



CHARTERED INSTITUTE FOR  
SECURITIES & INVESTMENT

# Fundamentals of Financial Services

Effective from 1 August 2021

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## Objective of the examination

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

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

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

## Syllabus structure

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

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

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

## Candidate Update

Candidates are reminded to check the 'Candidate Update' area of the Institute's website ([cisi.org/candidateupdate](http://cisi.org/candidateupdate)) on a regular basis for updates that could affect their examination as a result of industry change.

## Examination Specification

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

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

<b>Examination specification</b>		
<b>30 multiple choice questions</b>		
<b>Element number</b>	<b>Element</b>	<b>Questions</b>
1	Ethics and Integrity in Financial Services	1
2	Introduction - saving and borrowing	4
3	Banking	5
4	Equities	5
5	Bonds	5
6	Derivatives	1
7	Markets	4
8	Other Areas of Financial Services	5
<b>Total</b>		<b>30</b>

## Assessment Structure

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

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

## Summary Syllabus

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

1.1 Ethics and Integrity

### **Element 2 Introduction - saving and borrowing**

2.1 Savers/Borrowers

### **Element 3 Banking**

3.1 Banking

### **Element 4 Equities**

4.1 Equities

### **Element 5 Bonds**

5.1 Bonds

### **Element 6 Derivatives**

6.1 Derivatives

### **Element 7 Markets**

7.1 Markets

### **Element 8 Other Areas of Financial Services**

8.1 Fund Management

8.2 Foreign Exchange

8.3 Insurance

8.4 Retirement Planning

8.5 Financial Technology (Fintech)



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

**1.1 Ethics and Integrity**

On completion, the candidate should:

- 1.1.1 *know* the key principles of ethical behaviour in financial services
- 1.1.2 *know* the meaning and characteristics of Environmental, Social, and Corporate Governance (ESG)
- 1.1.3 *know* the role of responsible investments
- 1.1.4 *know* types of impact investing:
  - gender lens investing
  - micro finance

**Element 2 Introduction - saving and borrowing**

**2.1 Savers/Borrowers**

On completion, the candidate should:

- 2.1.1 *know* how the financial services industry can be viewed as linking those with surplus money (savers) and those with a need for money (borrowers) in the following ways:
  - via banks (deposits, loans)
  - via equities (ownership stake)
  - via bonds (I owe you's)
- 2.1.2 *know* that borrowers include companies and governments and that governments issue bonds rather than equities
- 2.1.3 *know* the relationship between the level of risk and the prospect of reward
- 2.1.4 *know* that the financial services industry also includes markets to enable investors in equities and bonds to buy or sell investments
- 2.1.5 *know* that the financial services industry also includes insurance providers to enable financial risks to be managed
- 2.1.6 *know* that the financial services industry also includes foreign exchange dealers to allow one currency to be exchanged for another to facilitate international trade



**Element 3 Banking**

**3.1 Banking**

On completion, the candidate should:

3.1.1 *know* the difference between retail and commercial banking and the types of customer – individuals / corporates

3.1.2 *know* the nature and types of borrowing available to retail customers:

- from banks – loans, mortgage loans, overdrafts
- from banks and credit card companies – credit cards
- from other sources – pawnbrokers, payday loans

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

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

3.1.5 *know* the difference between secured and unsecured borrowing

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

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

3.1.8 *know* the role of central banks:

- banker to banking system
- banker for the government
- regulatory role (interest rate setting)

**Element 4 Equities**

**4.1 Equities**

On completion, the candidate should:

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

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

4.1.3 *know* the potential sources of return from shares:

- dividend
- capital gain

4.1.4 *be able to calculate* the dividend yield given the share price and the dividends paid in the year

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

4.1.6 *know* the risks involved in owning shares:

- lack of profit
- bankruptcy/collapse

## **Element 5 Bonds**

### **5.1 Bonds**

On completion, the candidate should:

5.1.1 *know* the definition of a bond and the reasons for issue:

- alternative to loans or issuing shares

5.1.2 *know* the bond issuers:

- governments
- corporates

5.1.3 *know* the features of bonds:

- repayment date
- frequency of interest payments
- tradeable

5.1.4 *know* the key terms:

- nominal
- coupon
- redemption / maturity

- yield

5.1.5 *know* the advantages and disadvantages of investing in bonds:

- regular income
- fixed maturity date
- credit risk

5.1.6 *know* the role of credit rating agencies:

- investment grade / non-investment grade

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

## **Element 6 Derivatives**

### **6.1 Derivatives**

On completion, the candidate should:

6.1.1 *know* the uses and application of derivatives

6.1.2 *know* the definition and function of a future

6.1.3 *know* the definition and function of an option (calls and puts)

## **Element 7 Markets**

### **7.1 Markets**

On completion, the candidate should:

7.1.1 *know* the function of a stock exchange

7.1.2 *know* the reasons why a company makes an initial public offering (IPO)

7.1.3 *know* the purpose of a stock exchange index:

- single market
- global markets

7.1.4 *know* the following stock market indices and which market they relate to:

- Dow Jones Industrial Average
- S&P 500
- Nasdaq
- FTSE 100
- DAX
- Hang Seng
- Nikkei 225

## **Element 8 Other Areas of Financial Services**

### **8.1 Fund Management**

On completion, the candidate should:

8.1.1 *know* the principle of collective investment schemes:

- comparison with direct investment
- pooling
- diversification
- expertise

### **8.2 Foreign Exchange**

On completion, the candidate should:

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

- currency trading
- exchange rate
- cryptocurrencies

### **8.3 Insurance**

On completion, the candidate should:

8.3.1 *know* the types of insurance available:

- personal

- corporate
- the concept of syndication

### **8.4 Retirement Planning**

On completion, the candidate should:

8.4.1 *know* the importance of planning for retirement

### **8.5 Financial Technology (Fintech)**

On completion, the candidate should:

8.5.1 *know* the application of technology in collective investment:

- platforms
- screening tools

8.5.2 *know* how crowd funding works

8.5.3 *know* the principles of peer-to-peer finance

8.5.4 *know* how global stock markets have benefitted from the application of Fintech:

- technology indices
- high frequency trading

8.5.5 *know* the basic principles of distributed ledger technology