



# CISI International Introduction to Securities & Investment



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

**45,000** 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 page features a dark green header with the CISI logo and '25 YEARS' anniversary text. A navigation menu includes links for 'Study with us', 'Join us', 'CPD', 'Networking & events', 'Integrity & ethics', 'Schools, colleges & universities', 'About us', and 'MyCISI'. Below the header, six career pathway tiles are arranged in a 2x3 grid: 'Operations' (red), 'Wealth Management' (dark red), 'Compliance & Risk' (purple), 'Capital Markets & Corporate Finance' (blue), 'Islamic Finance' (green), and 'Financial Planning' (teal). Each tile contains a background image related to the field. The Windows taskbar at the bottom shows the time as 19:30 on 09/10/2017.



# Objective of the Qualification

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Designed to meet the needs of **new entrants** to the investment industry.

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With a **tailored and focused** approach to international markets, the award provides an overview of all areas of investment.

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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.

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The Award is a **stand-alone benchmark** examination as well as a technical unit within the Certificate in Investment Operations.



## Introduction: The Financial Services Sector

- 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

## Financial Assets and Markets

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

## 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

## Derivatives

- Brief review of derivatives 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





Duration = 1 hour



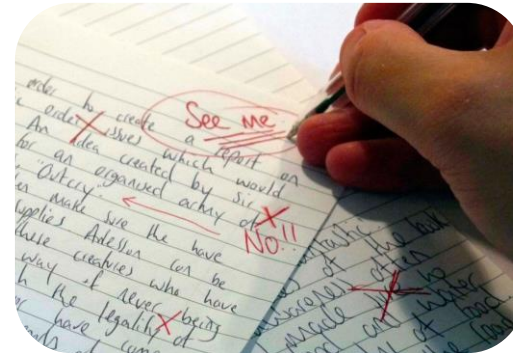
50 Multiple  
Choice Questions



Pass Mark = 70%



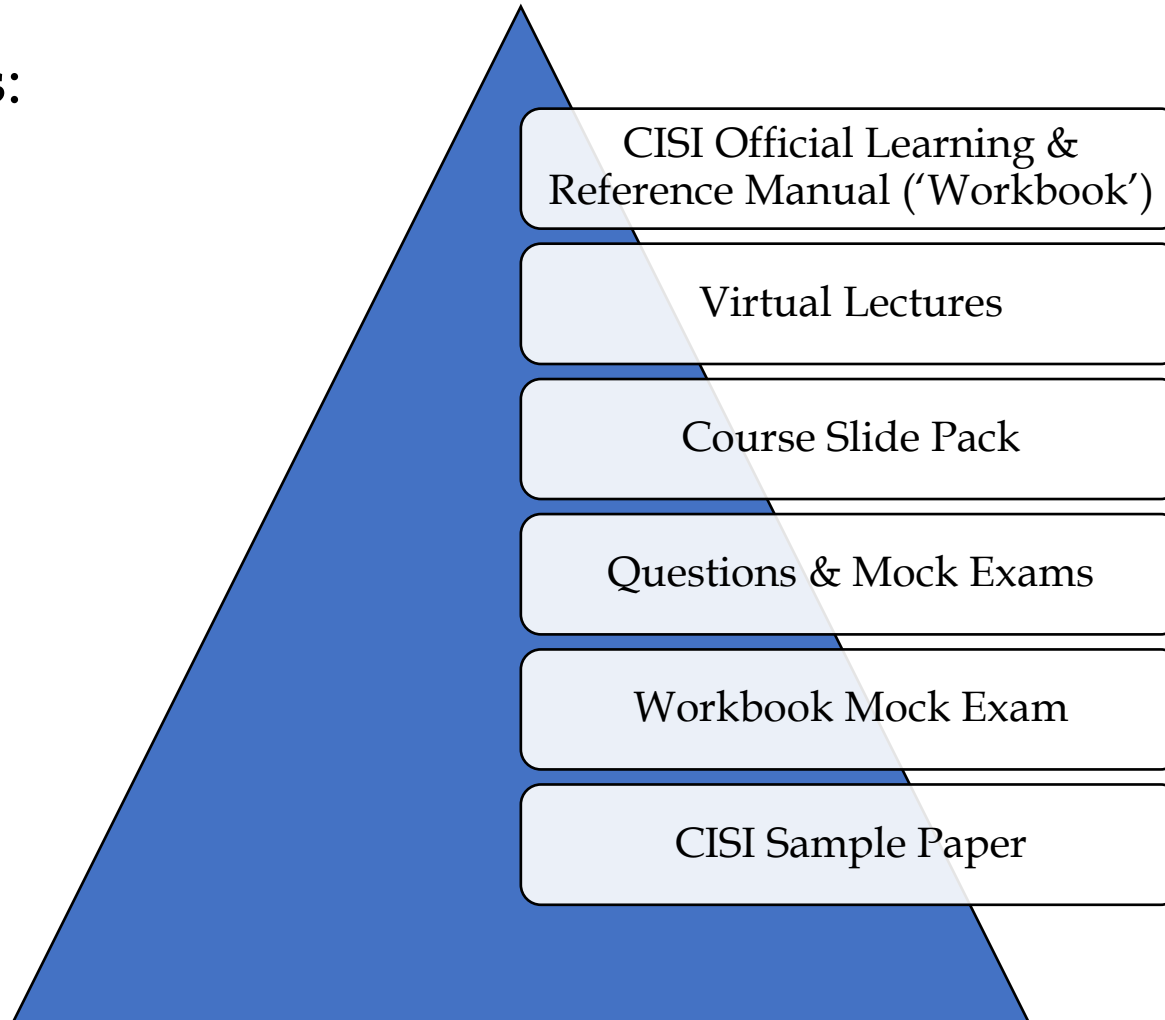
Pass Rate = 59%



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	Financial Services Industry	3
2	Economic Environment	3
3	Financial Markets & Assets	6
4	Equities	8
5	Bonds	7
6	Derivatives	6
7	Investment Funds	7
8	Financial Services Regulation	5
9	Other Financial Products	5
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

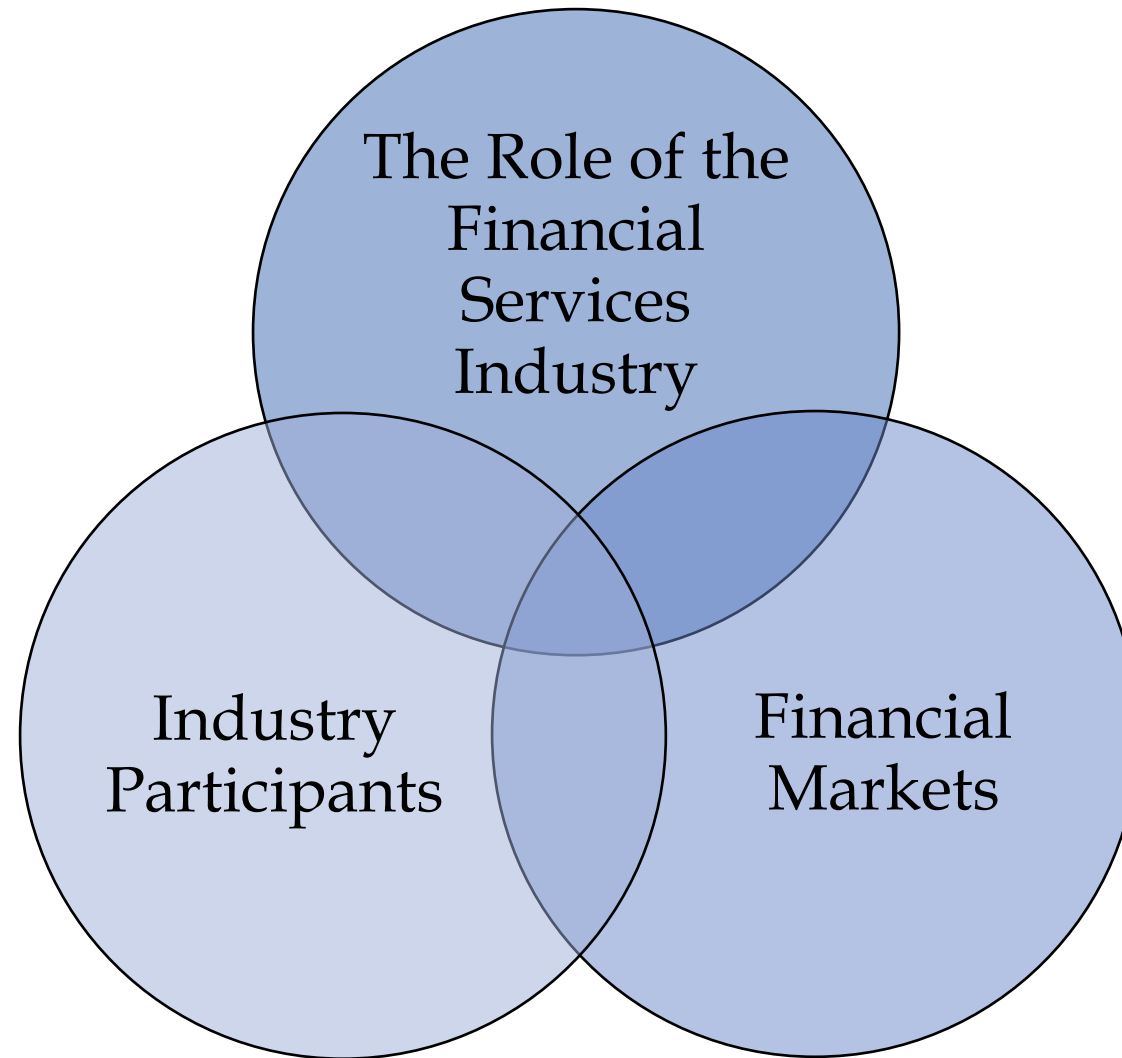




# Chapter 1 - The Financial Services Industry

3 Questions





## Investment Chain

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

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## Managing Risk

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

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## Payment Systems

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

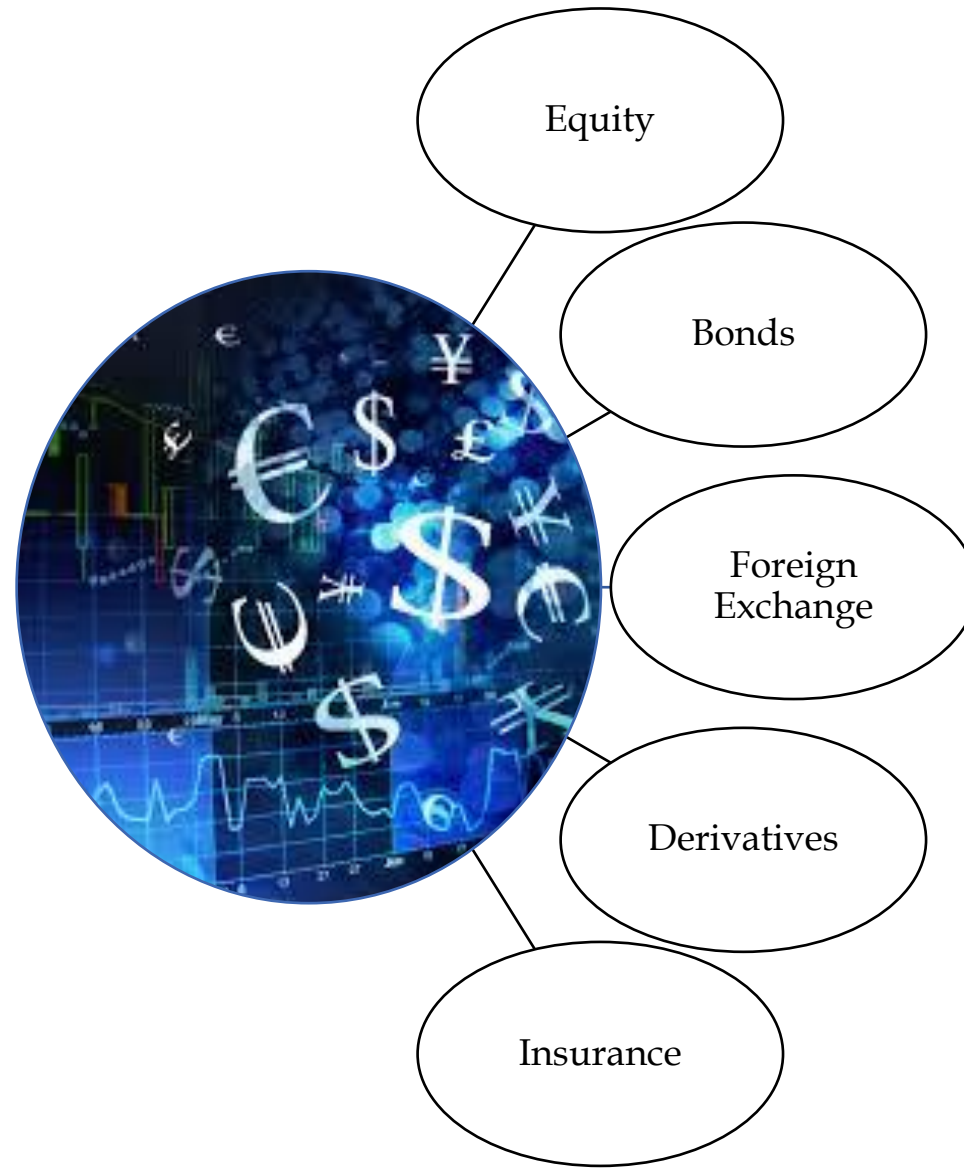
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# Wholesale Markets



# Financial Markets





# Equity 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.**

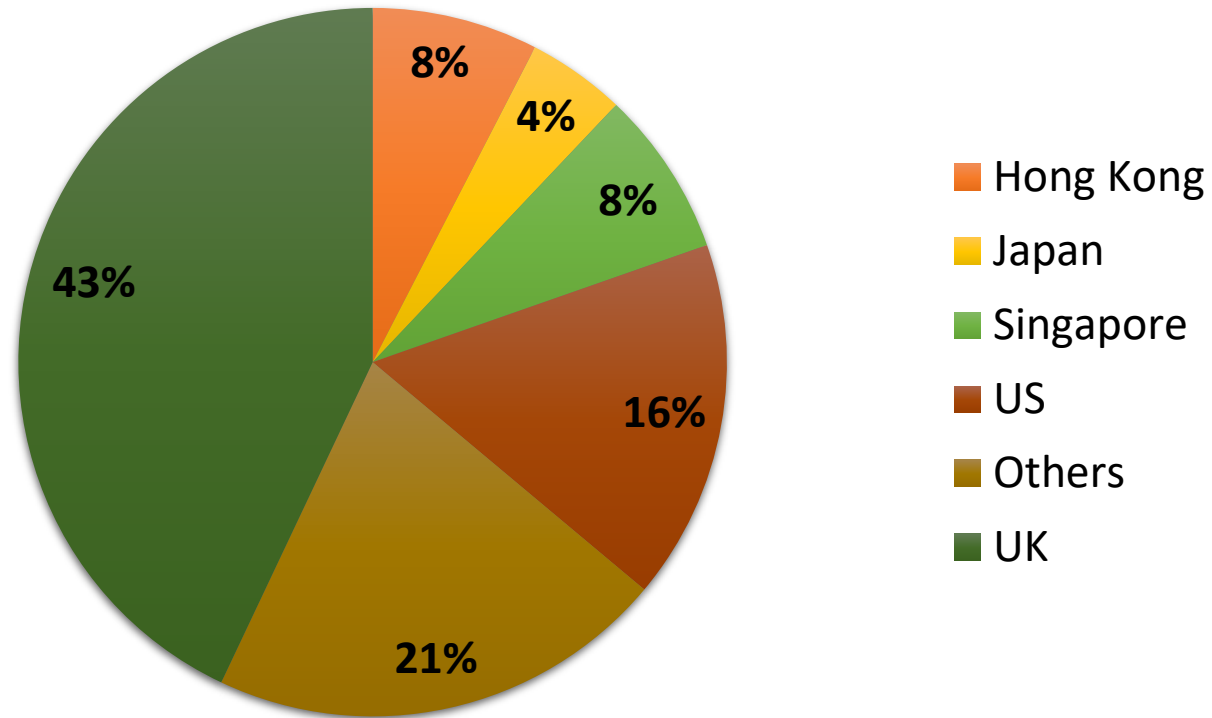


# Bond Markets

- 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.





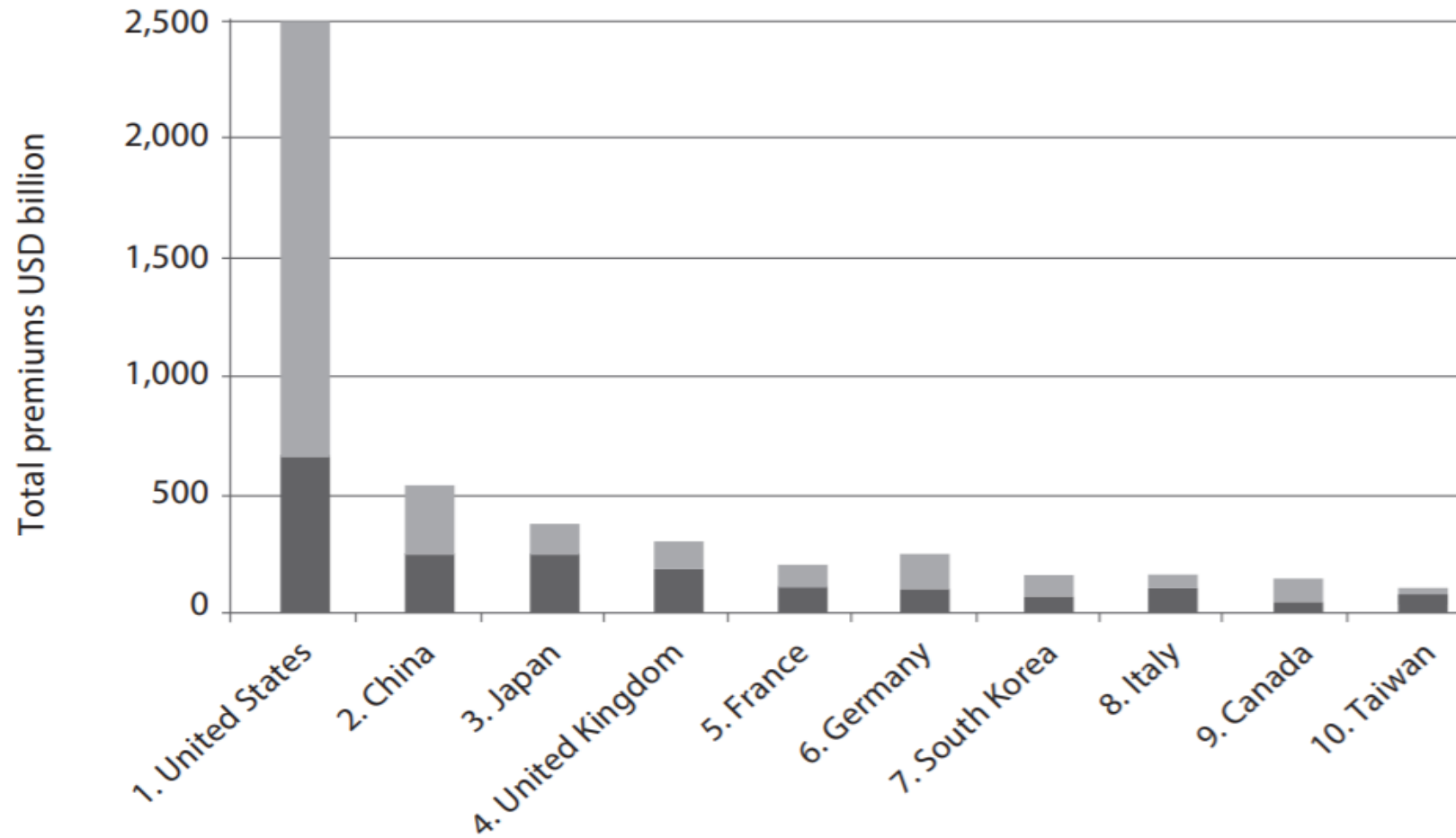
Specialise in the management of **personal risk, corporate risk** and protection of life events.

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



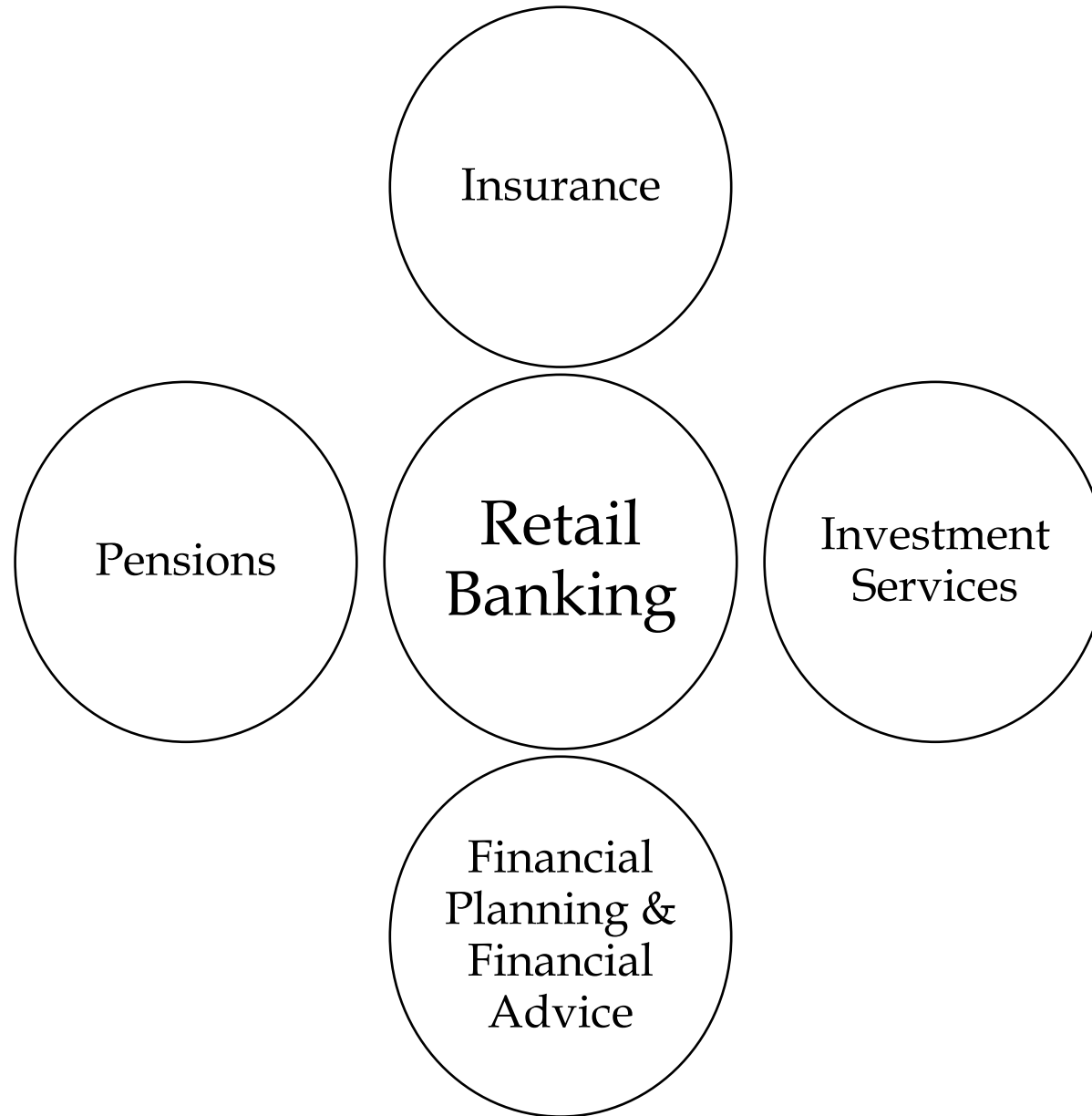
# Insurance Markets

Ten Largest Markets in 2019

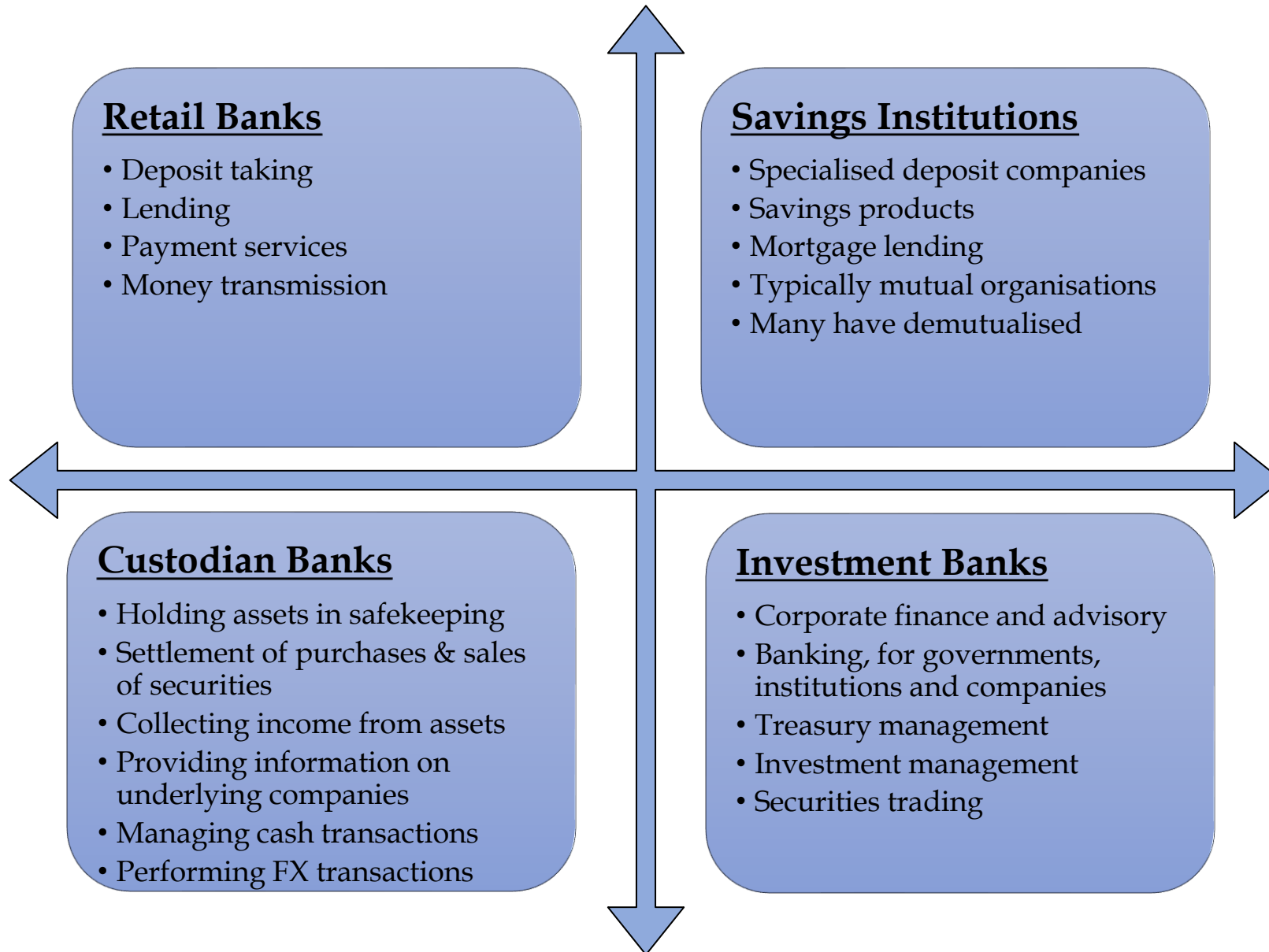


Source: Swiss Re 2020





# Industry Participants - Banks



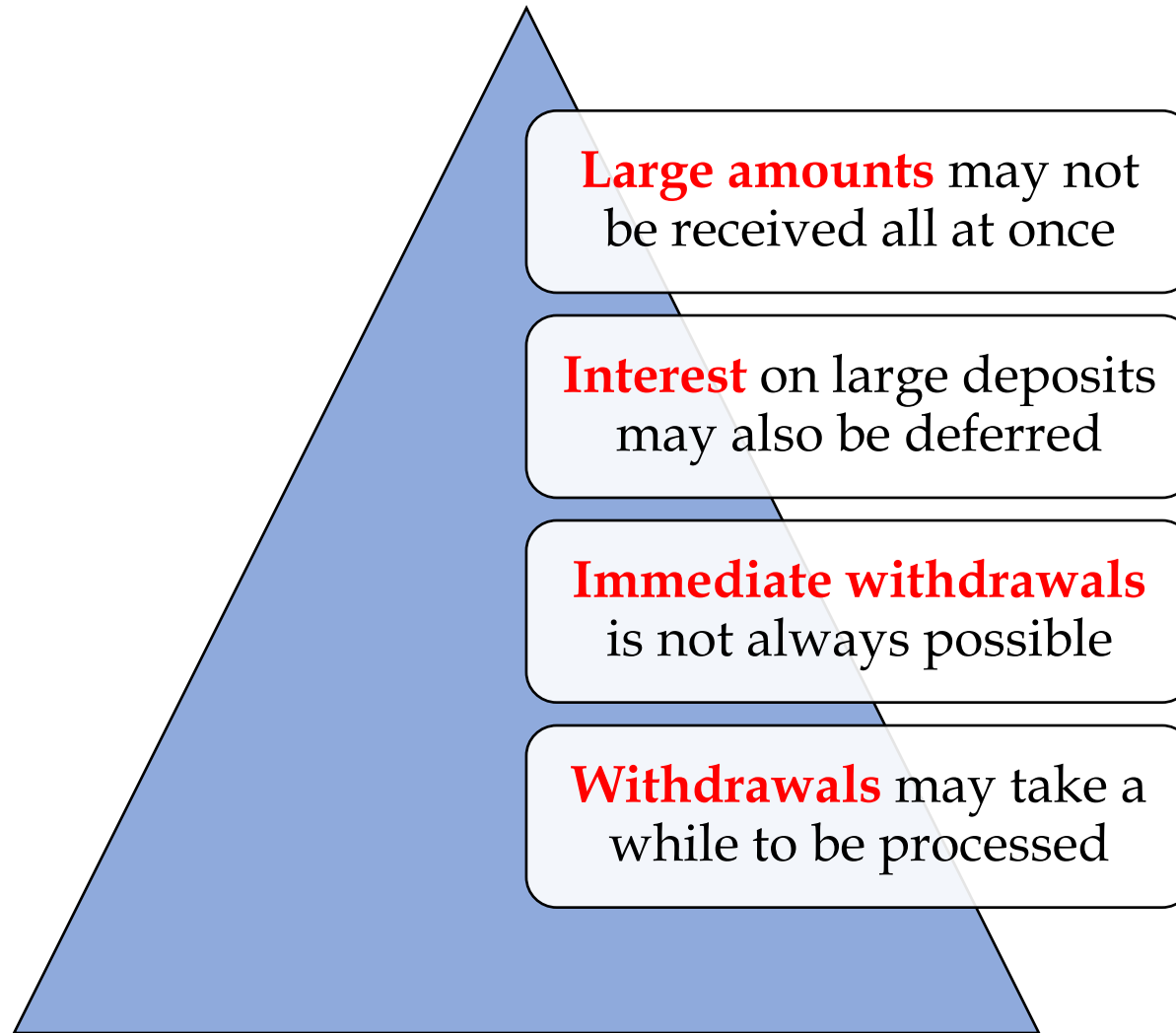
# Peer-to-Peer Lending & Crowdfunding

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



# 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:

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.

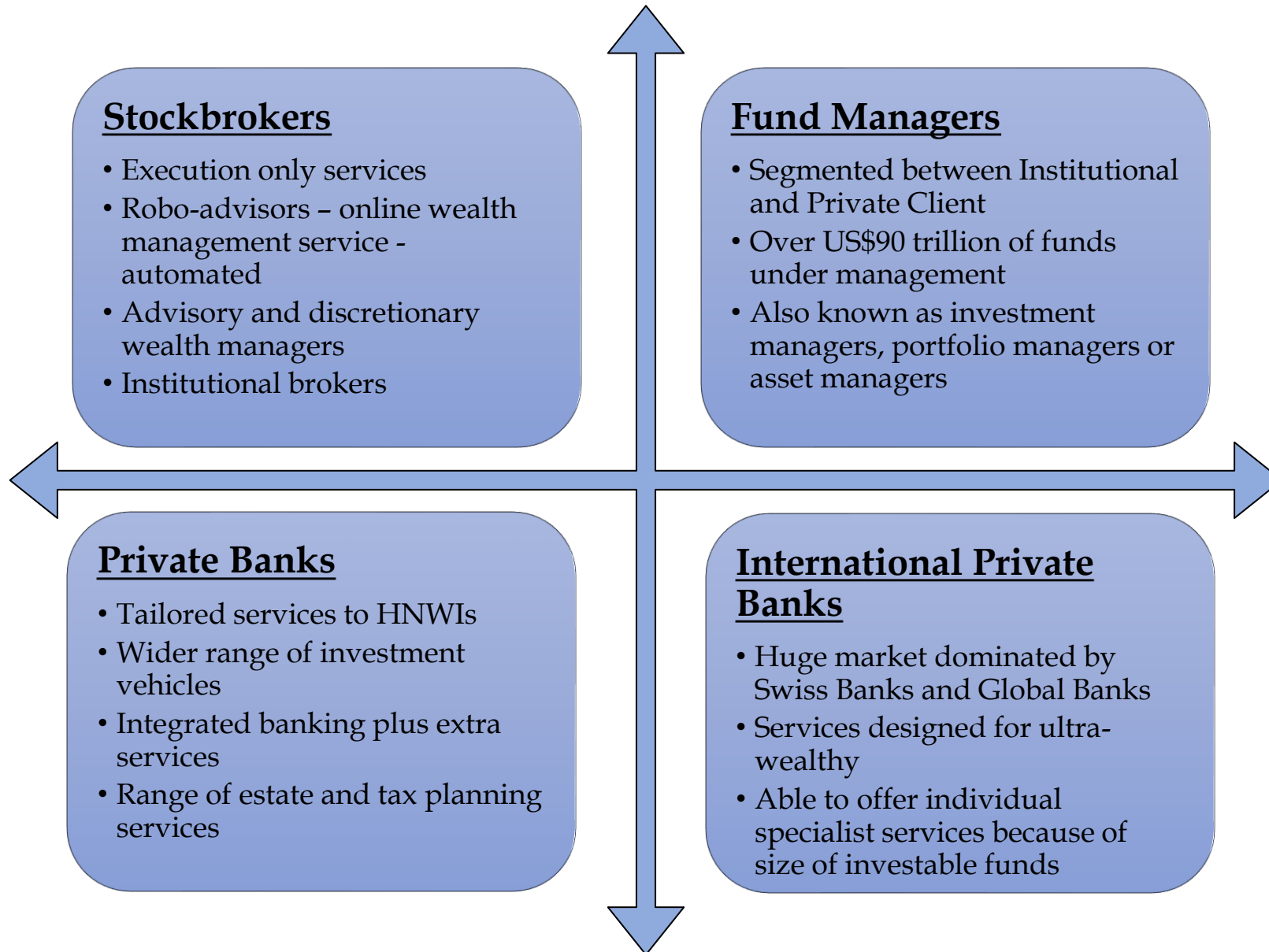
## Retirement Schemes / Pensions

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**.





# Industry Participants - Banks



## Services offered by Wealth Managers

### Execution-only stockbrokers

- Offer telephone or **internet-based trade execution & settlement** for retail clients.
- **No advice** is offered, and commission is charged per trade.
- They are aimed at **day traders and investors**.

### Robo-advisers

- An online wealth management service that provides automated, **algorithm-based portfolio management advice** without the use of human financial planners.
- The robo-advisor typically charges a **monthly or annual fee**.

### Advisory and discretionary wealth managers

- Offer a wealth management service to **private investors** – either advice only or a fully managed (discretionary) service.
- Their target market ranges from **mass affluent to high-net-worth clients**.



### Institutional brokers

- These are stockbrokers who arrange trades on **behalf of large institutions.**
- They can execute **large trades in the market**, without having a significant adverse effect on the share price.
- This may involve **breaking up a large order into smaller trades** and executing them through a variety of different trading venues.
- Institutional brokers usually charge **basis point fees per trade.**



Platforms are online services used by intermediaries, such as **independent financial advisers (IFAs)**, to administer their clients' investment portfolios.

- Advisers can see and **analyse a client's overall portfolio.**
- Platforms arrange **custody for clients' assets.**
- Examples of platforms include those offered by **Cofunds** and **Hargreaves Lansdown.**
- 'Platform' refers to both **wraps and fund supermarkets.**
- Fund supermarkets tend to offer wide ranges of **mutual funds**
- Wraps offer greater access to other products such as **pension plans and insurance bonds.**
- Wrap accounts also provide a **level of automation** using internet tech.



# 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**



# Investment Distribution Channels

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) Investment

