

<b>UNIT TITLE: SECURITIES AND DERIVATIVES</b>		
<b>Attainment Level</b>	<b>Learning Outcome</b>	<b>Indicative Content</b>
<b>Demonstrate an understanding of:</b>	The securities and derivatives market structure, features and regulation	<ul style="list-style-type: none"> <li>• Role, structure and regulation of global securities and derivatives markets:               <ul style="list-style-type: none"> <li>– Primary, secondary and dual listing</li> <li>– Exchange trading and over-the-counter (OTC) trading</li> <li>– Role of regulators, other supervisory bodies and trade associations</li> </ul> </li> <li>• Market terminology, key participants and roles</li> </ul>
<b>Demonstrate an understanding of:</b>	The trading environment for securities and derivatives	<ul style="list-style-type: none"> <li>• Securities – Domestic markets:               <ul style="list-style-type: none"> <li>– Issuing, listing, quotation, admission to market                   <ul style="list-style-type: none"> <li>○ UK Listing Authority</li> <li>○ PLUS Market</li> <li>○ AIM Market</li> <li>○ Issuing securities without a prospectus</li> </ul> </li> <li>– Markets for trading:                   <ul style="list-style-type: none"> <li>○ Equities</li> <li>○ Government bonds</li> <li>○ Corporate bonds</li> </ul> </li> <li>– Other trading venues:                   <ul style="list-style-type: none"> <li>○ Multilateral Trading Facilities (MTFs)</li> <li>○ Systematic Internalisers</li> <li>○ Dark pools</li> </ul> </li> </ul> </li> <li>• Securities – International markets:               <ul style="list-style-type: none"> <li>– Developed markets</li> <li>– Emerging markets</li> <li>– Foreign Exchange market</li> </ul> </li> </ul>

		<ul style="list-style-type: none"> <li>– Structure and access considerations</li> <li>• Range of derivatives instruments and typical risks <ul style="list-style-type: none"> <li>– Financial derivatives</li> <li>– Commodity derivatives</li> <li>– Property derivatives</li> <li>– Exotic derivatives</li> </ul> </li> <li>• Derivatives – Exchange trading and OTC trading, main differences: <ul style="list-style-type: none"> <li>– Standard and bespoke</li> <li>– Maturity, expiry, margin, collateral, liquidity</li> <li>– Clearing and settlement</li> <li>– Transparency and confidentiality</li> <li>– Trading mechanisms</li> <li>– Counterparties</li> <li>– Documentation</li> </ul> </li> <li>• Central counterparty (CCP) clearing of OTC transactions</li> </ul>
		<b>SECURITIES</b>
<b>Demonstrate an ability to apply:</b>	Dealing principles and practice relevant to client investment activity	<ul style="list-style-type: none"> <li>• Dealing – domestic markets, rules and principles <ul style="list-style-type: none"> <li>– Best Execution</li> <li>– Aggregation and Allocation</li> <li>– Front running</li> </ul> </li> <li>• International markets - main differences in principles and practice</li> </ul>
<b>Demonstrate an understanding of:</b>	Clearing, settlement and custody principles and practice relevant to client investment activity	<ul style="list-style-type: none"> <li>• Clearing and central counterparty – UK process, duties, risks</li> <li>• Settlement: <ul style="list-style-type: none"> <li>– UK process</li> <li>– International Central Securities Depositories (CSDs)</li> </ul> </li> <li>• Custody of assets and client money</li> <li>• Relevance and impact of corporate actions</li> </ul>

<b>Demonstrate an ability to assess:</b>	The factors that influence market behaviour relevant to investment advice	<ul style="list-style-type: none"> <li>• Factors that influence market and individual security movements: <ul style="list-style-type: none"> <li>– Volume, liquidity and impact of trading activities – domestic and international markets</li> <li>– Derivatives market, interactivity of timed events, relationship with cash market</li> <li>– Research and ratings</li> <li>– Market Abuse regime</li> </ul> </li> <li>• Information and disclosure: <ul style="list-style-type: none"> <li>– Issuer reporting and announcements, corporate actions</li> <li>– Transparency obligations – transaction reporting, share ownership and disclosure, short selling</li> <li>– Market data convention</li> </ul> </li> </ul>
<b>Demonstrate an ability to analyse:</b>	The characteristics, features, behaviours and risks of securities in the context of the market for these products	<ul style="list-style-type: none"> <li>• Equities: <ul style="list-style-type: none"> <li>– Share classes</li> <li>– American Depository Receipts (ADRs) and Global Depository Receipts (GDRs)</li> <li>– Comparative valuation measures and relevance</li> </ul> </li> <li>• Debt securities: <ul style="list-style-type: none"> <li>– Domestic and international government securities</li> <li>– Corporate debt securities</li> <li>– Duration, interest rate movements, price/yield relationship</li> <li>– Credit ratings, creditor rankings</li> </ul> </li> <li>• Derivative substitutes: <ul style="list-style-type: none"> <li>– Warrants and covered warrants</li> <li>– Contracts for difference (CFDs)</li> </ul> </li> <li>• Collectives: <ul style="list-style-type: none"> <li>– Open and closed ended</li> <li>– Asset value, pricing and gearing</li> </ul> </li> </ul>

		<ul style="list-style-type: none"> <li>– Asset cover, redemption yields</li> <li>– Investment management styles and fund selection</li> <li>– Passported products</li>   <li>• ETFs and structured products</li> <li>• Cash and cash equivalents</li> <li>• Foreign Exchange</li> </ul>
		<b>DERIVATIVES</b>
<b>Demonstrate an understanding of:</b>	The principles, components, characteristics and risks of derivatives relative to the underlying	<ul style="list-style-type: none"> <li>• Relationships to underlying</li> <li>• Physically settled versus cash settled</li> <li>• General pricing principles – futures, options</li> </ul>
<b>Demonstrate an understanding of:</b>	The market environment, product types and characteristics of Exchange Traded derivatives	<ul style="list-style-type: none"> <li>• Main products <ul style="list-style-type: none"> <li>– Futures</li> <li>– Options</li> </ul> </li> <li>• Main UK and international exchanges</li> <li>• Trading platforms <ul style="list-style-type: none"> <li>– Mechanisms and procedures</li> </ul> </li> <li>• Wholesale trading facilities <ul style="list-style-type: none"> <li>– Significance and uses</li> </ul> </li> <li>• Clearing mechanisms and processes</li> </ul>
<b>Demonstrate an understanding of:</b>	The pricing, trading and market practice of Exchange Traded derivatives	<ul style="list-style-type: none"> <li>• Calculation of profit/loss on delivery or expiry – futures and options</li> <li>• Mechanisms for futures pricing <ul style="list-style-type: none"> <li>– Factors influencing pricing</li> <li>- Bases for calculation</li> </ul> </li> </ul>

		<ul style="list-style-type: none"> <li>• Mechanisms of options pricing           <ul style="list-style-type: none"> <li>– Factors influencing pricing and premiums</li> <li>– Bases for calculation</li> </ul> </li> <li>• Price discovery for commodities</li> <li>• Market transparency, reporting and monitoring</li> <li>• Order/instruction flow and order type</li> <li>• Input and matching, trade registration processes</li> </ul>
<b>Demonstrate an understanding of:</b>	The main types and characteristics of OTC traded derivatives	<ul style="list-style-type: none"> <li>• Forwards and forward rate agreements (FRAs)</li> <li>• OTC option products</li> <li>• Contracts for difference</li> <li>• Swaps           <ul style="list-style-type: none"> <li>– Interest rate swaps</li> </ul> </li> <li>• Credit derivatives           <ul style="list-style-type: none"> <li>– Credit default swaps</li> </ul> </li> <li>• Structured products</li> <li>• OTC trade capture, confirmation and clearing mechanisms</li> </ul>
<b>Demonstrate an understanding of:</b>	Clearing, margin, settlement, exercise and delivery of both Exchange Traded and OTC derivatives	<ul style="list-style-type: none"> <li>• Definition and purpose of clearing           <ul style="list-style-type: none"> <li>– Roles and relationships</li> <li>– Risks and guarantees</li> <li>- Central counterparty clearing</li> </ul> </li> </ul>

		<ul style="list-style-type: none"> <li>• Purpose, types and application of margin <ul style="list-style-type: none"> <li>– Parties involved</li> <li>– Processing, collection and payment</li> <li>– Pricing factors and calculation</li> </ul> </li> <li>• Purpose, types and application of collateral</li> <li>• Delivery and settlement</li> <li>• Exercise of options, assignment of obligations, abandonment and expiry</li> </ul>
<b>Demonstrate an ability to evaluate:</b>	The purpose, merits, limitations and risks of the main derivatives strategies for trading, hedging and investment relevant to client investment activity	<ul style="list-style-type: none"> <li>• Trading and Speculation</li> <li>• Hedging <ul style="list-style-type: none"> <li>– Options strategies</li> <li>– Futures strategies</li> </ul> </li> <li>• Investment and derivatives, including use of synthetics <ul style="list-style-type: none"> <li>– Portfolio hedging</li> <li>– Portfolio yield enhancement</li> <li>– Structured funds and ETFs</li> </ul> </li> </ul>
		<b>APPLICATION</b>
<b>Demonstrate an ability to apply:</b>	The relevant factors and considerations to decide and implement investment recommendations	<p><i>These standards include the requirement to COMBINE and APPLY the learning content from all units of the Appropriate Exam</i></p> <ul style="list-style-type: none"> <li>• Obtain the range of client information and subjective factors to understand their needs, wants, values and risk profile essential to planning</li> <li>• Synthesise client and relevant market information to provide the basis for assumptions and decisions</li> </ul>

	<ul style="list-style-type: none"> <li>• Analyse the advantages and disadvantages of the appropriate options</li> <li>• Select, recommend, explain and justify, and transact <ul style="list-style-type: none"> <li>– Sources and use of research and other information</li> </ul> </li> <li>• Holding securities and/or derivatives within an investment portfolio: <ul style="list-style-type: none"> <li>– Direct holdings, indirect holdings and combinations</li> <li>– Role of derivative substitutes</li> <li>– Rationale, advantages and disadvantages</li> <li>– Impact on overall client objectives and priorities</li> <li>– Main factors to consider when holding both securities and derivatives within the portfolio</li> <li>– Asset allocation factors and relationship to overall portfolio</li> <li>– Matching to client risk appetite and trade-offs</li> </ul> </li> <li>• Take account of relevant tax, accounting and costs considerations</li> <li>• Comply with advice and dealing regulations specific to securities and/or derivatives - COBS</li> <li>• Client reporting requirements</li> <li>• Communication, monitoring, review and maintenance of the portfolio to achieve the client's objectives, deal with change and respond to setbacks</li> </ul>
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