



Investment Management Certificate Qualification Specification for sittings after 1 September 2004

Aim

The aim of the **Investment Management Certificate** is to provide students with the knowledge and understanding of:

- a) the regulation and practices of financial markets;
- b) securities and investments; and
- c) the principles of investment management

required by the Financial Services Authority (FSA) for those managing investments, those advising on investments and those overseeing the safeguarding and administering of investments.

Content

The syllabus for the full Investment Management Certificate qualification covers the following eight topic areas:

- 1 - Regulatory Environment
- 2 - Financial Instruments & Other Investments
- 3 - Markets
- 4 - Taxation
- 5 - Portfolio Management
- 6 - Accounting
- 7 - Economics
- 8 - Statistics

The syllabus for the UK Regulation & Markets unit covers topic areas 1, 3 & 4 of the full syllabus and the syllabus for the Investment Practice unit covers topic areas 2, 5, 6, 7 & 8 of the full syllabus.

Assessment

The Investment Management Certificate is assessed using an examination paper testing knowledge of all eight topics containing 140 multiple-choice questions in a three hour examination testing the syllabus detailed below. The paper will contain at least one question testing each of the sub-sections of the syllabus. Students may choose to sit separate papers at different sittings for the two units.

The UK Regulation & Markets unit is assessed using an examination paper testing knowledge of topic areas 1, 3 and 4, containing 46 multiple-choice questions in a one hour examination. The paper will contain at least one question testing each of the sub-sections of the syllabus for the relevant topic areas.

The Investment Practice unit is assessed using an examination paper testing knowledge of areas 2, 5, 6, 7 and 8, containing 94 questions in a two hour examination. The paper will contain at least one question testing each of the sub-sections of the syllabus for each of the relevant topic areas.

Passing the units at separate sittings is accepted as being equivalent to passing the full qualification at a single sitting. All questions carry equal weighting and are drawn from a question bank. Each examination is assessed on a pass/fail basis for the whole examination, using a pass mark, which may vary from sitting to sitting to ensure that tests are of a comparable standard. The pass mark will always lie in the range 60-75%. There are no penalties for incorrect answers nor is it necessary to pass each topic area in the examination paper to pass overall.

Candidates should note that the questions in any sitting of the Investment Management Certificate will be based on the regulations and laws in force on the day of the sitting.

Syllabus

A description of the syllabus follows, showing for each sub-section, the knowledge and understanding, which is required together with detailed Learning Outcome Statements.

Each Learning Outcome Statement starts with one of the following command words:

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|--------------------|---|
| <i>Apply</i> | – to apply knowledge to determine the solution to a problem/question. |
| <i>Calculate</i> | – to ascertain by use of a mathematical process. |
| <i>Define</i> | - to state the meaning of. |
| <i>Distinguish</i> | - to identify the difference in. |
| <i>Explain</i> | - to give the meaning of, with a degree of emphasis on cause or effect in order to demonstrate understanding. |
| <i>Identify</i> | - to establish the identity of, or to select from a number of given options |
| <i>Interpret</i> | - to convert into a simpler, non-technical explanation. |
| <i>Know</i> | - to recall knowledge such as rules and regulations. |
| <i>Understand</i> | - to demonstrate comprehension of an issue, fact, rule or principle. |

TOPIC AREA 1: Regulatory Environment

Section 1 (a): Regulatory Structure

1.a.1 - a general knowledge and understanding of the Financial Services and Markets Act 2000 (FSMA), including designated investments and designated investment business as defined in the Regulated Activities Order 2001

The candidate should be able to

- i) explain the scope of FSMA 2000 in terms of:
 - authorised persons
 - exempt persons
 - regulated investments and activities
 - exclusions from the authorisation requirement
 - offences
 - penalties.

1.a.2 - a general knowledge and understanding of the scope, operation and powers of the Financial Services Authority (FSA)

The candidate should be able to

- i) explain the power and role of the FSA;
- ii) identify and distinguish among the blocks of the FSA handbook;
- iii) explain, in outline, the procedure for authorisation for firms, including knowledge of the threshold conditions (AUTH 3.3, 3.8)
- iv) explain, in outline, the enforcement powers of the FSA relating to:
 - information gathering (ENF 2)
 - variation and cancellation of Part IV permission (ENF 3 and 5)
 - withdrawal of approval (ENF 7)
 - prohibition of individuals (ENF 8)
 - restitution and redress (ENF 9);
- v) explain the disciplinary powers of the FSA (ENF 11, 12 and 13).

1.a.3 - a general knowledge and understanding of Principles for Businesses

The candidate should be able to

- i) explain the application and purpose of the FSA's Principles for Businesses (PRIN 1.1.1 & 2);
- ii) explain the consequences of breaching the principles (PRIN 1.1.7,8 & 9)
- iii) identify the Principles for Businesses (PRIN 2.1.1);
- iv) explain the general financial resource requirements set out within the IPRU sourcebook for investment management firms (IPRU (INV) Chapter 5).

1.a.4 - a general knowledge and understanding of Senior Management Arrangements, Systems and Controls

The candidate should be able to

- i) explain the purpose of the FSA's rules regarding Senior Management Arrangements, Systems and Controls (SYSC 1.2.1 & 2);
- ii) explain, in outline, the main elements of the SYSC rules:
 - apportionment of responsibilities (2.1.1)
 - recording the apportionment (2.2.1)
 - systems and controls (3.1.1 & 2)
 - areas covered by systems and controls (3.2.2, 6, 10, 11, 13);
- iii) explain the purpose of the guidance on whistleblowing (SYSC 4.1.2);
- iv) explain the effect of the Public Interest Disclosure Act (PIDA) and the role of internal procedures (SYSC 4.2.1, 2 (1)).

1.a.5 - a general knowledge and understanding of approved persons and controlled functions, training and competence

The candidate should be able to

- i) define an approved person;
- ii) define a controlled function;
- iii) identify the five types of controlled function defined within the FSA Handbook (SUP 10);
- iv) define significant influence functions (SUP 10);
- v) identify the main assessment criteria in the FSA's Fit and Proper Test for approved persons (FIT);
- vi) explain the application procedure for approved persons (SUP 10);
- vii) explain the procedure for an approved person (SUP 10):
 - moving within a firm
 - moving between firms
 - ceasing to perform a controlled function
 - changing personal details;
- viii) explain the purpose of the FSA's Statements of Principle and Code of Practice for approved persons (APER);
- ix) identify the seven Statements of Principle within the APER rules;
- x) identify examples of behaviour that does not comply with the Statements of Principle.

1.a.6 - a general knowledge of corporate governance and information disclosure by companies

The candidate should be able to

- i) explain the disclosures required under UK company law regarding:
 - directors' interests
 - major shareholdings;
- ii) explain the purpose of corporate governance regulation;
- iii) explain, in outline, the scope and content of corporate governance regulation in the UK (the new Combined Code);
- iv) explain the LSE requirements for listed companies to disclose corporate governance compliance;
- v) explain the developments with respect to
 - the duties of a trustee
 - brokers' commissionsas covered in Paul Myners' report on institutional investing in the UK;
- vi) explain the continuing obligations of LSE listed companies regarding information disclosure and dissemination.

1.a.7 - a general knowledge and understanding of general meetings, proxies and voting rights

The candidate should be able to

- i) explain, in outline, the UK company law requirements regarding the calling of general meetings;
- ii) distinguish between extraordinary and annual general meetings;
- iii) distinguish between the types of resolution that can be considered at company general meetings;
- iv) distinguish between the voting methods used at company meetings;
- v) explain the role and powers of a proxy.

Section 1 (b): Conduct of Investment Business

1.b.1 - a general knowledge and understanding of seeking customers and advertising for business and the general rules on financial promotion

The candidate should be able to

- i) explain the purpose of the financial promotion rules (COB 3.4);
- ii) explain the scope of the financial promotion rules and the exemptions thereto (COB 3.1, 3.2, 3.3);
- iii) explain the record keeping requirements relating to financial promotions (COB 3.7.1);
- iv) explain the rules relating to the form and content of non-real time financial promotion:
 - name and contact point (COB 3.8.2)
 - clear, fair and not misleading; comparisons (COB 3.8.4, 3.8.5)
 - specific promotions - general requirements (COB 3.8.8)
 - specific promotions - past performance (COB 3.8.11);
- v) explain the rules relating to the form and content of real time financial promotions (COB 3.8.22);
- vi) distinguish between solicited and unsolicited real time financial promotion (COB 3.10.1);
- vii) explain the restrictions relating to unsolicited real time financial promotions (COB 3.10.3);
- viii) explain the scope, exemptions and general requirements relating to direct offer promotions:
 - application (COB 3.9.1)
 - exemptions and prohibitions (COB 3.9.4 & 5)
 - general requirements (COB 3.9.6,7 & 10)
 - disclosures relating to investments that may fluctuate in value (COB 3.9.15, 16)
 - identify appropriate examples of explanations relating to investments with fluctuating value (COB 3.9.17);
- ix) explain the approach and general guidance on electronic media to communicate financial promotions (COB 3.14.2 & 3);
- x) explain the purpose of the Electronic Commerce Directive.

1.b.2 - general knowledge and understanding of accepting customers for investment business, client classification, terms of business and customer agreements

The candidate should be able to

- i) explain the purpose of client classification;
- ii) explain the requirement to classify (COB 4.1.4);
- iii) distinguish between a private customer and an intermediate customer;

- iv) explain the rules relating to
 - treatment of an agent as the client (COB 4.1.5)
 - treatment of an expert private customer as an intermediate customer (COB 4.1.9 & 10);
 - treatment of a large intermediate customer as a market counterparty (COB 4.1.12)
 - treatment of any client as a private customer (COB 4.1.14)
 - review of classifications (COB 4.1.15)
 - record keeping on client classifications (COB 4.1.16);
- v) explain the purpose of the rules relating to terms of business and customer agreements;
- vi) explain the rules relating to
 - providing terms of business to a customer (COB 4.2.5)
 - client agreements for private customers (COB 4.2.7)
 - the main examples of when terms of business and client agreements requirements do not apply (COB 4.2.9 (1) and (2))
 - adequate detail within the terms of business (COB 4.2.10)
 - amendments of terms of business (COB 4.2.13)
 - record keeping requirements relating to terms of business (COB 4.2.14).

1.b.3 - a general knowledge and understanding of advising and selling, including polarisation and status disclosure, knowing your customer, suitability of advice and risk warnings

The candidate should be able to

- i) explain the application and purpose of the rules relating to polarisation and status disclosure (COB 5.1.1, 2 & 3);
- ii) explain the rules relating to
 - tied advice by provider firms (COB 5.1.7)
 - independent advice (COB 5.1.16)
 - disclosure of polarisation status generally (COB 5.1.17)
 - disclosure on first contact with private customers (COB 5.1.19 & 20);
- iii) explain the application and purpose of the rules relating to knowing your customer (COB 5.2.1, 2, 3 & 4);
- iv) explain the rules relating to
 - the general requirement to know your customer (COB 5.2.5)
 - record keeping of personal and financial circumstances (COB 5.2.9);
- v) explain the application and purpose of the rules relating to suitability (COB 5.3.1, 2, 3 & 4);
- vi) explain the rules relating to
 - requirements for suitability generally (COB 5.3.5)
 - requirement of a suitability letter (COB 5.3.14)
 - the main content of a suitability letter (COB 5.3.16 (1) and (2))
 - the main exceptions to provision of a suitability letter (COB 5.3.19 (1) (5) & (6))
 - record keeping of suitability letters;
- vii) explain the application and purpose of the rules relating to the customers' understanding of risk (COB 5.4.1 & 2);

- viii) explain the rules relating to
 - requirement for risk warnings (COB 5.4.3)
 - risk warnings in respect of warrants and derivatives (COB 5.4.6 (1), (2) & (3))
 - risk warnings in respect of non-readily realisable investments (COB 5.4.7), penny shares (COB 5.4.8), stabilisation (COB 5.4.9) and stock lending (COB 5.4.10).

1.b.4 - a general knowledge and understanding of packaged products and ISAs – provision of key features, projections and cancellation rights

The candidate should be able to

- i) explain the purpose of the rules relating to the sale of packaged products to private customers (COB 6.1.3);
- ii) explain the rules relating to
 - the requirement to provide key features (COB 6.2.2)
 - the main exceptions for schemes to produce key features (COB 6.2.24 (1), (2), (3) & (4));
- iii) identify the content of a key features document (COB 6.5.11)
- iv) explain the application and purpose of the rules relating to projections (COB 6.6.1,2 &4);
- v) explain the purpose of the rules relating to cancellation and withdrawal (COB 6.7.6);
- vi) explain the rules relating to
 - giving the customer notice of right to cancel (COB 6.7.30)
 - the time limits on the right to cancel (COB 6.7.10)
 - post-sale notices (COB 6.7.34 &35)
 - failure to send a post-sale notice (COB 6.7.41)
 - record keeping relating to cancellation (COB 6.7.47).

1.b.5 - a general knowledge and understanding of soft commission, inducements and personal account dealing

The candidate should be able to

- i) explain the application and purpose of the rules relating to inducements and soft commissions (COB 2.2.1,2 & 3);
- ii) explain the nature of allowable indirect benefits (COB 2.2.6);
- iii) explain the rules relating to
 - soft commission arrangements generally (COB 2.2.8, 12, 13, 14)
 - disclosure of soft commission agreements (COB 2.2.16 &18)
 - exceptions of disclosures and record keeping relating to soft commission agreements (COB 2.2.19 &20);
- iv) explain the application and purpose of the rules relating to personal account dealing (COB 7.13.1,2,3 &4);
- v) identify the exceptions to the rules relating to personal account dealing (COB 7.13.6).

1.b.6 - a general knowledge and understanding of churning and front-running

The candidate should be able to

- i) explain the application, purpose of the rules relating to churning and switching (COB 7.2.1,2 &3);
- ii) explain the application and purpose of the rules relating to dealing ahead (COB 7.3.1,2,3);

- iii) identify the exceptions to the rules relating to dealing ahead (COB 7.3.4).

1.b.7 - a general knowledge and understanding of reporting to customers including confirmation and periodic statements

The candidate should be able to

- i) explain the application and purpose of the rules relating to confirmation of transactions and the requirement to confirm a transaction (COB 8.1.1,2 & 3);
- ii) explain the rules relating to
 - prompt despatch (COB 8.1.5 (2a))
 - the timing of execution (COB 8.1.12)
 - the main exceptions to the requirement to despatch a confirmation (COB 8.1.6 (1),(2), (3) & (4));
 - the general requirements within the confirmation of transaction (COB 8.1.15);
- iii) explain the application and purpose of the rules relating to periodic statements and the requirement to produce periodic statements (COB 8.2.1,2, 3 &4);
- iv) explain the rules relating to
 - the exemptions to providing periodic statements (COB 8.2.6)
 - record keeping relating to periodic statements (COB 8.2.9)
 - suitable intervals for periodic statements (COB 8.2.10 (2)).

1.b.8 - a general knowledge and understanding of clients' assets and client money rules

The candidate should be able to

- i) explain the application and purpose of the rules relating to custody of client assets (CASS 2.1.1,2 and 12);
- ii) explain the situations in which the custody rules do not apply (CASS 2.1.9);
- iii) explain the rules relating to the general segregation of assets (CASS 2.2.3,5 &7);
- iv) explain the purpose of the rules relating to registration and explain in whose name the assets can be held (CASS 2.2.9, 2.2.10);
- v) explain the purpose and content of the rules on holding documents of title (CASS 2.2.14 & 15);
- vi) explain the application and general purpose of the client money rules (CASS 4.1.1,2,3,5 &7);
- vii) explain the opt out provision for any business (CASS 4.1.9);
- viii) explain the following rules relating to
 - segregation of client money (CASS 4.3.3,4 &6)
 - interest on client money (CASS 4.3.26 &27)
 - transfer of client money (CASS 4.3.30)
 - client bank accounts (CASS 4.3.33, 34 &35)
 - the purpose and application of the client money calculation (CASS 4.3.65 &66)
 - record keeping requirements for client assets (CASS Sch1).

1.b.9 - a general knowledge and understanding of the definition, law, regulation and penalties of insider dealing

The candidate should be able to

- i) explain the meaning of an 'insider' and 'inside information' covered by CJA 1993;
- ii) explain the offence of insider dealing covered by the Act:
 - dealing
 - encouraging
 - disclosing
 - included investments;
- iii) identify the main defences to insider dealing (both general and special defences);
- iv) the penalties for being found guilty of insider dealing;
- v) explain the FSA's powers to prosecute under insider dealing.

1.b.10 - a general knowledge and understanding of the definition, law, regulation and penalties of market abuse

The candidate should be able to

- i) explain, in outline, the statutory offence of market abuse (MAR 1.1.1 &2);
- ii) distinguish between offences of insider dealing and market abuse;
- iii) explain the territorial scope of the legislation (MAR 1.1.7);
- iv) explain the concept of a regular user (MAR 1.2.1 &2);
- v) understand the nature of the offences as defined by the FSA's Code of Market conduct (MAR 3.1);
- vi) explain the enforcement powers of the FSA relating to market abuse (MAR 1.1.4,5 &6);
- vii) identify and explain the safe harbour to market abuse.

1.b.11 - a general knowledge and understanding of the money laundering legislation and regulations

The candidate should be able to

- i) explain the following FSA rules relating to money laundering:
 - general money laundering duties (ML 2)
 - duty to identify the client (ML 3.1.3)
 - the main cases where this duty does not apply (3.2.2 (1), (2) & (3))
 - internal reporting rules (ML 4.1.2)
 - awareness of and training for staff (ML 6.2.1, 6.3.1)
 - responsibilities of the MLRO (ML 7.1.11)
 - the record keeping requirements (ML 7.3.2);
- ii) explain the various sources of money laundering regulation and legislation
 - FSA rules
 - Money Laundering Regulations 2003
 - Proceeds of Crime Act 2002;
- iii) explain the three stages involved in the money laundering process;
- iv) explain the four offence categories under UK legislation.

1.b.12 - a general knowledge of compliance records, complaints and the ombudsman

The candidate should be able to

- i) explain the FSA rules relating to handling of complaints
 - the requirement for procedures (DISP 1.2.1)
 - publishing procedures (DISP 1.2.9 & 11)
 - using the procedures (DISP 1.2.21)
 - consequential losses (DISP 1.3.5);
- ii) explain the role of the Financial Ombudsman Service (DISP Introduction);
- iii) distinguish compulsory from voluntary jurisdiction (DISP Introduction);
- iv) explain the procedure and time limits for dealing with complaints (DISP 1.4.1, 4, 5, 9 & 12);
- v) explain the rules relating to record keeping and reporting (DISP 1.5.1, 4 & 7);
- vi) explain the rules relating to determination by the Ombudsman (DISP 3.8.3);
- vii) explain the kinds of loss or damage for which an award could be made, and the type and limits on the award (DISP 3.9.1, 2, 5 & 6);
- viii) explain the purpose of the Financial Services Compensation Scheme (FSCS) (COMP 1.1.7);
- ix) define protected investment business (COMP 5.5);
- x) explain the circumstances under which the FSCS will pay compensation (COMP 1.3.3, 3.2.1 (1)&(2), 4.2.1 & 2 (1) to (6));
- xi) explain the limits on the compensation payable by the FSCS (COMP 10.2.1, 2 & 3).

Section 1 (c): Other Relevant Bodies

1.c.1 - a general knowledge of the regulatory obligations of recognised UK investment exchanges including the London Stock Exchange and Euronext.liffe

The candidate should be able to

- i) explain the role of an investment exchange;
- ii) explain the need for investment exchanges to be authorised;
- iii) explain the relevance of investment exchanges being recognised by the FSA;
- iv) identify the recognised investment exchanges and clearing houses in the UK;
- v) identify and distinguish the roles of
 - the London Stock Exchange (LSE)
 - Euronext.liffe
 - LCH.Clearnet
- vi) distinguish a recognised investment exchange from a recognised overseas investment exchange.

1.c.2 - a general knowledge of the UK listing authority (UKLA) rules including requirements for prospectus or listing particulars

The candidate should be able to

- i) explain the role of the FSA as the UK listing authority;
- ii) identify the source of the listing rules as FSMA 2000 and relevant EU directives;

- iii) explain the main conditions for listing
 - accounts
 - directors
 - working capital
 - transferability
 - market capitalisation
 - shares in public hands;
- iv) explain the purpose of the requirement for prospectus or listing particulars;
- v) identify the main exemptions from listing particulars
 - issues in connection with a takeover/merger
 - securities listed in another member state
 - shares already traded on AIM
 - further issues (e.g. exercise of rights).

1.c.3 - a general knowledge of the role of the Bank of England, HM Treasury, Panel for Takeovers and Mergers, Competition Commission and the DTI

The candidate should be able to

- i) explain the functions of the Bank of England including the Monetary Policy Committee;
- ii) explain the functions of HM Treasury including the DMO;
- iii) explain the function of the following bodies
 - the Panel for Takeovers and Mergers
 - the DTI
 - the Secretary of State for Trade and Industry
 - the Competition Commission;
- iv) explain the make up of the Panel and how it is financed;
- v) explain the regulatory power of the City Code on Takeovers and Mergers;
- vi) explain the main provisions of the City Code including the bid timetable;
- vii) explain the main provisions of the Substantial Acquisition Rules.

1.c.4 - a detailed knowledge and understanding of relevant European Union Directives and how they affect the UK investment management industry

The candidate should be able to

- i) explain the legal status of EU Directives within the UK;
- ii) explain the purpose and scope of the Investment Services Directive (ISD) with respect to
 - passporting
 - roles of the home and host state
 - core and non-core investment services
 - financial instruments covered by the legislation;
- iii) explain the purpose and scope of the Capital Adequacy Directive and its application and relation to the FSA's rules;
- iv) explain the purpose and scope of the UCITS Directive.

Section 1 (d): Investment Powers

1.d.1 - a general knowledge of Pension Funds, Collective Investment Schemes, Investment Trusts and Charities, including Investment and Borrowing Restrictions

The candidate should be able to

- i) explain the tax status of approved pension schemes;
- ii) explain the role of the trustee in the management of pension fund;
- iii) explain the significance of the Pensions Act 1995
 - minimum funding requirement
 - OPRA;
- iv) explain the purpose of a Statement of Investment Principles;
- v) explain the nature of collective investment schemes;
- vi) identify and distinguish the key characteristics of
 - authorised unit trusts
 - open ended investment companies
 - investment trusts;
- vii) explain the borrowing and investment powers of a securities scheme that has and has not adopted the UCITS II provisions;
- viii) explain the three ways in which an overseas collective investment scheme can be recognised by the FSA;
- ix) explain the sources of regulation relating to charitable trusts.

1.d.2 - a general knowledge of the role of investment managers

The candidate should be able to

- i) explain the key stages of the investment management process
 - identifying client objectives and constraints
 - drawing up investment policy statements
 - implementation of policy
 - review and control;
- ii) explain the capacities in which an investment manager can act
 - advisory
 - non-discretionary
 - discretionary;
- iii) explain the costs and benefits of in-house versus outsourced research functions.

1.d.3 - a general knowledge of the investment powers of clients and of the Trustee Act 2000 – powers and restrictions of Trustees

The candidate should be able to

- i) explain the investment powers of a client, and how and why these are normally delegated to trustees;
- ii) explain the nature of a trust and the role of the trustee;
- iii) explain the purpose and scope of the Trustee Act 2000
 - the rights and duties of the parties involved
 - the nature of the trust deed
 - investment powers of trustees.

TOPIC AREA 2: Financial Instruments and Other Investments

Section 2 (a): Shares

2.a.1 - a general knowledge of the classes of equity capital and the characteristics of ordinary and preference shares in respect of priority for dividends and capital

The candidate should be able to

- i) identify the characteristics, and the risks to the investor, of the various classes of share capital;
- ii) explain the reasons for issuance of preference shares and the implications to the investor;
- iii) explain the characteristics of Global and American Depository Receipts.

2.a.2 - a general knowledge and understanding of new share issues including scrip, rights issues and stock splits

The candidate should be able to

- i) distinguish between primary and secondary share issuance;
- ii) define and explain the purpose of a rights issue, a scrip issue and a stock split;
- iii) calculate the theoretical ex-rights price and the value of the right (nil-paid) given the cum-rights price, the issuance ratio and the subscription price;
- iv) calculate the theoretical ex-scrip price given the scrip ratio and the cum-scrip price;
- v) explain the options open to an investor in response to a rights offer and explain the effect on the investor's wealth;
- vi) explain the motivations behind a company buying back its own shares.

2.a.3 - a general knowledge and understanding of dividend valuation models, the effects of dividend policy, dividend cover, and the use of dividend yield

The candidate should be able to

- i) calculate a holding period return for an ordinary share, comprising capital gain and dividend income;
- ii) explain the components, assumptions and limitations of the dividend discount model (Gordon's growth model);
- iii) calculate the present value of a share using the dividend discount model;
- iv) calculate an estimated growth rate for dividends using historic data or using return on equity and a retained earnings ratio;
- v) explain the reasons for a company's chosen dividend policy;
- vi) explain the practical constraints on companies paying dividends;
- vii) explain the importance of the dividend yield and dividend cover in stock analysis;
- viii) calculate dividend yield and dividend cover.

2.a.4 - a detailed knowledge and understanding of commonly used valuation ratios and measures

The candidate should be able to

- i) distinguish between relative valuation models and absolute valuation models;
- ii) calculate a basic earnings per share;
- iii) explain what is meant by diluted earnings per share;

- iv) explain the rationale for the use of the following ratios in equity valuation:
 - price-earnings
 - price to book
 - price to sales
 - price to cash flow
 - enterprise value (EV) to earnings before interest tax, depreciation and amortisation (EBITDA);
- v) calculate price-earnings (both historic and prospective), price to book, price to sales, price to cash flow ratios for a company;
- vi) apply the company ratios in 2.a.4 part (v) above to the valuation of another given company;
- vii) explain the possible shortfalls of using each of these price multiples in corporate valuation;
- viii) define (financial) gearing and understand the effect on required equity returns and thus dividend valuations;
- ix) explain the measures of economic value added (EVA) and market value added (MVA).

2.a.5 - a general knowledge and understanding of the methods of raising capital

The candidate should be able to

- i) explain the key features of the following equity issuance methods:
 - placing
 - intermediaries offer
 - offer for sale
 - offer for sale by subscription.

Section 2 (b): Fixed Income Securities

2.b.1 - a general knowledge of different fixed income securities including government bonds, index linked bonds, corporate bonds and Eurobonds

The candidate should be able to

- i) explain the structure and characteristics of the various types of fixed income instruments issued in the UK including government bonds, index linked bonds, corporate bonds and Eurobonds;
- ii) understand the rationale for the issuance of a convertible, callable or puttable bond;
- iii) explain clean (quoted) and dirty pricing;
- iv) understand the valuation methodology for fixed income securities;
- v) calculate the price of a fixed income security given its maturity, coupon and yield.

2.b.2 - a general knowledge and understanding of the components of risk and return

The candidate should be able to

- i) identify the components of return of fixed income securities;
- ii) explain the main risks faced by bond holders and how these risks can be addressed;
- iii) explain the two components of interest rate risk (price and reinvestment risk);
- iv) explain the nature of the relationship between yield and price;
- v) understand the factors that affect the sensitivity of a bond's price to a change in required yield;
- vi) define and calculate the (Macaulay) duration of a bond;
- vii) define and calculate the modified duration of a bond;

- viii) calculate, given the duration of a bond, the change in price given a change in required yield;
- ix) explain the convexity error that arises from using duration to estimate a change in bond price using duration.

2.b.3 – a general knowledge and understanding of credit risk, seniority of debt, and the use of rating agencies

The candidate should be able to

- i) define credit risk;
- ii) explain the role of the major credit rating agencies;
- iii) interpret the key classes of rating on the scales published by the major rating agencies;
- iv) explain the concept of debt seniority.

2.b.4 – a general knowledge and understanding of flat and redemption yields, semi-annual and annual yields, and the construction of yield curves

The candidate should be able to

- i) define and calculate:
 - flat yield
 - gross redemption yield (GRY)
 - net redemption yield (NRY)
 - grossed-up NRY;
- ii) explain when each of the above measures may be appropriate to use;
- iii) define the yield curve;
- iv) explain the theories that contribute to explaining the shape of the yield curve;
- v) define forward and spot interest rates;
- vi) explain the relationship between forward rates, spot rates and the GRY.

Section 2 (c): Property

2.c.1 - a general knowledge and understanding of direct and indirect property investment and the methods of valuation

The candidate should be able to

- i) explain the characteristics of direct property investment;
- ii) identify the risks associated with direct property investment;
- iii) explain the methods of indirect property investment and how it addresses the key risks of direct investment;
- iv) explain the general techniques that can be used to value property.

Section 2 (d): Cash and Money Markets

2.d.1 - a general knowledge of deposits, certificates of deposit, commercial paper, treasury bills, and floating rate notes

The candidate should be able to

- i) explain the main characteristics and risks associated with cash deposits and money market instruments (Treasury Bills, CDs, CPs, FRNs);
- ii) calculate the discount and quoted yield on a UK Treasury Bill.

2.d.2 - a general knowledge and understanding of credit risk and the trading and settlement procedures in the main money markets

The candidate should be able to

- i) explain the nature and significance of credit risk in the money markets;
- ii) explain the trading and settlement procedures relating to the main money market instruments.

Section 2 (e): Currencies

2.e.1 - a general knowledge and understanding of the spot and forward markets and the nature of exchange rate risk

The candidate should be able to

- i) understand the nature and basic operations of the foreign exchange market;
- ii) explain the nature of exchange rate risk and how it can be managed;
- iii) explain spot and forward exchange rates;
- iv) calculate forward rates using interest rate parity (IRP);
- v) explain the concept of purchasing power parity (PPP);
- vi) distinguish between IRP and PPP;
- vii) explain the International Fisher effect.

Section 2 (f): Derivatives and Other Instruments

2.f.1 - a general knowledge and understanding of the uses of derivatives in investment management and the associated risks

The candidate should be able to

- i) distinguish between forwards, futures and options;
- ii) explain the nature, trading and settlement of a futures contract;
- iii) understand the motive for using a futures contract rather than a trade in the underlying asset;
- iv) explain the nature of, and reasoning behind, a contango and backwardation market;
- v) define the 'basis' of a futures contract;
- vi) know the contract specifications of the following Euronext.liffe contracts:
 - short term interest rate (STIR) futures
 - long Gilt futures
 - FTSE 100 futures;
- vii) explain the possible uses of the above contracts to an investment manager;
- viii) distinguish between American style and European style options;
- ix) explain time value and intrinsic value relating to an option premium;
- x) identify when an option is in-the-money, out-of-the-money, or at-the-money;
- xi) calculate the time value of an option, given the premium, strike price and current market price;
- xii) explain the factors that determine the premium of an option;
- xiii) calculate the maximum profit, maximum loss and the motivation behind the following option strategies
 - long and short call
 - long and short put
 - long and short straddle
 - long and short strangle
 - long and short butterfly
 - covered call;

- xiv) explain the use of futures and options in hedging an equity portfolio;
- xv) calculate the number of FTSE 100 futures or options contracts required to hedge a portfolio with a specified beta value.

2.f.2 - a general knowledge and understanding of selling short, stock lending and contracts for differences

The candidate should be able to

- i) explain the mechanics and uses of short selling;
- ii) explain the role of stock lending in the markets, and the benefits to the participants;
- iii) explain the nature of, and motivations behind:
 - interest rate swaps
 - currency swaps
 - equity swaps.

2.f.3 - a basic knowledge of convertibles and warrants

The candidate should be able to

- i) explain the nature of convertible bonds and convertible preference shares;
- ii) calculate a conversion price, value and premium;
- iii) explain the component parts of the valuation of a convertible bond (namely straight bond value, call option value, dilution effect and conversion ratio)
- iv) define a warrant;
- v) distinguish between a warrant and a call option;
- vi) explain the key features of covered warrants.

TOPIC AREA 3: Markets

Section 3 (a): The UK Markets

3.a.1 – a general knowledge and understanding of the mechanics of dealing in the UK equity and fixed interest markets

The candidate should be able to

- i) identify the main dealing systems and facilities offered in the UK equities market;
- ii) identify the nature of the stocks that would be traded on each of the above systems and facilities;
- iii) explain the structure and operation of the primary and secondary UK markets for gilts and corporate bonds;
- iv) explain the mechanics, features and advantages of a gilt repo;
- v) define and explain the features and advantages of gilt strips.

3.a.2 – a general knowledge and understanding of the differences between market making and matched order markets

The candidate should be able to

- i) distinguish between a quote-driven and order-driven market;
- ii) explain the roles of the various participants in the UK equity market.

3.a.3 - a general knowledge and understanding of transaction costs in the UK market including commission, stamp duty reserve tax (SDRT) and the Panel on Takeovers and Mergers levy

The candidate should be able to

- i) explain and identify transaction costs associated with dealing in UK equities and gilts;
- ii) calculate the total transaction costs for an equity or gilt transaction, given the appropriate data.

3.a.4 - a basic knowledge of the settlement procedures of the UK markets

The candidate should be able to

- i) explain the settlement procedures for LSE transactions (equities, gilts and corporate bonds).

Section 3 (b): International Markets

3.b.1 – a basic knowledge and understanding of the mechanics of dealing in the equity and fixed interest markets of US, Japan, France, and Germany

The candidate should be able to

- i) explain the mechanics of dealing in equities and fixed interest securities in each of the following countries:
 - US
 - Japan
 - France
 - Germany;
- ii) identify the participants in each of the above markets;
- iii) explain the structure and operation of the primary and secondary markets for Eurobonds.

3.b.2 - a basic knowledge of the settlement procedures overseas, including Euroclear and Clearstream

The candidate should be able to

- i) explain the settlement procedures for equities and fixed interest in each of the major markets mentioned in 3.b.1.
- ii) explain the settlement procedures relating to Eurobonds.

TOPIC AREA 4: Taxation

Section 4 (a): Corporation Tax

4.a.1 – a basic knowledge and understanding of corporation tax

The candidate should be able to

- i) explain how companies are taxed in the UK – including mainstream tax rate and the timing of payments.

Section 4 (b): Investor Taxes

4.b.1 - a basic knowledge and understanding of Capital Gains Tax

The candidate should be able to

- i) know the rates of CGT;
- ii) calculate basic CGT liabilities given information relating to gains, offsetting losses and annual exemptions;
- iii) explain and calculate the effect of taper relief.

4.b.2 - a basic knowledge and understanding of Income Tax

The candidate should be able to

- i) know rates of income tax applicable to earnings, dividend and interest income;
- ii) calculate the further tax liability of an investor who receives net interest or dividend income.

Section 4 (c): Overseas Taxes

4.c.1 - a basic knowledge and understanding of offset in UK taxes against taxes levied overseas by the US, Japan, France and Germany

The candidate should be able to

- i) explain when overseas tax applies to corporate income;
- ii) explain the nature and effect of double taxation treaties;
- iii) calculate any further tax payable by a UK entity after double taxation relief is allowed for;
- iv) explain the nature of withholding tax;
- v) calculate any further tax payable by a UK entity where overseas income has been subject to withholding tax.

TOPIC AREA 5: Portfolio Management

Section 5 (a): Investment Objectives and Approaches

5.a.1 - a general knowledge and understanding of the objectives of the following funds in the UK: pension funds, life assurance funds, general insurance funds and hedge funds

The candidate should be able to

- i) explain the features and objectives of the following funds in the UK:
 - pension funds (defined benefit and defined contribution)
 - life assurance funds
 - general insurance funds
 - hedge funds;
- ii) distinguish among the typical asset allocations for the above funds.

5.a.2 - a general knowledge and understanding of the objectives of private client funds

The candidate should be able to

- i) explain the features and objectives of the private client funds.

5.a.3 - a general knowledge and understanding of the objectives of retail investment funds including both open and closed ended structures

The candidate should be able to

- i) distinguish between open and closed ended funds;
- ii) distinguish the features, risks and benefits of unit trusts, investment trusts and open-ended investment companies;
- iii) explain the additional benefits and risks of investing in split capital investment trusts;
- iv) explain the key features and objectives of Exchange Traded Funds;
- v) explain the key features and objectives of Venture Capital Trusts.

5.a.4 - a basic knowledge and understanding of fixed income portfolios, including immunisation, cash matching, managing credit risk, riding the yield curve and yield enhancement strategies

The candidate should be able to

- i) explain the following bond portfolio management techniques:
 - cash matching /dedication
 - immunisation
 - contingent immunisation
 - anomaly switches
 - policy switches
 - credit risk management
 - riding the yield curve;
- ii) calculate the theoretical gain from riding the yield curve;
- iii) calculate duration for a bond portfolio.

5.a.5 - a general knowledge and understanding of the distribution of investments between asset class, between sectors and between countries

The candidate should be able to

- i) identify the relative distribution of investment institutions' assets across asset class, sector and country.

5.a.6 - a general knowledge and understanding of fund management styles

The candidate should be able to

- i) distinguish between a 'top-down' and 'bottom-up' approach to fund management;
- ii) distinguish between active and passive fund management and explain the costs/benefits to the investor;
- iii) distinguish between strategic and tactical asset allocation;
- iv) explain the major investment styles prevalent in the fund management industry (including socially responsible investing – SRI).

5.a.7 - a general knowledge and understanding of time horizons, short and long term liabilities and liquidity requirements

The candidate should be able to

- i) explain the return objectives of the major fund types;
- ii) classify funds by their income/capital growth requirements;
- iii) explain the effect of each of the following on a fund's asset allocation:
 - time horizons
 - liability structure
 - liquidity requirements.

5.a.8 - a basic knowledge of the impact of legal and tax requirements

The candidate should be able to

- i) explain the taxation of the various types of funds in the UK;
- ii) explain the effect that tax legislation may have on the stock selection and asset allocation of a fund;
- iii) identify the other types of legal requirements that affect pension and insurance funds.

5.a.9 - a detailed knowledge and understanding of risk and return and the importance of diversification

The candidate should be able to

- i) explain the importance of risk-measurement in the analysis of investments;
- ii) identify the commonly used measures of risk in investment analysis and fund management;
- iii) explain the shortfalls of standard deviation as a measure of investment risk;
- iv) define systematic ('market') and unsystematic ('specific') risk;
- v) calculate total risk given the systematic and unsystematic components;
- vi) explain the rule of 'dominance' in the context of investment analysis;
- vii) explain diversification and its role in constructing efficient portfolios;
- viii) explain the importance of correlation in constructing efficient portfolios;
- ix) interpret a correlation coefficient;
- x) calculate a correlation coefficient, given the covariance between two securities and their standard deviations.

5.a.10 – a detailed knowledge and understanding of the capital asset pricing model

The candidate should be able to

- i) identify the assumptions behind the Capital Asset Pricing Model (CAPM);

- ii) explain the benchmarks used in the derivation of the CAPM (namely a risk-free asset and the market portfolio);
- iii) explain the limitations of the CAPM model based on the assumptions in (i) above;
- iv) calculate the expected return on a security by applying the CAPM;
- v) identify the appropriate investment selection decision based on the CAPM;
- vi) explain and interpret the beta of a security;
- vii) explain how the beta may be derived from a scatter chart of historic returns;
- viii) calculate the beta of an investment given the systematic risk of the investment and the risk of the market;
- ix) calculate the beta of an investment given the variance of the market return, and the covariance of the investment return with the market return;
- x) explain how the beta of a portfolio is derived;
- xi) calculate the beta of a portfolio given the component betas and the investment weightings.

Section 5 (b): Performance Measurement

5.b.1 - a detailed knowledge and understanding of total return and its components

The candidate should be able to

- i) explain the importance of returns analysis in the portfolio management process;
- ii) identify the components of total return for a bond or equity portfolio;
- iii) calculate the income, capital and total return over a single period for an equity or bond portfolio;
- iv) calculate the reinvestment return on income over a specified investment horizon.

5.b.2 - a detailed knowledge and understanding of the calculation of money weighted and time weighted returns

The candidate should be able to

- i) identify the data requirements to calculate a
 - money weighted return; and
 - time weighted return;
- ii) calculate respectively, from such data, the
 - money weighted return; or
 - time weighted return;
- iii) interpret time-weighted and money-weighted returns.

5.b.3 - a detailed knowledge and understanding of the choosing of a benchmark, comparisons with investment objectives, base portfolio, peer group, indices

The candidate should be able to

- i) explain the purpose of benchmarking;
- ii) identify the characteristics of an appropriate benchmark;
- iii) identify the key types of benchmark used in the investment management industry;
- iv) explain the benefits and shortfalls of each type of benchmark;
- v) explain how to construct a benchmark portfolio comprising global equities;

- vi) calculate the effect of:
 - tactical asset allocation; and
 - stock selectionon a portfolio's return relative to the portfolio benchmark.

5.b.4 - a detailed knowledge and understanding of performance measurement including risk adjusted returns

The candidate should be able to

- i) explain the importance of risk analysis in performance evaluation;
- ii) explain and interpret the following risk adjusted measures of return:
 - the Sharpe measure;
 - the Treynor measure;
 - the information ratio;
 - Jensen's alpha;
- iii) calculate the Sharpe, Treynor, information ratio and Jensen measure;
- iv) explain how differing time horizons affect return measurements;
- v) explain how total return can be decomposed into the following:
 - risk-free return
 - return due to client risk
 - return due to market timing
 - return to diversifiable risk
 - pure selectivity.

TOPIC AREA 6: Accounting

Section 6 (a): Fundamental Precepts

6.a.1 - a general knowledge and understanding of the statutory requirement to prepare accounts, the function of the auditors report, the concepts of entity, going concern, prudence, matching, consistency and historic cost (including a basic knowledge of SSAPs & FRSs), and the role of the ASB

The candidate should be able to

- i) explain the legal requirement to prepare financial statements;
- ii) explain the concept of a company being a separate legal entity, and the purpose of the preparation of the accounts;
- iii) define 'small companies' for the purpose of financial statement preparation and explain the relevance of this definition;
- iv) explain the function of the
 - Financial Reporting Council
 - Accounting Standards Board
 - Financial Reporting Review Panel; and
 - the Urgent Issues Task Force;
- v) explain the nature of:
 - Statements of Standard Accounting Practice (SSAPs);
 - Financial Reporting Standards (FRSs);
 - Statements of Recommended Practice (SORPs); and
 - Urgent Issues Task Force (UITF) abstracts;
- vi) identify additional disclosures required in the financial statements for LSE listed companies;
- vii) explain the role of the auditor;
- viii) identify, in outline, the reasons for auditors issuing a qualified report;
- ix) explain the purpose of FRS 18 – Accounting Policies;
- x) explain the concepts of going concern, consistency, prudence and matching;
- xi) explain the historic cost convention.

Section 6 (b): The Balance Sheet

6.b.1 - a general knowledge and understanding of the categories of assets and their valuation, categories of liabilities, share capital and reserves, balance sheet structure and preparation

The candidate should be able to

- i) explain the purpose of a balance sheet;
- ii) identify and explain the key balance sheet categories and content;
- iii) distinguish between capital and revenue expenditure;
- iv) explain the valuation of fixed assets;
- v) calculate depreciation and net book values under the straight-line and reducing balance methods;
- vi) calculate the profit or loss on disposal of a fixed asset;
- vii) explain the principles behind the valuation of stock;
- viii) explain the effects of first-in-first-out and last-in-first-out valuations on stock values and profits;
- ix) distinguish between bad and doubtful debts;
- x) distinguish between specific and general provisions;
- xi) explain and calculate the effect of changing debt provisions on profits;
- xii) explain the purpose of FRS 10 relating to the treatment of goodwill in financial statements;
- xiii) identify the types of current and long-term liabilities that typically appear in financial statements;

- xiv) explain the purpose of FRS 12 relating to contingent liabilities and their treatment within financial statements;
- xv) explain the purpose of FRS 17 relating to the treatment of pension costs in financial statements;
- xvi) explain what is meant by a post-balance sheet event;
- xvii) distinguish among authorised, issued, paid up and called up share capital;
- xviii) explain the effect of the following on a balance sheet:
 - rights issue
 - bonus/scrip issue
 - stock split
 - share repurchases;
- xix) identify and explain the main types of reserve found in the balance sheet.

Section 6 (c): The Profit and Loss Account

6.c.1 - a general knowledge and understanding of turnover, revenue, expenses, extraordinary and exceptional items, post balance sheet events, dividends, provisions, transfers to reserves

The candidate should be able to

- i) explain the relationship between the profit and loss account and the balance sheet;
- ii) identify and explain the key profit and loss account categories and content;
- iii) explain the principle of revenue recognition;
- iv) understand the importance of the matching principle in accounting for costs and expenses;
- v) identify the following different levels of profit and understand which classes of expenditure are considered in arriving at each level:
 - gross profit;
 - trading (or operating) profit; and
 - net profit;
- vi) classify non-recurring items and explain their treatment in the profit and loss account.

Section 6 (d): The Cash Flow Statement

6.d.1 - a general knowledge and understanding of the cash flow statement

The candidate should be able to

- i) explain the purpose of a cash flow statement;
- ii) identify the classifications of cash flow under FRS 1;
- iii) calculate net cash flow from operations given operating profit (or vice versa) and the relevant balance sheet movements.

Section 6 (e): Group Accounts

6.e.1 - a general knowledge and understanding of the basic principles of consolidation

The candidate should be able to

- i) define and distinguish between corporate investments, associated companies and subsidiaries;
- ii) explain the purpose of group accounts;
- iii) define a minority interest and explain how it is represented in the financial statements;
- iv) explain how goodwill arises in acquisition accounting;

- v) explain the treatment of goodwill in the group accounts.

Section 6 (f): Major Accounting Ratios

6.f.1 - a general knowledge and understanding of the major accounting ratios

The candidate should be able to

- i) distinguish between profitability, liquidity, and gearing ratios;
- ii) define and calculate return on capital employed;
- iii) define and calculate return on equity;
- iv) explain how return on capital employed can be broken down into profit margin and asset turnover;
- v) define, calculate and interpret
 - operational gearing
 - financial gearing
 - the current ratio
 - the quick ratio (acid test);
- vi) explain the effect of the following on the major accounting ratios:
 - rights issue
 - bonus/scrip issue
 - stock split
 - share repurchases.

Section 6 (g): Effects of International Harmonisation

6.g.1 - a general knowledge and understanding of International Financial Reporting Standards & relevant European Union Directives and their respective effects on financial reporting in the UK

The candidate should be able to

- i) explain the purpose of International Financial Reporting Standards (IFRS);
- ii) explain the relationship between UK standards and IFRS;
- iii) identify relevant EU Directives relating to financial reporting;
- iv) explain the effect of the relevant directives on financial reporting in the UK.

TOPIC AREA 7: Economics

Section 7 (a): Microeconomics

7.a.1 - a general knowledge and understanding of demand and supply

The candidate should be able to

- i) explain the laws of supply and demand;
- ii) distinguish between *movements along* demand and supply schedules and *shifts* thereof;
- iii) identify the factors that cause a demand or supply schedule to shift;
- iv) describe, calculate and interpret own price elasticity of demand and its impact on total revenues;
- v) identify the factors that determine own price elasticity of demand;
- vi) explain, calculate and interpret the concept of cross elasticity of demand (as applied to substitute and complementary goods);
- vii) explain, calculate and interpret elasticity of supply and its dependence on the flexibility of factors of production.

7.a.2 - a general knowledge and understanding of the costs of production; marginal costs, average costs and total costs

The candidate should be able to

- i) distinguish between explicit (accounting) costs and opportunity (economic) costs;
- ii) explain the concept of normal, supernormal and sub-normal levels of profit;
- iii) define fixed costs, variable costs, marginal costs, total costs and average costs;
- iv) explain the shapes of the short-run marginal cost, average variable cost, average fixed cost, and average total cost curves;
- v) explain the law of diminishing marginal returns and its impact on the shape of short-run cost curves;
- vi) explain the relationship between total revenue, average revenue and marginal revenues for a normal demand schedule;
- vii) explain the relationship between marginal cost and marginal revenue and how this determines the profit maximising level of output for a firm.

7.a.3 - a general knowledge and understanding of short and long run costs, economies and diseconomies of scale

The candidate should be able to

- i) define short-run and long-run in the context of cost behaviour;
- ii) explain the notions of economies of scale, a minimum efficient scale and diseconomies of scale and their impact on the shape of the long-run average cost curve;
- iii) explain the relationship between long run marginal costs and long run average costs and explain how this determines the level of output for productive efficiency to arise.

7.a.4 - a general knowledge and understanding of perfect competition and monopoly

The candidate should be able to

- i) identify the conditions that characterise a perfectly competitive ('price-taker') market;
- ii) explain the conditions of long-run equilibrium for a price-taker;
- iii) explain the market mechanics through which only normal levels of profit can be earned by price takers in the long-run;

- iv) explain the relationship between short run supply and marginal cost for a price-taker;
- v) describe the shape of the long run supply curve for a perfectly competitive industry;
- vi) explain the decision by a price taker facing economic losses to either continue to operate or shut down;
- vii) identify the conditions that characterise a pure monopoly;
- viii) explain the conditions of long run equilibrium for a monopoly;
- ix) distinguish between the equilibrium price, output levels, and productive efficiency of a monopoly compared to a perfectly competitive firm;
- x) explain price discrimination and the conditions under which it will prevail.

7.a.5 - a general knowledge and understanding of commonly used methods of assessing industries/companies

The candidate should be able to

- i) understand how business cycles may affect relative industry performance;
- ii) explain Porter's five competitive forces that drive industry competition;
- iii) explain the product life cycle and the characteristics of each phase (introduction, growth, maturity and decline);
- iv) explain the concept of strengths, weaknesses, opportunities and threats (SWOT) analysis and its role in corporate evaluation;
- v) explain the 4Ps marketing mix (product, price, promotion and place) in the context of analysing competitive advantage and threats.

Section 7 (b): Macroeconomics

7.b.1 - a general knowledge and understanding of the determination of National Income, the circular flow of income, consumption, the multiplier, the paradox of thrift, foreign trade and income determination

The candidate should be able to

- i) distinguish between GDP and GNP;
- ii) explain the difference between real and nominal GDP;
- iii) explain the components of the circular flow of income;
- iv) distinguish between injections into, and withdrawals from ('leakages') the circular flow;
- v) distinguish between national income and GNP;
- vi) distinguish between classical economics and Keynesian economics;
- vii) explain the major components of the Keynesian model;
- viii) explain Keynesian equilibrium;
- ix) calculate the Keynesian multiplier given the marginal propensity to consume (mpc) or propensities to withdraw (tax, import and save);
- x) explain the paradox of thrift.

7.b.2 - a general knowledge and understanding of fiscal and monetary policy

The candidate should be able to

- i) describe fiscal policy and its influence on aggregate demand;
- ii) explain the problems associated with fiscal policy;
- iii) define money supply (from 'narrow' through to 'wide');
- iv) describe the fractional reserve banking system;
- v) define the money multiplier and identify its determinants;
- vi) calculate the potential money multiplier given a cash reserve ratio;

- vii) describe the relationship between real money supply and interest rates;
- viii) explain the transmission mechanism whereby monetary policy influences economic aggregates.

7.b.3 - a general knowledge and understanding of the role of the Bank of England and a basic knowledge and understanding of the role of the central banks in the US and Japan, and of the European Central Bank

The candidate should be able to

- i) explain the role and responsibilities of the central bank in the UK and the tools that it can use to control the money supply;
- ii) explain the functions and responsibilities of the central banks of Europe, US and Japan.

7.b.4 - a general knowledge and understanding of inflation and unemployment

The candidate should be able to

- i) define and distinguish between frictional, structural, real-wage (classical) and Keynesian unemployment;
- ii) identify examples of the different classifications of unemployment;
- iii) define inflation;
- iv) describe the long-run and short-run Phillips curve;
- v) explain the trade-off between unemployment and inflation in the context of anticipated and unanticipated inflation.

7.b.5 - a general knowledge and understanding of the foreign exchange market, government policy and exchange rates, fixed floating and managed exchange rates, and the balance of payments

The candidate should be able to

- i) explain how changes in supply and demand for a currency will affect its value on the foreign exchange markets;
- ii) identify the key components of the balance of payments;
- iii) explain the relationship between the supply and demand for a currency and the underlying transactions represented in the balance of payments;
- iv) distinguish between a fixed, floating and a managed exchange rate ('dirty-floating' regime);
- v) explain the economic benefits and costs of a fixed exchange rate mechanism;
- vi) explain the notion of purchasing power parity as a forecasting tool for exchange rates;
- vii) explain the effectiveness of monetary and fiscal policy in fixed and floating exchange rate regimes.

TOPIC AREA 8: Statistics

Section 8 (a): Sources of Data

8.a.1 - a general knowledge and understanding of tabulation, graphs, scatter plots, pie charts and histograms

The candidate should be able to

- i) distinguish between primary and secondary sources of data;
- ii) identify examples of primary and secondary data;
- iii) distinguish between a population and a sample;
- iv) explain the key sampling methods;
- v) distinguish between continuous and discrete data;
- vi) define categorical data and explain how it can be converted to ordinal data;
- vii) interpret a frequency and relative frequency distribution;
- viii) explain the use of the following in the presentation of data:
 - Lorenz curve
 - pie chart
 - bar chart
 - histogram
 - scatter plots
 - graphs.

Section 8 (b): Summary Data and Linear Regression

8.b.1 - a general knowledge and understanding of averages, arithmetic and geometric mean, mode, median, measures of dispersion, range, quartile, percentile, and standard deviation

The candidate should be able to

- i) define, explain and calculate the following measures of central tendency for both raw data and interval data:
 - arithmetic mean
 - geometric mean
 - median
 - mode
- ii) distinguish between symmetric and skewed data;
- iii) explain the relationship between the mean, median and mode for symmetric and skewed data;
- iv) define, explain and calculate the following measures of dispersion for both raw data and interval data:
 - standard deviation (population and sample)
 - variance
 - range
 - quartiles and percentiles
 - inter-quartile range.

8.b.2 - a general knowledge and understanding of correlation and bivariate linear regression

The candidate should be able to

- i) explain the least-squares regression technique in deriving a line of best fit;
- ii) distinguish between the dependent and independent variable;
- iii) interpret the intercept and gradient components of a regression line;
- iv) calculate a forecast value for the dependent variable given the regression line equation;
- v) distinguish between interpolation and extrapolation;

- vi) explain and interpret the correlation coefficient in the context of linear regression;
- vii) explain the shortfalls in the application of linear regression to forecasting.

Section 8 (c): Index numbers

8.c.1 - a general knowledge and understanding of index numbers, their construction, uses and interpretation

The candidate should be able to

- i) explain the purpose of an index value;
- ii) calculate an index level for the current year, given the base year data and the current year data;
- iii) distinguish between an unweighted and a quantity weighted index;
- iv) calculate and interpret an unweighted index level;
- v) distinguish a Laspeyre index from a Paasche index;
- vi) calculate and interpret a Laspeyre and a Paasche index level;
- vii) calculate and interpret a date-weighted index level.

8.c.2 - a basic knowledge of indices and their application in the financial markets

The candidate should be able to

- i) explain the role of financial market indices in fund management;
- ii) explain and calculate a price relative for a share;
- iii) calculate and interpret a simple arithmetic index;
- iv) calculate an index level having re-based the index series;
- v) calculate and interpret a geometric index;
- vi) calculate and interpret a market value weighted index;
- vii) understand the composition and construction of key global bond and equity market indices;
- viii) explain the relevance of free-floating indices.

Section 8 (d): Financial Mathematics

8.d.1 - a detailed knowledge and understanding of simple and compound interest

The candidate should be able to

- i) distinguish simple interest from compound interest;
- ii) calculate simple and compound interest over multiple periods;
- iii) distinguish a nominal (simple) annual interest rate from an effective (compound) annual rate;
- iv) calculate the annual compound rate given the nominal rate and the frequency of compounding;
- v) calculate the annual nominal rate of interest given the annual compound rate and the frequency of compounding;
- vi) explain the concept of continuous compounding;
- vii) calculate the effective continuously compounded rate given the nominal rate.

8.d.2 - a detailed knowledge and understanding of present and future value calculations, annuities, perpetuities, and mortgages

The candidate should be able to

- i) calculate and interpret future values for:
 - single sums
 - annuities;

- ii) calculate and interpret present values for:
 - single sums
 - annuities
 - perpetuities;
- iii) calculate equal instalments on a repayment mortgage given the present value of the borrowings, the fixed mortgage rate and the term of the borrowing.

8.d.3 - a detailed knowledge and understanding of the internal rate of return and net present value

The candidate should be able to

- i) calculate and interpret the net present value of a series of investment cash flows;
- ii) calculate and interpret an internal rate of return;
- iii) explain how NPVs and IRRs can be used in investment decision making;
- iv) explain the limitations of each technique;
- v) explain why decisions using each technique may conflict;
- vi) explain the scenarios in which multiple IRRs may occur.

Readings

Buckle, Mayes & Thomas; IMC Official Training Manual, (OTM) 5th Edition (contact the UKSIP Office for details of availability)

Background Readings

- FSA Handbook of Rules and Guidance
- J. Rutterford; Introduction to Stock Exchange Investment, 2nd Edition, Palgrave, 2002
- W. Sharpe and G. Alexander; Investments, 6th Edition, Pearson Higher Education, 1998
- A. Millington; An Introduction to Property Valuation, 4th Edition, Estates Gazette, 1995
- N. Enever and D. Isaac; The Valuation of Property Investments, 6th Edition, Estates Gazette, 2002
- E. Elton and M. Gruber; Modern Portfolio Theory and Investment Analysis, 6th Edition, John Wiley, 2002
- G. Holmes, A. Sugden and P. Gee; Interpreting Company Reports & Accounts, 8th Edition, Pearson Higher Education, 2002
- D. Begg, S. Fischer and R. Dornbusch; Economics, 7th Edition, McGraw-Hill, 2002
- Curwin; Quantitative Methods for Business Decisions, 4th Edition, ITBP, 2001
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