



CISI International Introduction to Securities & Investment



About The Chartered Institute for Securities & Investment (CISI)

Leading professional body for staff employed in the investment industry

Main examining body for investment related exams and offers unique range of exams focused on international marketplace

Global presence:- Exams offered in Australia, China, India, the Middle East and Europe

45000 members in 104 countries

Extensive CPD programme



About The Chartered Institute for Securities & Investment (CISI)

CISI Qualifications	
Foundation Level	Fundamentals of Financial Services International Introduction to Securities & Investments
Professional Exams	Wealth Management Financial Planning Corporate Finance Investment Operations Islamic Finance Regulatory exams
Post Graduate Professional Exams	Chartered Wealth Manager Certified Financial Planner Diploma in Investment Compliance Diploma in Investment Operations Diploma in Corporate Finance Diploma in Capital markets



Career Pathways

The screenshot displays the CISI website's 'Study with us' page. The browser's address bar shows the URL <https://www.cisi.org/cisiweb2/cisi-website/study-with-us>. The website header features the CISI logo and '25 YEARS' anniversary. A navigation menu includes links for 'Study with us', 'Join us', 'CPD', 'Networking & events', 'Integrity & ethics', 'Schools, colleges & universities', 'About us', and 'MyCISI'. The main content area is divided into six colored panels, each representing a career pathway: 'Operations' (red), 'Wealth Management' (dark red), 'Compliance & Risk' (purple), 'Capital Markets & Corporate Finance' (blue), 'Islamic Finance' (green), and 'Financial Planning' (teal). The Windows taskbar at the bottom shows the time as 19:30 on 09/10/2017.



Objective of the Qualification

- Designed to meet the needs of new entrants to the investment industry
- With a tailored and focused approach to international markets, the award provides an overview of all areas of investment
- The qualification offers staff in a wide range of roles a valuable understanding of the language of the industry and provides firms with a benchmark entry level qualification which can be used for induction purposes
- **The Award is a stand alone benchmark examination as well as a technical unit within the Certificate in Investment Operations**



Course Outline

Introduction

- An introduction to the financial services industry and the main participants that are seen in financial centres around the globe

Economic Environment

- Some key aspects of macro-economics, key measures of economic data and the role of central banks in management of the economy

Equities

- Formation of companies, how companies are listed, the benefits and risks of owning shares and the methods by which they are settled

Bonds

- Key characteristics and types of government and corporate bonds and the risks and returns associated with them

Other Markets & Investments

- Overview of the main types of assets and the range of financial markets

Derivatives

- Brief review to provide an understanding of the key features of futures and options and the terminology associated with them

Investment Funds

- Main types including unit trusts, OEICs, Investment Trusts, Hedge Funds and Private Equity

Regulation and Ethics

- An overview of international regulation including specific areas such as financial crime and insider dealing as well as professional integrity and ethics

Other Financial Products

- Main types of financial products, including pensions, loans, mortgages and life assurance

Financial Advice

- An overview on the procedure of financial advice and the important aspects to consider



Exam



Duration = 1 hour



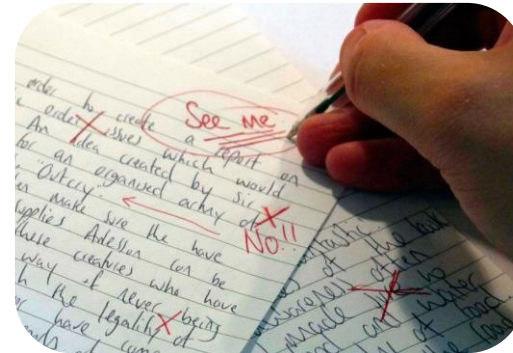
50 Multiple
Choice Questions



Pass Mark = 70%



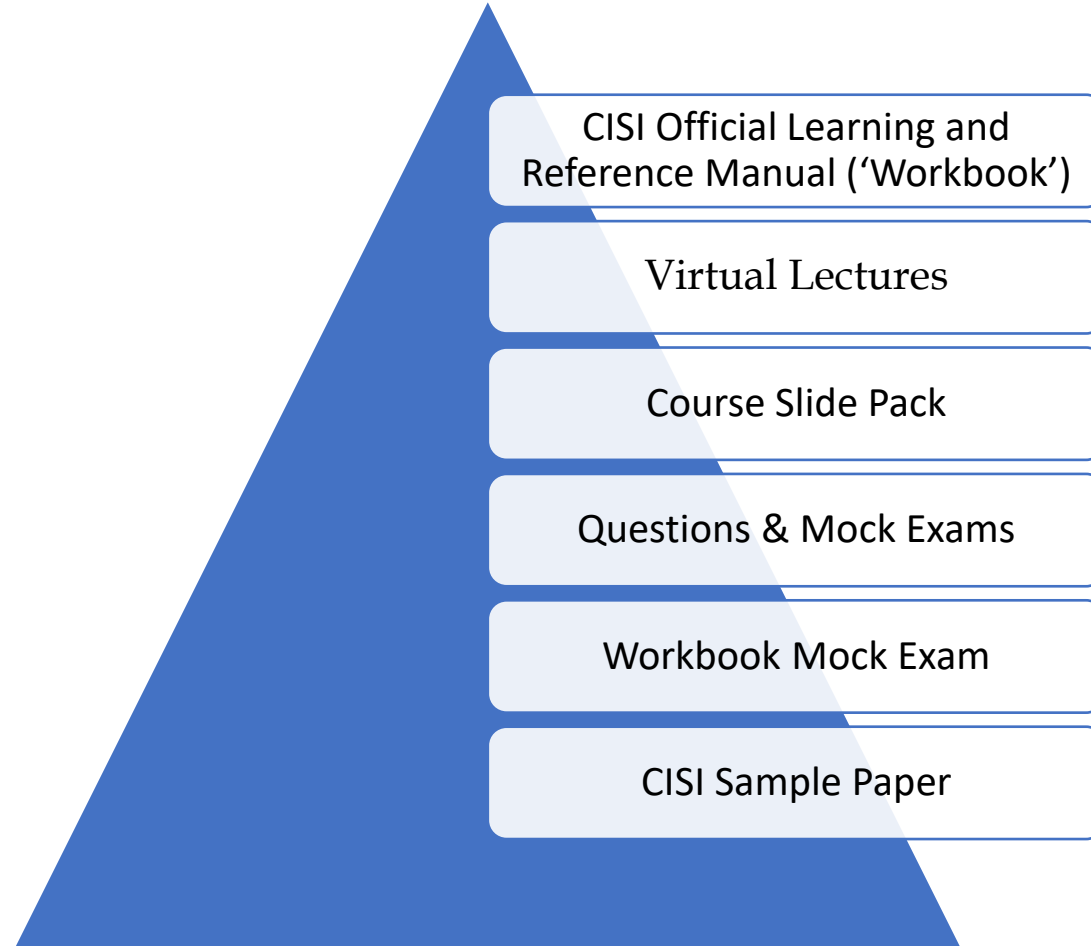
Pass Rate = 57%



No Negative
Marking



Materials:



Know

The Bank of Japan is which of the following?

- Retail Bank
- Investment Bank
- Central Bank
- Custodian Bank

Understand

What is the most likely effect of a central bank raising interest rates?

- Share prices will rise
- Share prices will fall
- Government bond prices will rise
- Corporate bond prices will rise



Exam Specification

Chapter	Subject	No of Questions
1	The Financial Services Sector	3
2	Economic Environment	4
3	Equities and Stocks	9
4	Bonds	7
5	Other Financial Assets	5
6	Derivatives	4
7	Investment Funds	6
8	Regulation and Ethics	5
9	Other Financial Products	4
10	Financial Advice	3
Total Questions		50



Best practice from exam revision courses

- ✓ Need to work through the detail in the workbook
- ✓ Test knowledge against end of chapter questions
- ✓ Test knowledge against the Learning Objectives
- ✓ Identify areas where additional study needed
- ✓ Use mock exams for practice



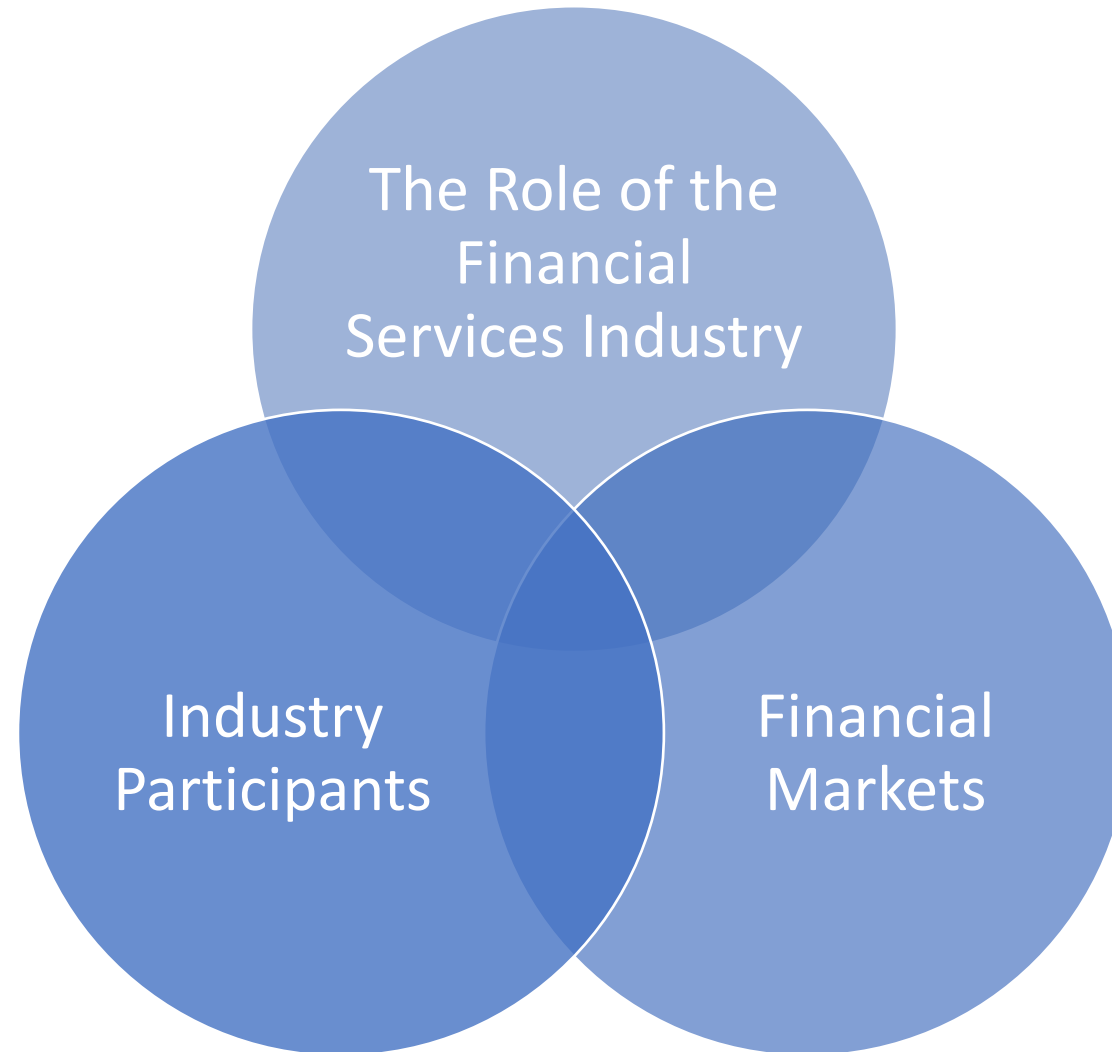


Chapter 1 – The Financial Services Sector

3 Questions



Financial Services Industry



Investment Chain

Provides the link between organisations needing capital and those with capital available for investment

Managing Risk

Allows risks to be managed effectively and efficiently through the use of insurance, and increasingly through the use of sophisticated derivatives.

Payment Systems

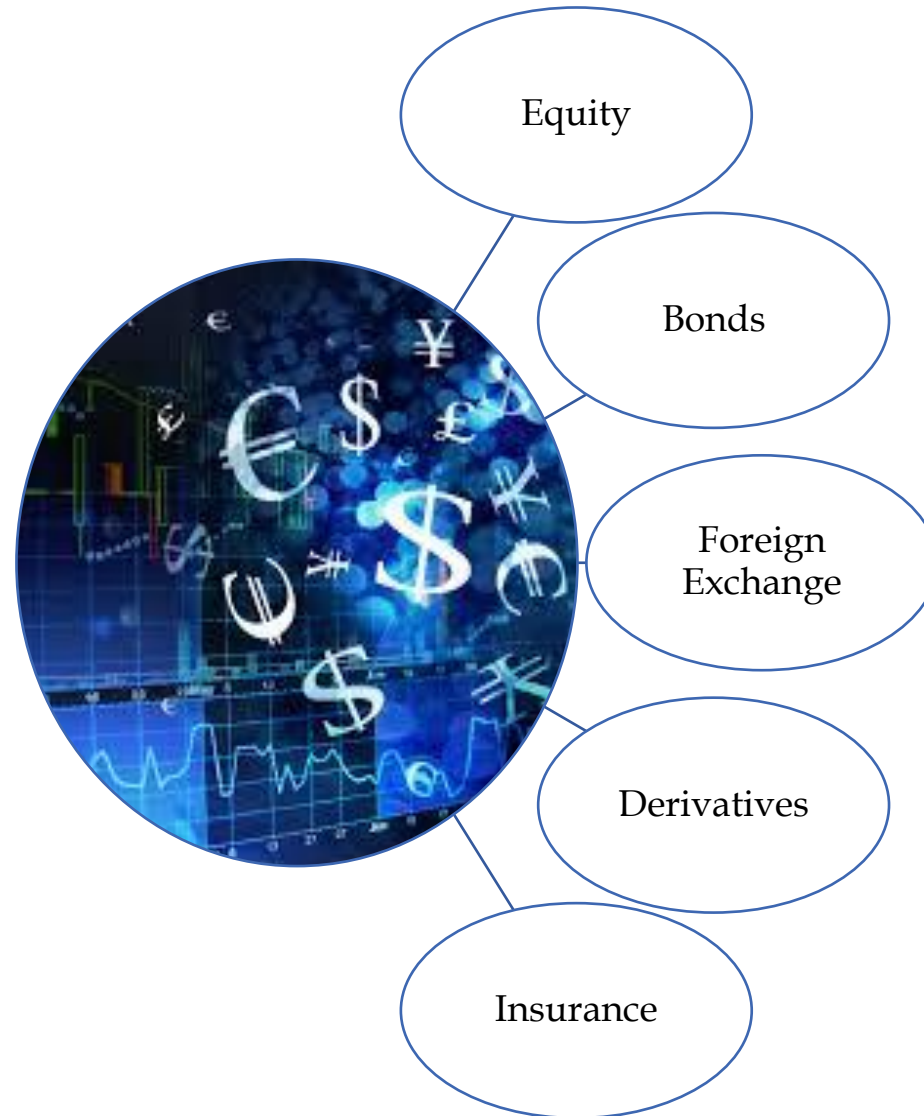
Mechanisms for money to be managed, transmitted and received quickly and reliably.



Wholesale Markets



Financial Markets



- **Global market capitalisation** was over US\$109 trillion as at the end of 2020
- The New York Stock Exchange (NYSE) - US\$26 trillion
- National Association of Securities Dealers Automated Quotations system (NASDAQ) - US\$19 trillion
- Shanghai Stock Exchange (SSE) – US\$7 trillion
- Tokyo Stock Exchange (TSE) - US\$6 trillion
- In Europe, the largest exchanges are the London Stock Exchange (LSE), Euronext and Deutsche Börse.
- In the Middle East, Tadawul – the Saudi Stock Exchange is the largest exchange with a domestic market capitalisation of close to US\$2.5 billion.



Multilateral Trading Facilities (MTFs):

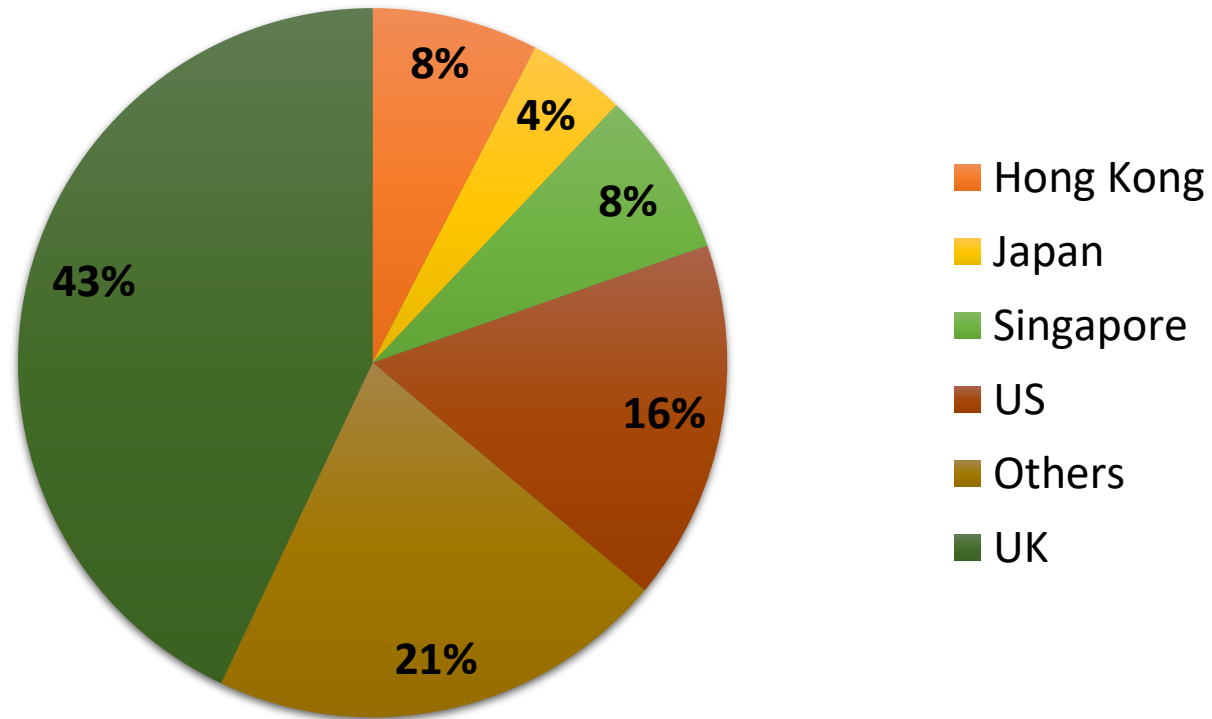
- Technology and communication networks
- Rivals to traditional stock exchanges
- These are trading systems that bring together multiple parties that are interested in buying and selling financial instruments, including **shares**, **bonds** and **derivatives**.



- The amounts outstanding on the global bond market now exceed US\$120 trillion. Domestic bonds - 80% of the total
- International bonds - 20% of the total
- Domestic bonds issued by companies and governments
- International bonds issued by companies, governments, and supranational agencies such as the World Bank.
- Governments are the largest issuers of bonds, followed by financial corporations.
- US has the largest bond market
- Trading in international bonds is predominantly undertaken in European markets.



Main Countries for FX Trading



Source: Bank for International Settlements



Foreign Exchange

- Largest of all financial markets - average daily turnover in excess of US\$5 trillion
- Exchange rate determined by supply and demand
- The market is provided by the major banks - provide rates of exchange at which they are willing to buy or sell currencies
- Historically, most FX deals were arranged over the telephone. Now, however, electronic trading is becoming increasingly prevalent.
- As FX is an over-the-counter (OTC) market: meaning one where brokers/dealers negotiate directly with one another. There is no central exchange or clearing house.



Foreign Exchange

Average Types of FX Instruments Stakeholders	
Spot transactions	30%
Outright forwards	15%
FX swaps	49%
Currency swaps	2%
Options and other products	4%



Derivatives Markets

- Trade a range of complex products based on underlying instruments, including currencies, indices, interest rates, equities, commodities and credit risk.
- Available on both the exchange-traded market and the OTC market
- Largest *exchange-traded* derivatives markets is the Chicago Mercantile Exchange (CME)
- Europe dominates trading in the OTC derivatives markets worldwide



Derivatives Markets

- OTC derivatives markets worldwide are about four times the size of stock quoted on stock exchanges.
- Interest rate derivatives contracts account for 80% of outstanding derivatives contracts, mostly through interest rate swaps
- The next largest segment is FX derivatives (15%), which are used to speculate on currency movements and to hedge the risks of currency positions.
- Equity-linked contracts, credit derivatives and commodity contracts form the next major segments and these are used to hedge against risk or for speculation.



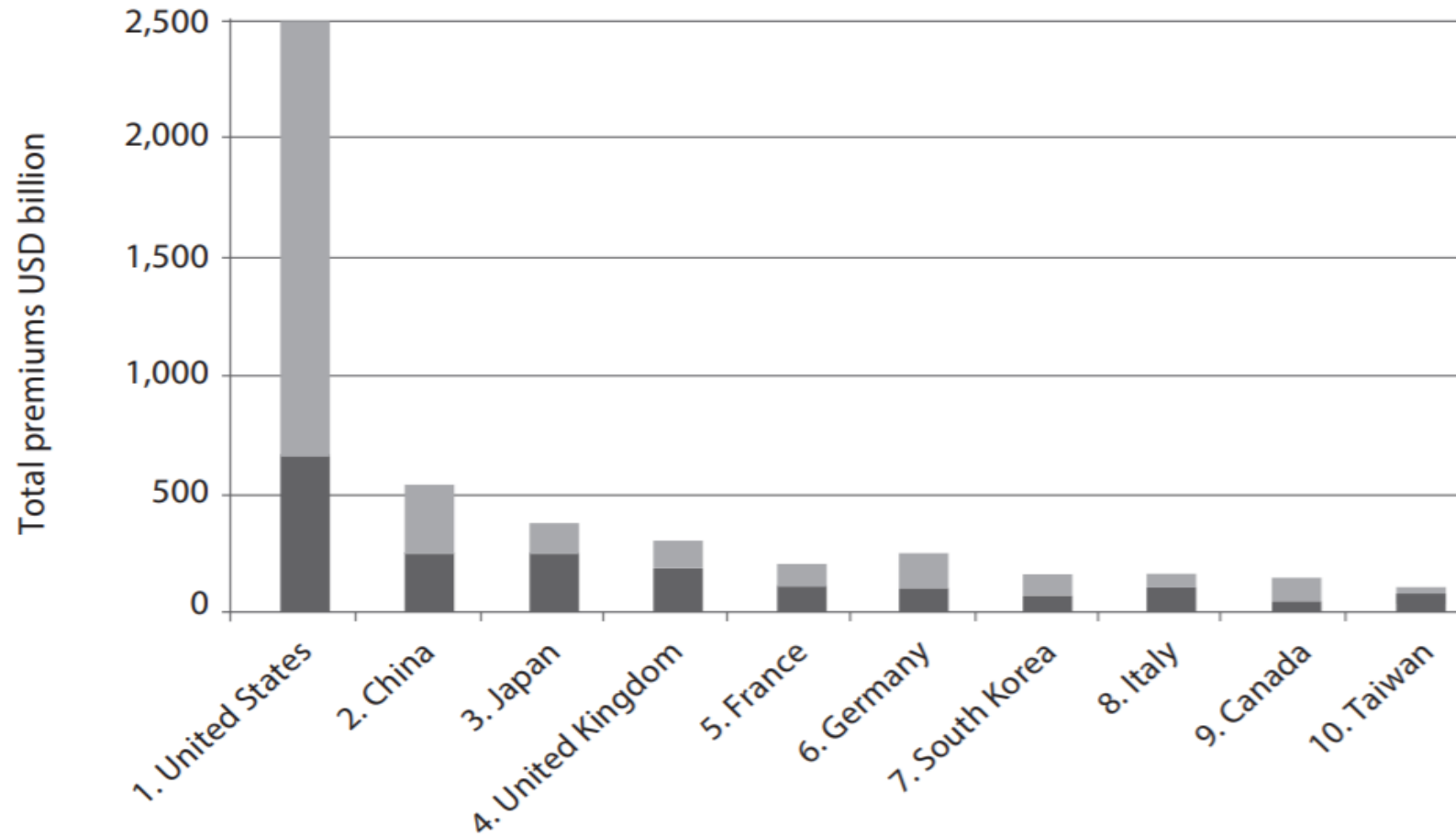
Specialise in the management of personal risk, corporate risk and protection of life events.

Globally, the US, Japan, China and the UK are the largest insurance markets, accounting for over 50% of worldwide premium income.



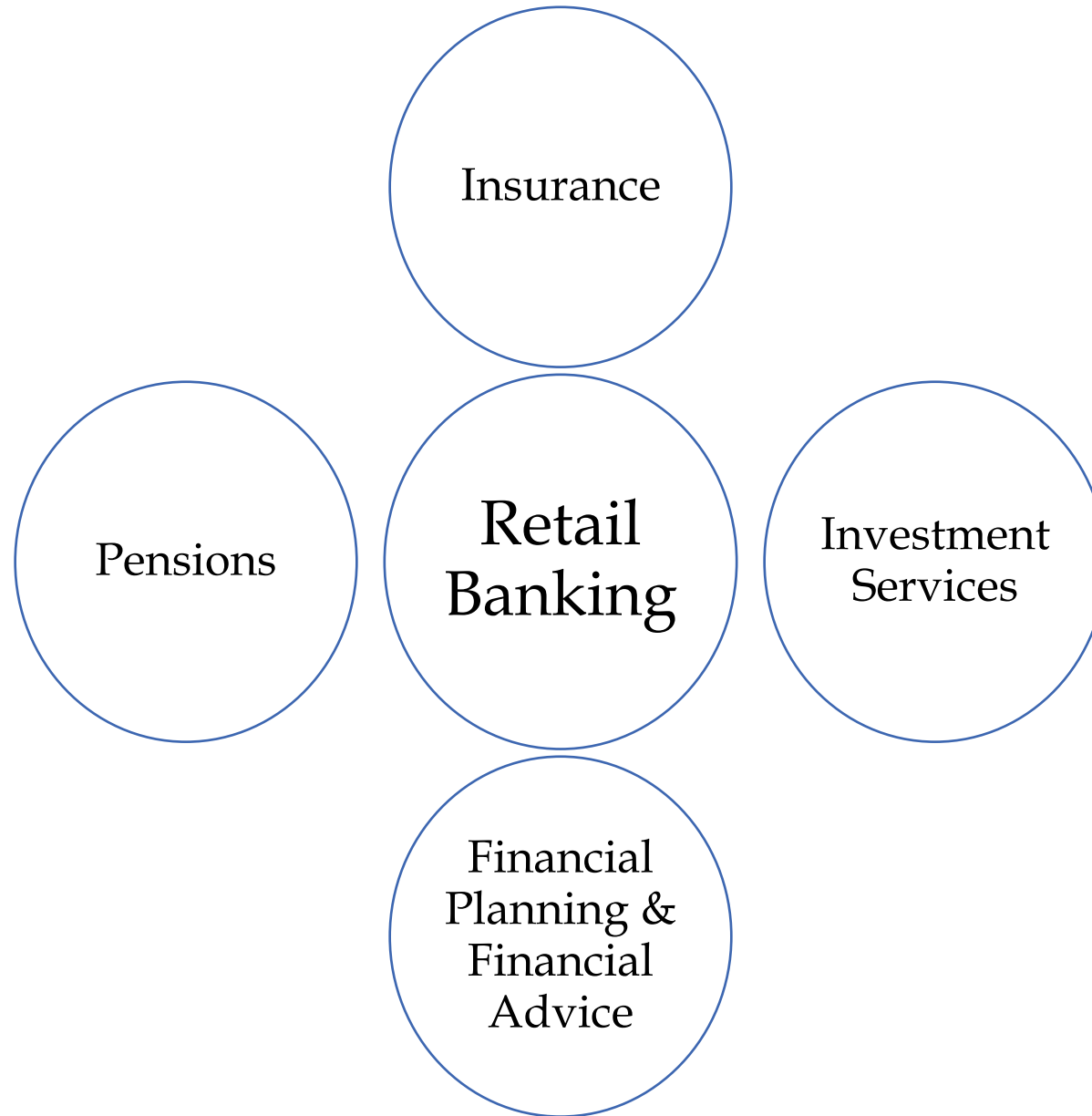
Insurance Markets

Ten Largest Markets in 2019



Source: Swiss Re 2020





Industry Participants - Banks

Retail Banks

- Deposit taking
- Lending
- Payment services
- Money transmission

Savings Institutions

- Specialised deposit companies
- Savings products
- Mortgage lending
- Typically mutual organisations
- Many have demutualised

Investment Banks

- Corporate finance and advisory work
- Banking, for governments, institutions and companies
- Treasury management
- Investment management
- Securities trading

Custodian Banks

- Holding assets in safekeeping
- Arranging settlement of purchases and sales of securities
- Collecting income from assets
- Providing information on underlying companies
- Managing cash transactions
- Performing foreign exchange transactions



Peer-to-Peer Lending & Crowdfunding

Peer-to-peer lending and crowdfunding have emerged as competitors to banks as they may offer better rates to both borrowers and lenders.

Peer-to-peer lending allows for a higher return in exchange for greater risk



Peer-to-Peer Lending: Borrower's Perspective



Large amounts may not be received all at once

Interest on large deposits may also be deferred

Immediate withdrawals is not always possible

Withdrawals may take a while to be processed



Crowdfunding

Businesses can reach out to multiple lenders and raise small amounts of money from each lender to fund their project/business.

Forms of crowdfunding include:

Projects that are
innovative or have
a cause

Debt crowdfunding

Equity
crowdfunding



Insurance Companies

Allow risks to be managed effectively

Premium income is invested in equities and bonds - the insurance industry is a major investor in both equity and bond markets.

Retirement Schemes / Pensions

Traditionally, provided an amount based on the employee's final salary and number of years of service.

Most companies offer new staff defined contribution schemes.

Taken overall, retirement schemes are large, long-term investors in shares, bonds and cash.

Some also invest in physical assets like property



Wealth Managers

Stockbrokers

- Execution only services
- Robo-advisors – online wealth management service - automated
- Advisory and discretionary wealth managers
- Institutional brokers

Fund Managers

- Segmented between Institutional and Private Client
- over US\$90 trillion of funds under management
- also known as investment managers, portfolio managers or asset managers

Private Banks

- Tailored services to HNWIs
- Wider range of investment vehicles
- Integrated banking plus extra services
- Range of estate and tax planning services

International Private Banks

- Huge market dominated by Swiss Banks and Global Banks
- Services designed for ultra-wealthy
- Able to offer individual specialist services because of size of investable funds



Sovereign Wealth Funds

Emerged as major investors in the global markets over the last ten years

Private investment vehicles

- Have varied and undisclosed investment objectives
- Colossal funds under management
- Primary focus is on well above average returns from investments made abroad
- Size and global diversification allows them to participate in the best opportunities and spread their risks
- May also use part of their wealth as reserve capital for when their countries' natural resources are depleted



Other Industry Participants

Regulators

- IOSCO
- FATF
- BIS

Trade Bodies

- Market participants:-
ICMA
ISDA

Third Party Administrators

- Outsourced investment administration
- It enables a firm to focus on the core areas of its business



In financial markets, investment distribution channels consist of:

- **Financial Planning** - meeting a client's financial and lifestyle objectives and needs
- **Financial Advisers** - conducting a detailed analysis of a client's financial position and offer advice to meet their financial objectives
- Two main types
 - **Independent advice**
 - **Restricted advice**



In financial markets, investment distribution channels consist of:

- **Execution Only** – customers make their own decisions without advisory from the firm
 - The firm must state in writing:
 - 1) Gave no advice
 - 2) It is not responsible for the product suitability
- **Robo-Advisors** - Utilizing technology to offer financial advice to individual investors





Emerging themes in the
financial space:

1. Fintech
2. ESG (Environmental,
Social & Corporate
Governance)

