

UNIT TITLE: SECURITIES AND DERIVATIVES

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

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

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

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

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

		<ul style="list-style-type: none"> • Purpose, types and application of margin <ul style="list-style-type: none"> – Parties involved – Processing, collection and payment – Pricing factors and calculation • Purpose, types and application of collateral • Delivery and settlement • Exercise of options, assignment of obligations, abandonment and expiry
Demonstrate an ability to evaluate:	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"> • Trading and Speculation • Hedging <ul style="list-style-type: none"> – Options strategies – Futures strategies • Investment and derivatives, including use of synthetics <ul style="list-style-type: none"> – Portfolio hedging – Portfolio yield enhancement – Structured funds and ETFs
		APPLICATION
Demonstrate an ability to apply:	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"> • Obtain the range of client information and subjective factors to understand their needs, wants, values and risk profile essential to planning • Synthesise client and relevant market information to provide the basis for assumptions and decisions

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