Objective of the examination

The objective of the examination is to provide candidates with an introduction to the basics of financial services.

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

- Ethics and Integrity in Financial Services
- Introduction - saving and borrowing
- Banking
- Equities
- Bonds
- Derivatives
- Markets
- Other Areas of Financial Services
Syllabus structure

The unit is divided into elements. These are broken down into a series of learning objectives.

Each learning objective begins with one of the following prefixes: know, understand or be able to calculate. These words indicate the different levels of skill to be tested.

- know requires the candidate to recall information such as facts, rules and principles
- understand requires the candidate to demonstrate comprehension of an issue, fact, rule or principle
- be able to calculate requires the candidate to be able to use formulae to perform calculations

Candidate Update

Candidates are reminded to check the ‘Candidate Update’ area of the Institute’s website (cisi.org/candidateupdate) on a regular basis for updates that could affect their examination as a result of industry change.
Examination Specification

Each examination paper is constructed from a specification that determines the weightings that will be given to each element. The specification is given below.

It is important to note that the numbers quoted may vary slightly from examination to examination as there is some flexibility to ensure that each examination has a consistent level of difficulty.

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<th>30 multiple choice questions</th>
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Assessment Structure

Assessment is a 1 hour examination of 30 multiple choice questions.

Candidates sitting the exam by Computer Based Testing may have up to 10% additional questions as trial questions that will not be separately identified and do not contribute to the result. Candidates will be given proportionately more time to complete the test.
Summary Syllabus

**Element 1** Ethics and Integrity in Financial Services
  1.1 Ethics and Integrity

**Element 2** Introduction - saving and borrowing
  2.1 Savers/Borrowers

**Element 3** Banking
  3.1 Banking

**Element 4** Equities
  4.1 Equities

**Element 5** Bonds
  5.1 Bonds

**Element 6** Derivatives
  6.1 Derivatives

**Element 7** Markets
  7.1 Markets

**Element 8** Other Areas of Financial Services
  8.1 Fund Management
  8.2 Foreign Exchange
  8.3 Insurance
  8.4 Retirement Planning
Element 1  Ethics and Integrity in Financial Services

1.1  Ethics and Integrity
On completion, the candidate should:

1.1.1  know the key principles of ethical behaviour in financial services

Element 2  Introduction - saving and borrowing

2.1  Savers/Borrowers
On completion, the candidate should:

2.1.1  know how the financial services industry can be viewed as linking those with surplus money (savers) and those with a need for money (borrowers) in the following ways:

- via banks (deposits, loans)
- via equities (ownership stake)
- via bonds (I owe you’s)

2.1.2  know that borrowers include companies and governments and that governments issue bonds rather than equities

2.1.3  know the relationship between the level of risk and the prospect of reward

2.1.4  know that the financial services industry also includes markets to enable investors in equities and bonds to buy or sell investments

2.1.5  know that the financial services industry also includes insurance providers to enable financial risks to be managed

2.1.6  know that the financial services industry also includes foreign exchange dealers to allow one currency to be exchanged for another to facilitate international trade

Element 3  Banking

3.1  Banking
On completion, the candidate should:
3.1.1 know the difference between retail and commercial banking and the types of customer – individuals/corporates

3.1.2 know the nature and types of borrowing available to retail customers:
- from banks – loans, mortgage loans, overdrafts
- from banks and credit card companies – credit cards
- from other sources – pawnbrokers, payday loans

3.1.3 know the difference between the quoted interest rate on borrowing and the effective annual rate of borrowing

3.1.4 be able to calculate the annual effective rate given the quoted rate and frequency of interest payment

3.1.5 know the difference between secured and unsecured borrowing

3.1.6 know what types of borrowing are likely to be relatively expensive – pawnbrokers/payday loans, credit cards, overdrafts, unsecured loans; and cheaper – secured loans, eg mortgages

3.1.7 know that investment banks help companies to raise money and advise them on strategy, eg mergers and acquisitions

3.1.8 know the role of central banks:
- banker to banking system
- banker for the government
- regulatory role (interest rate setting)

Element 4 Equities

4.1 Equities

On completion, the candidate should:

4.1.1 know the reasons for issuing shares (stock) – to finance a company

4.1.2 know the definition of an initial public offering (IPO)

4.1.3 know the potential sources of return from shares:
- dividend
- capital gain
4.1.4 *be able to calculate* the dividend yield given the share price and the dividends paid in the year

4.1.5 *know* that shares provide their owners with the right to vote at company meetings/assemblies

4.1.6 *know* the risks involved in owning shares:
- lack of profit
- bankruptcy/collapse

**Element 5**  **Bonds**

5.1 **Bonds**

On completion, the candidate should:

5.1.1 *know* the definition of a bond and the reasons for issue:
- alternative to loans or issuing shares

5.1.2 *know* the bond issuers:
- governments
- corporates

5.1.3 *know* the features of bonds:
- repayment date
- frequency of interest payments
- tradeable

5.1.4 *know* the key terms:
- nominal
- coupon
- redemption/maturity
- yield

5.1.5 *know* the advantages and disadvantages of investing in bonds:
- regular income
• fixed maturity date
• credit risk

5.1.6 know the role of credit rating agencies:
• investment grade/non-investment grade

5.1.7 understand the benefits and risk of leverage in a company’s financing structure

Element 6 Derivatives

6.1 Derivatives
On completion, the candidate should:

6.1.1 know the uses and application of derivatives
6.1.2 know the definition and function of a future
6.1.3 know the definition and function of an option

Element 7 Markets

7.1 Markets
On completion, the candidate should:

7.1.1 know the function of a stock exchange
7.1.2 know the reasons why a company makes an initial public offering (IPO)
7.1.3 know the purpose of a stock exchange index:
• single market
• global markets
7.1.4 know the following stock market indices and which market they relate to:
• Dow Jones Industrial Average
• S&P 500
• FTSE 100
Element 8  Other Areas of Financial Services

8.1  **Fund Management**

On completion, the candidate should:

8.1.1  *know* the principle of collective investment schemes:

- comparison with direct investment
- pooling
- diversification
- expertise

8.2  **Foreign Exchange**

On completion, the candidate should:

8.2.1  *know* the basic characteristics of the foreign exchange market:

- currency trading
- exchange rate

8.3  **Insurance**

On completion, the candidate should:

8.3.1  *know* the types of insurance available:

- personal
- corporate
- the concept of syndication

8.4  **Retirement Planning**

On completion, the candidate should:

8.4.1  *know* the importance of planning for retirement