



# CISI Global Securities Operations



# Exam



Duration = 1 hour



50 Multiple Choice Questions



Pass Mark = 70%



Pass Rate = 55%



No Negative Marking

# Exam Specification

Chapter	Subject	No of Questions
1	Securities	11
2	Main Industry Participants	10
3	Settlement Characteristics	11
4	Other Investor Services	10
5	Aspects of Taxation	3
6	Risk	5
Total Questions		50



# Chapter 1 - Securities

11 Questions

Companies need to raise funds to finance new developments in their business.

**Here are some examples:**

Why do companies need to raise funds?
Purchase new equipment
Hire and train new staff
Modernise their infrastructure and technology
Acquire other companies
Expand into other markets
Research and development

**What options are available to a company looking to raise funds?**

## **1. Bank Loan**

Company pays back the principal on the loan and an agreed rate of interest, at an agreed date in the future.

## **2. Equity Financing**

Company issues and sells share of its company via a stock exchange.

## **3. Debt Financing**

Company can generate funds through the capital markets by issuing bonds and other debt-related securities.

# Why Do Investors Buy Securities?

## Superior Performance

Potentially offer higher long-term returns than bank cash deposits



## Regulatory Oversight

Regulated markets provide protection against malpractice and systemic risks



## High Volume & Low Relative Costs

High trading volumes keep trading costs relatively low



## Diversification

Investing in a variety of securities, sectors, and asset types helps spread risk



## Liquidity

Buyers can be found quickly without suffering a significant effect on market price (and vice versa)





## Capital Appreciation

Investors aim to buy securities at a market price and sell them later at a higher price to achieve capital gains.

Buying 100 shares at £0.50/share and selling at £1.50/share results in a profit of £100.

## Income Payments



Investors may be paid an income on the securities that they have bought.



Dividends for Equity investors

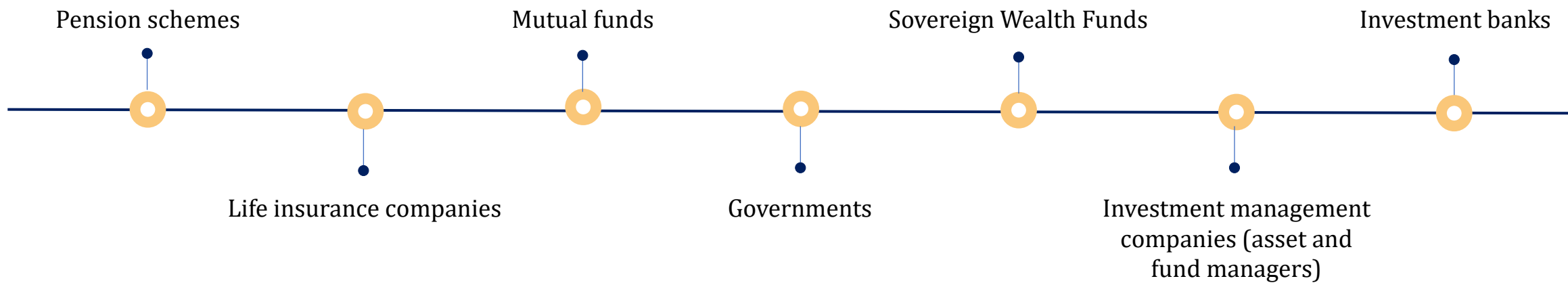


Interest Payments for Bondholders



# Who Invests in Securities?

## Institutional Investors



## Individual Investors

# Types of Shares (Equities)

**Ordinary Shares**

**Deferred Shares**



**Preference Shares**

## Ordinary Shareholders shareholder rights:

Attend and vote at meetings (E.g. AGM & EGM)

01

Receive annual reports and accounts

02

Receive dividends (if declared)

03

Participate in appointment and removal of company directors

04

Share in remaining assets if the company liquidates

05

Participate in bonus issues and rights issues

06

Be consulted on special circumstances (E.g. Mergers)

07

Additional perks based on shareholding (E.g. discounts on company services)

08

# Share Registration

The shareholder's name and address will be recorded in the issuer's register of shareholders.

In the UK, the issuer register is in two parts.

**01**

**Physical -**  
maintained by the  
issuer registrar

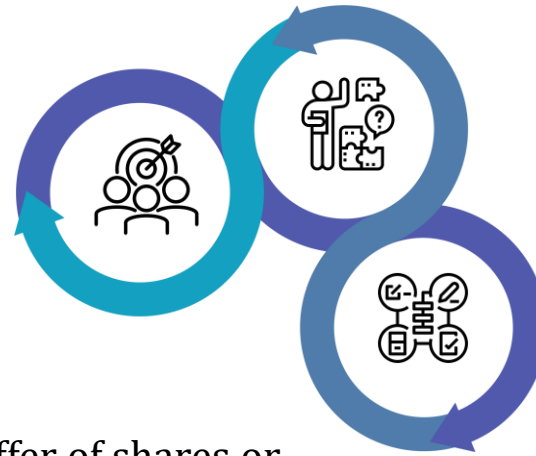
**02**

**Dematerialised -**  
maintained in the  
**CREST system**

\*The CREST system is the securities settlement system of Euroclear UK & International.

# Listed and Unlisted Securities

Listed securities are those that have been accepted for trading on a recognised investment exchange (RIE).



Unlisted securities will be traded off-exchange or over-the-counter (OTC).

Private Placing an offer of shares or bonds that is issued privately and not on the open market – it is an alternative to an initial public offering (IPO).

# Bearer Securities & Transfer Restrictions



Ownership tied to the physical possession of certificates – this is now rare due to high risk of loss and misappropriation.



Restrictions on how, and to who, securities can be transferred varies based on different jurisdictions

E.g. Issuer can be prohibited from transferring securities if they are subject to bankruptcy.

# Preference Shares

Preference shares allow companies to raise capital without diluting ordinary shareholders' ownership.

## Key Characteristics include:



No Voting Rights



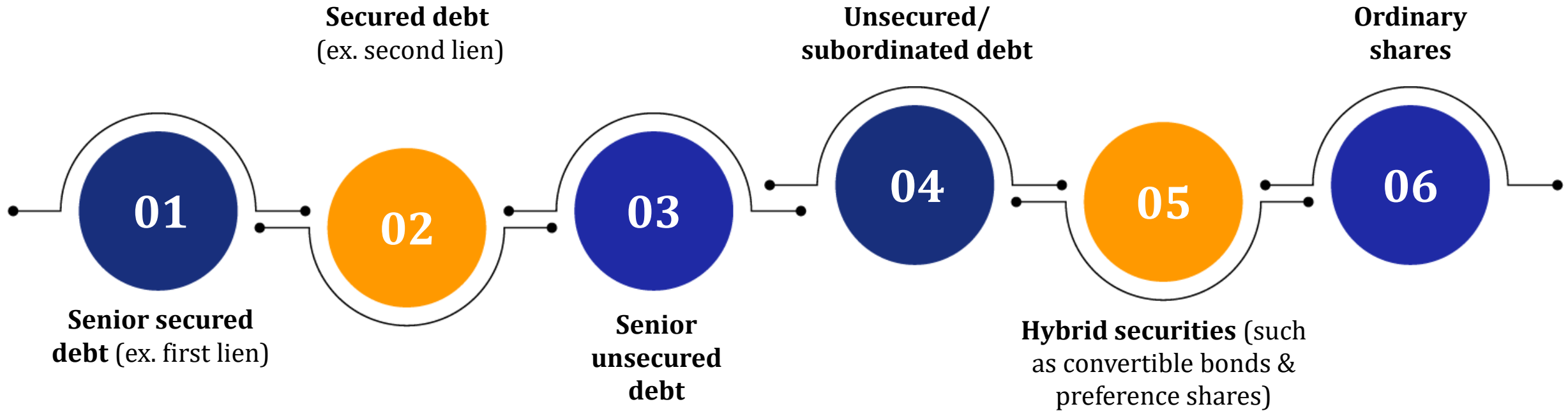
Fixed dividend per share established at the time of issue

Preference shareholders **take priority over ordinary shareholders** for dividend payments and payments following liquidation.



# Preference Shares

## Payment of Obligations After Liquidation



\*may be slightly different for certain companies

# Preference Shares

## Types of Preference Shares



### **Cumulative:**

Unpaid or missed dividends are carried over to future years.



### **Non-Cumulative:**

Missed dividends are lost – similar to a normal shareholder.



### **Redeemable:**

Company will buy back the shares at a future date.



### **Participating:**

Shareholder can receive additional dividends over the fixed percentage dividend



### **Convertible:**

Shareholder has to option of converting their shares into ordinary shares.

Debt instruments are interest-bearing securities issued when a borrower wishes to raise a specified amount of cash in a specified currency.

Bonds carry lower risk than equities for the following reasons:



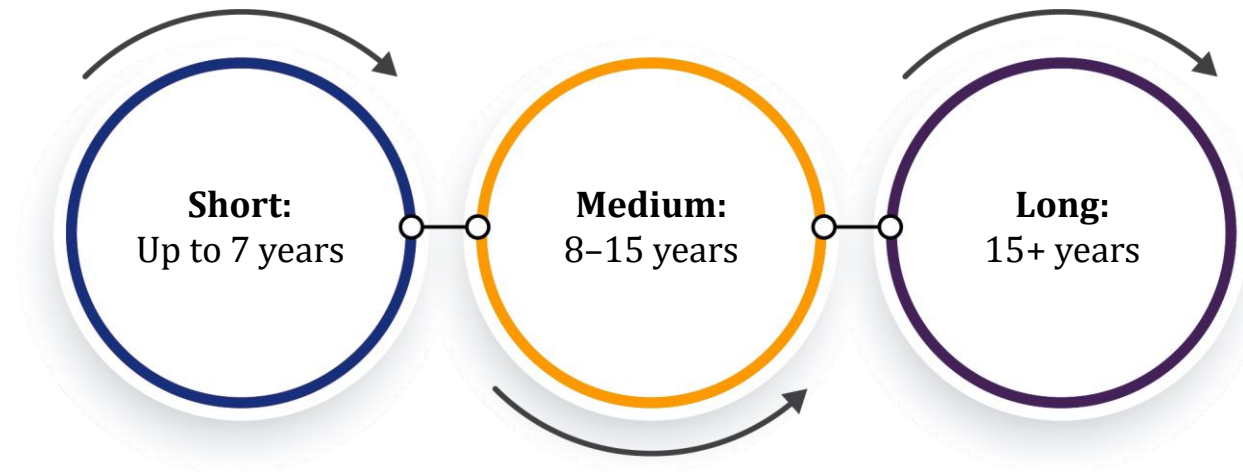
Bondholders take priority over shareholders in the event of a liquidation



Bondholders will a fixed and predictable return until the redemption date – shareholders may not receive any dividend as it is voluntary

# Debt Instruments

Bonds are classified as short, medium and long maturity.



The coupon rate is the rate of interest paid on the nominal value of the bond – this can be paid semi-annually, annually, or even quarterly.

The repayment of the principal of the loan at maturity is not subject to withholding tax (WHT).

# Government Bonds

The bonds issued by politically stable and economically strong governments are among the most secure marketable investments.

The risk of default in developing economies, and struggling economies, is significantly higher.

→ **Exam Note:** Familiarize with the government bonds listed below:



**US** – Treasury Bonds/Notes



**UK** – Gilts



**Japan** – Japanese Government Bonds



**Germany** – Bunds, Bobl and Schatz



**France** – OATs and BTANs

# Other Types of Fixed Income Instrument



Domestic Bonds/Corporate Bonds



Foreign Bonds



Eurobonds



Convertible Bonds



Discount Securities



Floating-Rate Notes (FRNs)



Asset-Backed Securities (ABSs)



Mortgage-Backed Securities (MBSs)



Index-Linked Bonds



Green Bonds



Sustainability-Linked Bonds

## Why do bonds generally carry lower risk than equities?



- A. Bonds are not affected by market interest rates
- B. Bondholders have a prior claim on the company's assets relative to shareholders
- C. Bondholders are entitled to vote in company decisions
- D. Bonds have no risk of default



## The Concept of Accrued Interest

Stakeholders may prioritize financial returns over sustainability

If the security is sold, the seller has an entitlement to the accrued interest **since the last coupon date**



Interest builds daily until the next coupon date – known as **accrued interest**

**Clean Price excludes accrued interest while the Dirty Price includes it.**

# Accrual Conventions

Methods for calculating interest payable on bonds vary by market and bond type.

**Exam Note:** Familiarize with the conventions listed below:

**01**

**UK Corporate Bonds:**  
Actual/365day  
convention.

**02**

**US Corporate Bonds:**  
Actual/360day  
convention.

**03**

**Eurobonds:**  
30/360day  
convention.

**04**

**Government Bonds:**  
Actual/Actual  
convention.

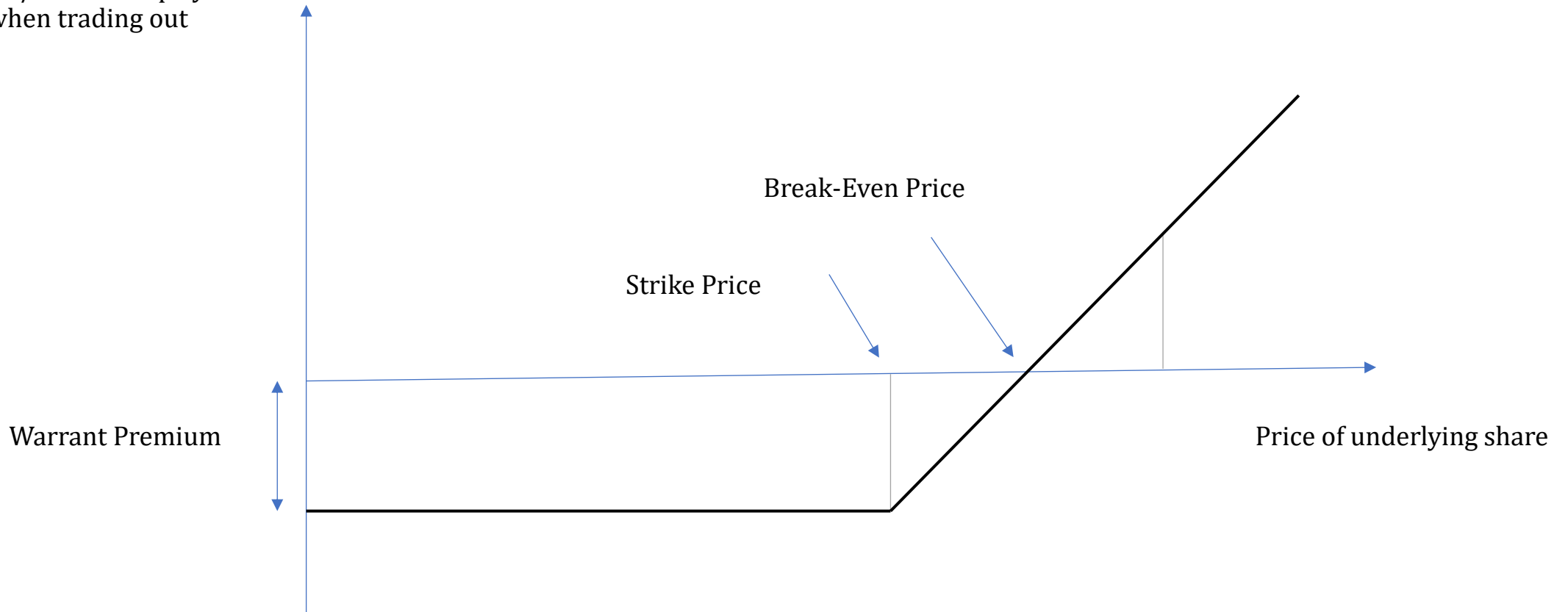


Warrants give holders the right, but not the obligation, to buy an ordinary share or bond at a specific price by a set date.

The price paid for the warrant is called the premium and is a fraction of the underlying asset's value.

# Warrants

Profit/Loss on Expiry  
or when trading out



**American-style** - Warrants can be exercised at anytime on or before their expiry date

**European-style** - Warrants may only be exercised on the expiry date of the warrant

# Warrants

Covered Warrants are a synthetic product structured by an investment bank or other FI over a range of possible underlying assets.

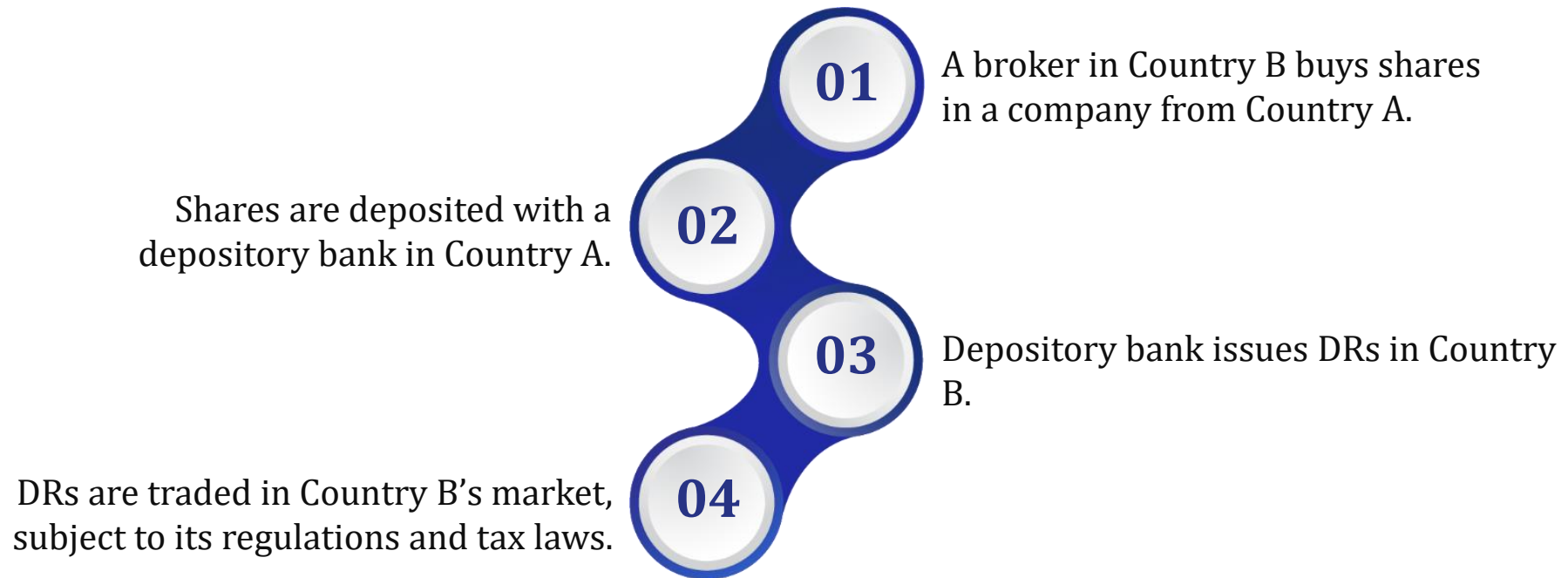
The difference can be summarized in the table below:

Traditional	Covered
Issued by a company over its own shares	Issued by an investment bank or other FI over other assets (E.g. company shares, currency, commodities etc.)
New shares issued upon exercise	No new shares on exercise Equivalent value payment made to warrant holder in cash
Longer maturities	Shorter maturities (1 to 2 years)

# Depository Receipts (DRs)

Depository Receipts (DRs) are financial instruments representing shares of a foreign company, traded in a local market.

## Creation Process:



# American Depositary Receipts (ADRs)



American Depositary Receipts (ADRs) are a type of depositary receipt issued in the US and denominated in US dollars.

ADRs allows US investors to invest in non-US companies with reduced costs and risks.



# American Depositary Receipts (ADRs)

Issue	Holding Foreign Shares	Holding an ADR
<b>Foreign ownership restrictions</b>	Certain countries prohibit foreign ownership of local companies	ADR is not subject to local ownership restrictions (it is a US security)
<b>Settlement procedures</b>	Ordinary shares traded in the local market may be subject to extended settlement cycles and inefficient settlement procedures.	ADRs settle according to a T+1 settlement cycle, just like any other US-listed share
<b>FX</b>	Shares have to be paid for in the foreign currency, requiring an FX transaction.	ADRs settle in US dollars.
<b>Dividend payments</b>	Dividends are paid in foreign currency, requiring periodic FX transactions	ADRs pay dividends in US dollars.
<b>Rights issues/corporate actions</b>	Shareholders have the right to vote and to participate in rights issues and other corporate actions.	ADRs typically provide the holder with the right to vote, but not to participate in rights issues.
<b>Liquidity</b>	Possible lack of liquidity in foreign market	ADRs trade on US stock exchanges and OTC (higher liquidity)
<b>Transfer taxes</b>	UK share purchases = 0.5% charge Irish share purchases = 1% charge	UK and Irish securities = 1.5% tax rate*  <i>*where 'chargeable securities' are transferred to a DR issuer in return for the issue of a DR by the depositary</i>
<b>Legal framework</b>	Legal framework in the foreign country may offer limited protection to the investor.	ADRs comply with US securities legislation and accounting principles.

# Pre-Release Facility

Depositories can issue DRs before the actual shares are deposited, with the shares required to be delivered within a specified time period.

This is allowed under the following conditions:

01

DR issuer confirms ownership of the shares in writing

02

Collateral is provided

03

The depository can close the pre-release within the notice period

04

Other required indemnities are given

## Global Depository Receipts (GDRs)

- GDRs help companies raise capital in multiple markets and expand their investor base
- Settled outside the market of issue, commonly in Euroclear Bank or Clearstream
- Used by emerging market companies to reach global investors.
- Less demanding listing requirements compared to regular shares.

## Depository Interest (DI)

01

DIs are issued for foreign securities traded in a different market

02

Held and settled electronically at local CSD (CREST in the UK)

# Collective Investment Vehicles

Collective Investment Vehicles are investment funds that pool money from multiple investors, managed by a professional to grow the value of the funds.

## Examples include:

01

Mutual funds/  
Unit trusts

02

Open-ended  
investment companies  
(OEIC)

03

Exchange traded  
products (ETPs)

04

Investment  
Trusts

05

Hedge  
Funds

06

Real Estate  
Funds (REITs)

07

Private Equity  
Funds

08

Tax Transparent  
Funds (TTFs)

09

Cryptocurrencies

10

Special Purpose  
Acquisition  
Company (SPAC)

11

Long Term  
Asset Funds

# Collective Investment Vehicles

## Actively Managed Funds:

Aim to achieve higher returns compared to passive funds



Fund managers aim to outperform similar funds using research, stock-picking, and market timing

Involve higher charges, including an initial fee and an annual management fee

## Index Tracking Funds (Passive Funds):



Designed to replicate the performance of a market index

# Mutual Funds/Unit Trusts

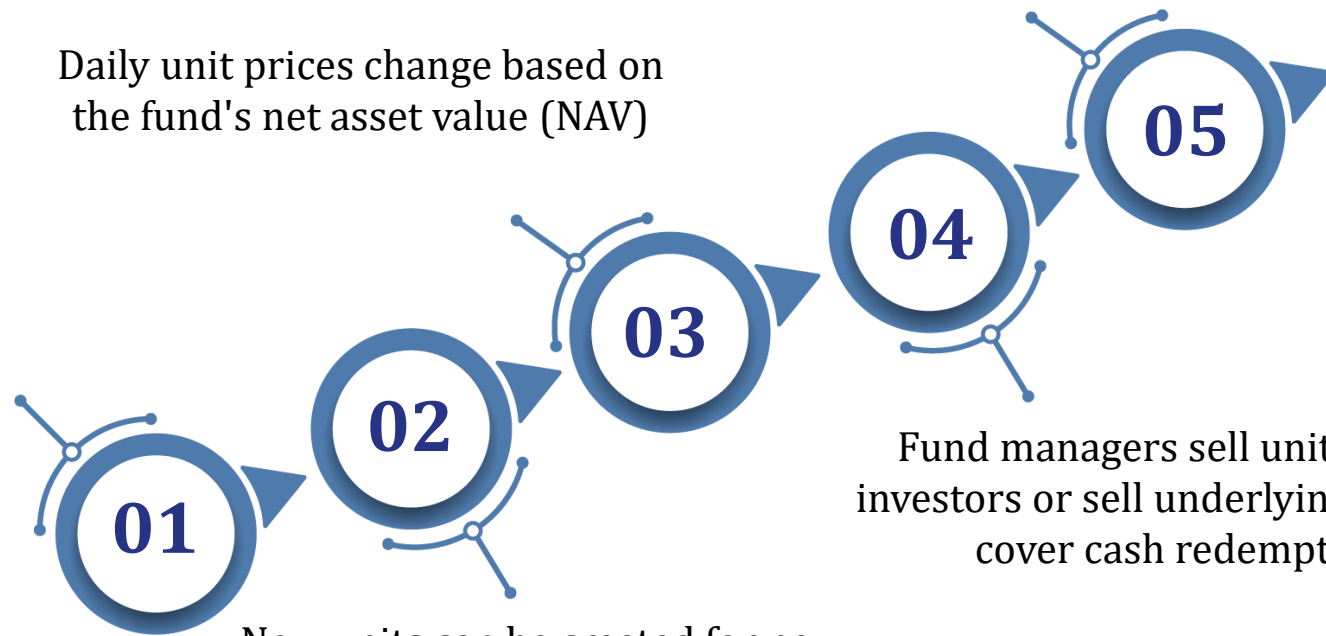
Mutual Funds or Unit Trusts manage securities on behalf of investors which offers investors diversification and cost-effectiveness.

## Characteristics include:

The selling price (offer price) is higher than the buying price (bid price) due to the manager's commission

Daily unit prices change based on the fund's net asset value (NAV)

Fund buys shares and issues units based on this portfolio



New units can be created for new investors, and units can be sold back at any time

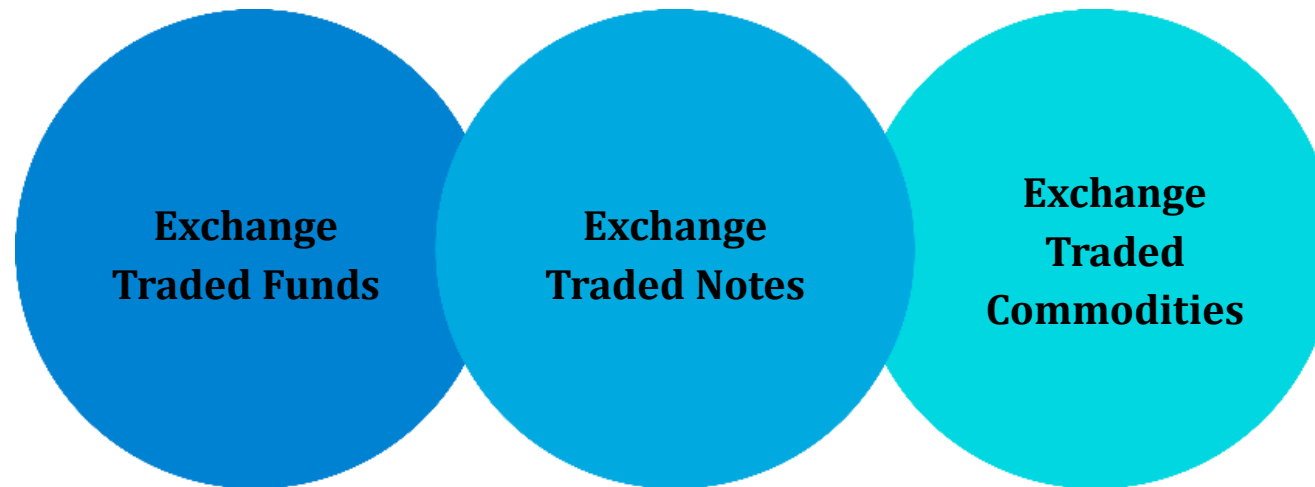
Fund managers sell units to new investors or sell underlying shares to cover cash redemptions

# Exchange-Traded Products (ETPs)

ETPs are traded on global stock exchanges like shares. They hold assets and are priced close to the NAV of its underlying assets.

ETPs are attractive because of their low costs, tax-efficiency, and equity-like features.

**There are 3 types of ETPs:**





# Investment Trusts

Investment Trusts is a company investing in other company shares. They pool investor funds and employ a fund manager – similar to Unit Trusts and OEICs.

## Key Characteristics include:

Characteristics	Description
<b>Close-ended</b>	Fixed amount of money is raised at launch by issuing shares.
<b>Pricing</b>	Market determines the share prices, <b>not the value of the underlying assets</b> . Therefore, price can be above or below NAV.
<b>Different share classes</b>	Certain investment trusts issue different classes of shares to meet different investors' needs (split capital investment trusts).
<b>Independent board of directors</b>	Have their own board of directors to protect shareholder interests.
<b>Gearing</b>	They can borrow to purchase additional investments (known as Gearing).

# Hedge Fund

Hedge funds pool investor money and employ a fund manager to invest this money using strategies aimed to profit in both rising and falling markets.

## Investment strategies include:

Hedge Fund Strategy	Description
<b>Short Selling</b>	Selling an instrument on the premise that it is overvalued, and its price will fall. If the price goes down, the investor can then buy the security back at the lower price to realise a profit.
<b>Distressed Securities</b>	Purchasing equity or debt at big discounts in companies facing bankruptcy/restructuring.
<b>Special Situations</b>	Investing in event-driven situations such as mergers, hostile takeovers, reorganisations or leveraged buy-outs.
<b>Convertible Arbitrage</b>	Buying undervalued and selling overvalued securities of the same issuer
<b>Fixed Income Arbitrage</b>	Exploiting interest rate opportunities by taking offsetting positions in fixed-income securities and their derivatives
<b>Statistical Arbitrage</b>	Using quantitative criteria, the hedge fund manager selects a portfolio of undervalued stocks and an equal-sized short portfolio of overvalued stocks.

# Other Types of Collective Investment Vehicles

Collective Investment Vehicle	Description
OEICs	Similar to unit trusts but operate as companies, issuing shares instead of units.
REITs	Listed investment trusts through which investors purchase exposure to investments in the real estate sector.
Private Equity Funds	Invest in unlisted assets or take public assets private. Focus on buyouts, improving companies, or financing emerging businesses for profit through exit strategies.
Tax Transparent Funds	Introduced in 2013 in the UK, allowing investors to be taxed on their fund interest rather than underlying assets. Mainly targeted at institutional investors like pension funds and insurance companies.
Cryptocurrencies	Digital assets using blockchain technology for financial transactions. Not controlled by any central authority.
SPACs	Company set up by investors to raise capital through an IPO, which it eventually uses to acquire another existing company.
Long Term Asset Funds	New category of open-ended authorised fund designed to invest efficiently in long-term, illiquid assets

**Treasury notes, Gilt-edged securities, and OATs are considered:**



- A. Government bonds
- B. Corporate bonds
- C. Municipal bonds
- D. Convertible bonds

# Securities Identification Numbers

ISIN (International Securities Identification Number) is a globally standardized code for securities identification.

Total of 12 characters

Next 9 characters represent the local number of the security concerned



01



02



03



04

First 2 characters represent the ISO two-letter country code

Final check digit so that systems can validate the number

**E.g. Ryanair Holdings (Irish Security)  
ISIN of IE00BYTBXV33**

Other Identification Numbers include:

## 1. Local Securities Identifiers

- CUSIP (US and Canada)
- SEDOL (UK and Ireland)
- SVM (Belgium)
- WKN (Germany)
- Valoren (Switzerland)
- ASX (Australia)

2. **Stock Tickers** are used to identify a security when it trades on a stock or OTC market.

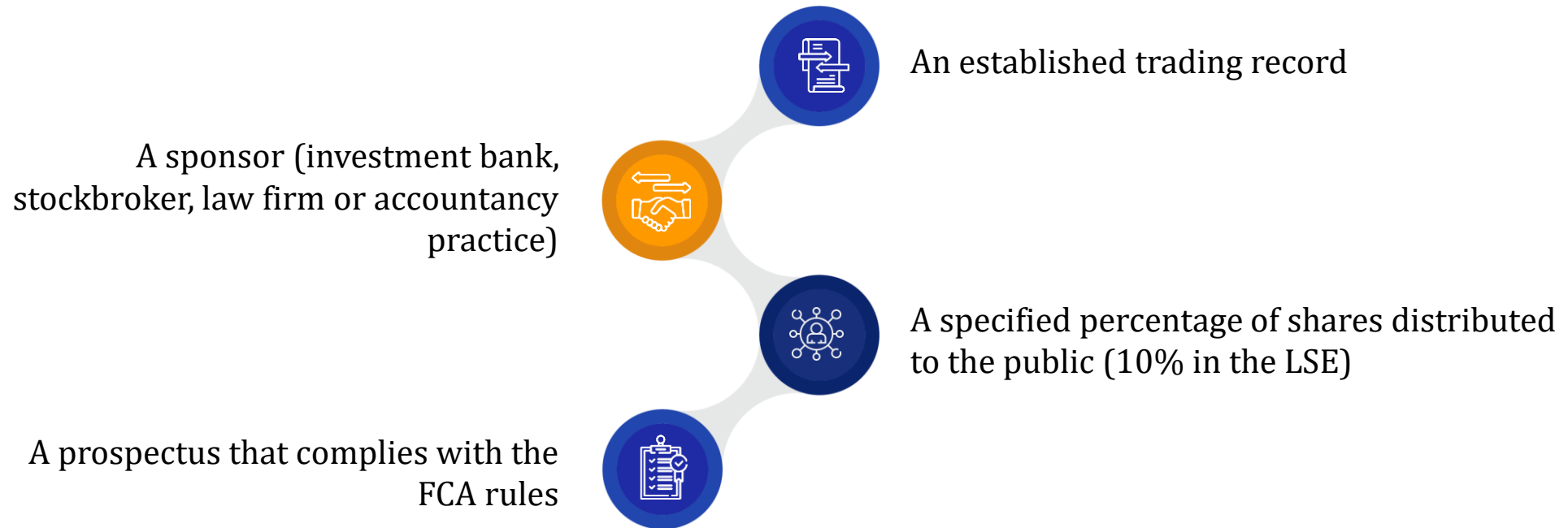
IBM Stock on the **NYSE Euronext**: **IBM-N**

3. **Market identifier codes (MIC)** are used to identify securities trading exchanges, regulated trading venues and non-regulated trading venues.

# Issue Methods in the UK – Equities: Listing

Private companies may list on a stock exchange to raise capital through public share issuance. Listing on the UK market is managed by the FCA.

To list shares on a recognized exchange, a company must have:



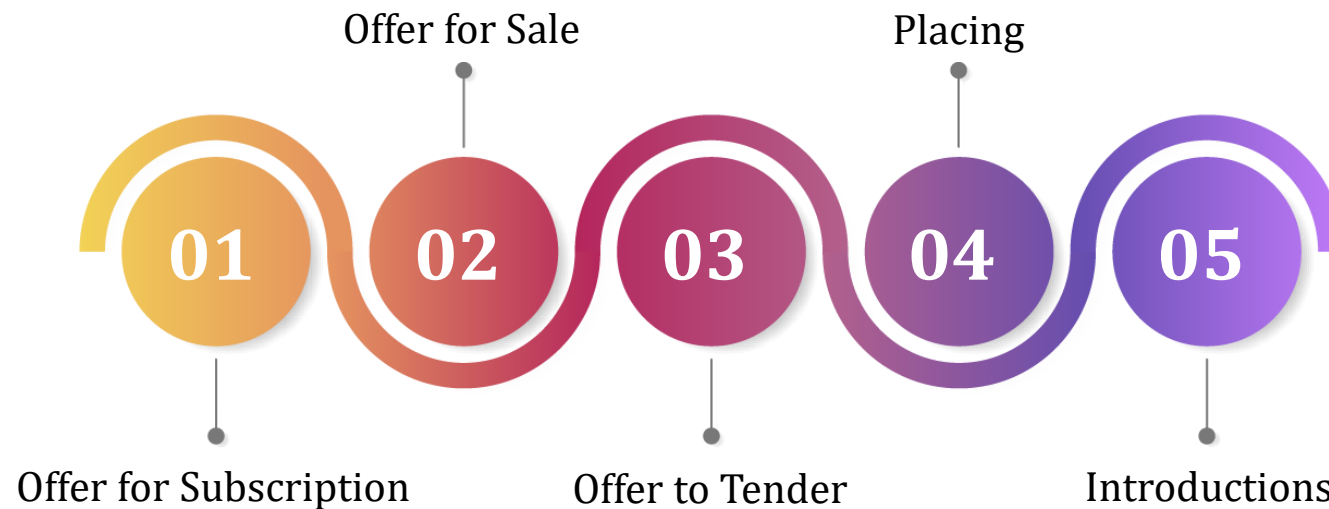
Once the company is listed, it must adhere to the disclosure requirements by producing timely financial reports and notifying the market of price-sensitive information.

# Procedure for a Public Issue of Shares

A public company releases a prospectus inviting investors to apply for shares where successful applicants are granted shares in return for payment.

If demand exceeds available shares (oversubscribed), the excess funds are refunded to unsuccessful applicants.

The share issue may proceed through the following methods:





# Eurobonds

Eurobonds are international bonds issued in markets outside the domestic market of the issuer.

## The key participants include:



Lead Manager  
and Syndicate



Underwriter,  
Advisers, Trustees,  
and Paying Agents

## Eurobonds may follow two issuance methods:

**Bought Offer** – Lead manager purchases all bonds and places them with its own clients

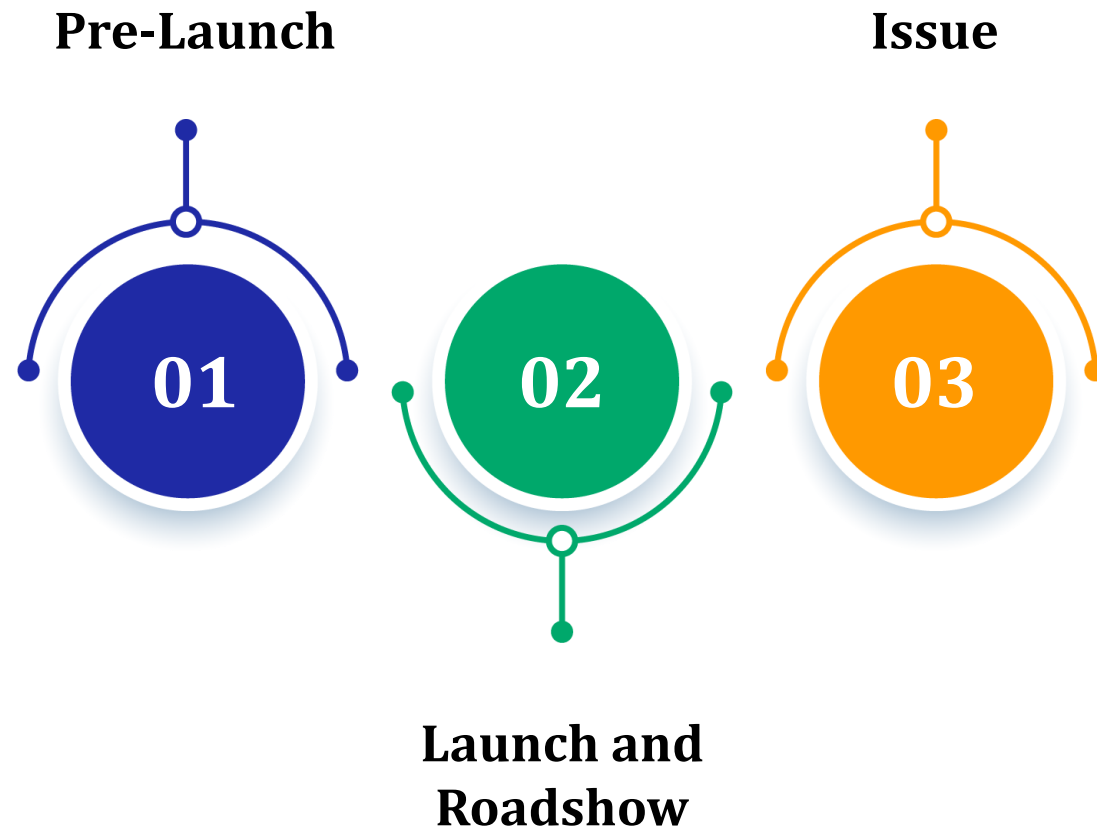


**Fixed Price Re-offer**  
– Lead manager distributed bonds to the syndicate



# Corporate Bonds

The stages followed by a Corporate Bond issue are as follows:



# Regulated Markets and MTFs

The Markets in Financial Instruments Directive (MiFD) was Launched in 2007 to unify the European Economic Area financial market

It aims to promote competition between trading venues based on market transparency and a level regulatory playing field.

## Key Execution Venues include:

### Regulated Markets:

Traditional exchanges  
(e.g., NYSE, LSE).

01

### Multilateral Trading Facilities (MTFs):

Alternative platforms  
for matching and  
executing orders.

02

# Exchange-Traded and Over-the-Counter (OTC)

Exchange-Traded	OTC
High liquidity	Low liquidity
Exchange regulations specify trading procedures	Legal agreements around an OTC trade must be negotiated directly between the trade counterparties.
Clearing is facilitated by CCP	Higher risk due to lack of CCP – exposure is directly related to the OTC counterparty chosen
Pricing of exchange trades are relatively transparent	Pricing is complex. Immature markets lack price-discovery mechanisms which investment banks can exploit to make large profits.
Trading participants must publish the trade details on a stock exchange after the transaction	Reporting on OTC trades varies across jurisdictions. The MiFD requires trading participants to publish trade details even if executed outside a regulated market.
Trading is limited to the specific trading hours of the stock exchange	Trading can take place 24 hours a day

## Order-Driven Market

01

Brokers act as agents for buyers and sellers, matching orders on an exchange floor or computerized system

02

Brokers charge commissions for arranging deals

03

Price movement is governed by supply and demand

04

Computerized systems allow anonymous orders, with strategies like “iceberg orders” to manage large trades

05

Good liquidity is essential for efficient order matching

## Quote-Driven Market

01

Market Makers provide liquidity by quoting bid and offer prices and maintaining a two-sided market

02

Market makers earn profit from the spread between buy and sell prices

04

Brokers arrange trades with market makers instead of finding matching orders

04

Examples: Nasdaq, SEAQ, and Eurobond markets

Programme Trades are used by fund managers to buy or sell large blocks of shares in a single transaction  
– orders are sent electronically.

This can be used to mirror financial indexes or specific share baskets

## Key Challenges include:



# Algorithmic Trading and HFT

Algorithmic Trading uses computer-based algorithms to execute trades, often splitting them into smaller orders to reduce market impact and maintain anonymity

High-Frequency Trading (HFT) utilizes highspeed computers and algorithms to identify and capitalize on trading opportunities within milliseconds.



Uses co-location services to minimize network delays



Enhances the firms arbitrage capabilities by exploiting small pricing differences for a quoted instrument or capture liquidity rebates



## MiFID II provisions to protect market quality or integrity from HFT



Order to trade ratios  
(OTRs)



Minimum tick sizes



Controls on the fees  
charged by trading  
venues to HFT firms



HFT firms using market  
making strategies are required  
to sign agreements to ensure  
they provide liquidity on a  
consistent basis

# Multi-Listed Shares

Companies may list shares on multiple exchanges, known as globally registered shares (GRSs).

The main characteristics of DRs and GRSs can be compared:

Depository Receipts (DRs)	Globally Registered Shares (GRSs)
Shares listed on a single exchange in a single currency	Listed on multiple exchanges and multiple currencies
Not transferable across markets	Transferable across markets
Less stringent listing requirements	Must meet all listing requirements of each exchange
Does not need cooperation of the underlying company	Creation is driven by the issuing company
Expands the potential investor community	Expands the potential investor community, increases global reach, and the reputation of the issuing company

**Under the ISIN, what do the first two letters of the code represent?**



- A. Local number of the security concerned
- B. Final check digit
- C. Stock exchange
- D. ISO country code