139
D	100-119
E	80-99

Unit 3: Financial Products, Markets & Services

This unit is assessed by 50 multiple choice questions via Computer Based Testing. Available all year round.

Grades available are.

A (80% and over)	40-50 marks
B (76% and over)	38-39 marks
C (70% and over)	35-37 marks
D (60% and over)	30-34 marks
E (50% and over)	25-29 marks
U (under 50%)	0-24 marks

Candidates who fail to reach the minimum standard for grade E will be recorded as U (unclassified) and will not receive a unit certificate.

Unit 4: Extended Project (DipFRI)

Candidates are required to submit a 3,000 – 4,000 word project report, supported by a 500 word self-evaluation.

The extended project is internally assessed by Centre Teacher-Assessors and externally moderated by the CISI.

A (78% and over)	42-54 marks
B (65% and over)	35-41 marks
C (60% and over)	32-34 marks
D (55% and over)	29-31 marks
E (50% and over)	27-28 marks
U (under 50%)	0-26 marks

Candidates who fail to reach the minimum standard for grade E will be recorded as U (unclassified) and will not receive a unit certificate.

CISI Resits Policy

Unit 3: Financial Products, Markets & Services

Candidates who are unsuccessful in this examination cannot re-sit the examination less than 3 clear days after their last examination date. For example, if a candidate sat an examination on Thursday, the earliest re-sit date would be Monday.

Candidates are allowed a maximum of one re-sit. Only those candidates who have failed to reach the minimum standard (Grade E) or who are deemed to have underperformed will be allowed the opportunity to re-sit the examination. Examinations are available all year round.

Unit 4: Extended Project

Candidates who are unsuccessful in the Extended Project may make one further resubmission using the same Project Title. Applications and submissions must be received in accordance with the deadlines published on the CISI website.

Assessment, Results & Grading: Diploma

Candidates achieving all four units will be awarded the CISI Level 3 Diploma in Finance, Risk & Investment and an overall grade as below.

Raw scores for each unit are converted to a mark on the Uniform Mark Scale (UMS) and the total UMS marks across the four units are used to determine the overall qualification grade.

The Diploma carries the combined UMS of all four units and each unit UMS is weighted in line with the specification. Units 1 and 2 each carry 100 UMS (25%) respectively. Unit 3 carries 80 UMS (20%) and unit 4 carries 120 UMS (30%). A total of 400 UMS is available.

Grade	UMS (Maximum 400)	UCAS Tariff
A	320-400	120
B	280-319	100
C	240-279	80
D	200-239	60
E	160-199	40

Access Arrangements & Special Consideration

The CISI is committed to ensuring that all candidates receive equality of opportunity and appropriate access to assessment.

No candidate shall receive shall receive unfair, unlawful discrimination (directly or indirectly) or treatment on the grounds of age, disability, gender reassignment, race, religion or belief, sex, sexual orientation or pregnancy and maternity.

Candidates may access our exam policies, along with out Equality Policy and our Exam Regulations via the CISI website: www.cisi.org/exampolicies.

Please note: although the CISI follows JCQ Guidelines, we are not a member of the JCQ and therefore any requests for special consideration should be addressed directly to the CISI as outlined in our policies.

Edition 2 - September 2016

Please contact our educational development team on:

educationdevelopment@cisi.org

or visit **cisi.org/education** for further information on our introductory qualifications for schools and colleges