How the IMC meets the ESMA/Mifid II Knowledge and Competency requirements

2. INVESTMENT ADVICE

ESMA criteria for knowledge and competence for staff giving investment advice

ESMA Criteria **Criteria for knowledge and competence for staff giving information about investment products, investment services or ancillary services**	**IMC SYLLABUS TOPIC AREA**
a. understand the key characteristics, risk and features of the investment products being offered or recommended, including any general tax implications to be incurred by the client in the context of transactions. Particular care should be taken when providing advice with respect to products characterised by higher levels of complexity;	**TOPIC 1 – FINANCIAL MARKETS AND INSTITUTIONS** 1.2.1 Differentiate between a financial security and a real asset 1.2.2 Identify the key features of: an ordinary share, a bond, a derivative contract, a unit in a pooled fund, and a foreign exchange transaction 1.2.3 Identify the functions of securities markets in providing price transparency and liquidity 1.2.4 Identify the reasons why liquidity and price transparency are thought to be important for the efficient allocation of capital costs when trading in securities markets 1.2.5 Calculate round trip transaction costs incorporating bid–ask spreads, dealing commission and transaction taxes, both in percentages and in absolute amounts 1.2.6 Identify the types of securities and the market conditions where price transparency, liquidity and depth are likely to be high/low 1.2.7 Define liquidity risk and identify why it is important **TOPIC 5 – CLIENT ADVICE** 5.4.1 Analyse the main types of investment risk as they affect investors 5.4.2 Explain the role of diversification in mitigating risk 5.4.3 Analyse the factors affecting a client's risk profile 5.4.4 Explain the key methods of determining a client's risk profile **TOPIC 6 - TAXATION** 6.1.1 Describe the principles of income tax applicable to earnings, savings and investment income in the UK 6.1.2 Describe, in relation to income tax, the system of allowances, reliefs and priorities for taxing income

	6.1.3 Explain the taxation of the income of trusts and beneficiaries 6.1.4 Describe the system of National Insurance Contributions (NICs) 6.1.5 Describe the principles of capital gains tax (CGT) in the UK 6.1.6 Describe the principles of inheritance tax (IHT) in the UK 6.1.7 Explain the limitations of lifetime gifts and transfers at death in mitigating IHT 6.1.8 Explain the implications of residence and domicile in relation to liability to income tax, CGT and IHT 6.1.9 Describe the system of UK tax compliance including self-assessment, pay as you earn (PAYE), tax returns, tax payments, tax evasion and avoidance issues 6.1.10 Describe the principles of stamp duty land tax (SDLT) as applied to property transactions (buying, selling and leasing) 6.1.11 Describe the principles of stamp duty reserve tax (SDRT) 6.1.12 Explain how companies are taxed in the UK 6.1.13 Describe, in outline, the principles of value added tax (VAT) 6.1.14 Analyse the taxation of direct investments including cash and cash equivalents, fixed interest securities, equities and property 6.1.15 Analyse the key features and taxation of indirect investments including pension arrangements, different types of individual savings accounts (ISAs), and child trust funds, onshore and offshore life assurance policies, real estate investment trusts (REITs), venture capital trusts (VCTs) and enterprise investment schemes (EISs) 6.2 INVESTMENT ADVICE AND TAX PLANNING 6.2.1 Evaluate the tax considerations shaping clients' needs and circumstances 6.2.2 Analyse the key principles of income tax planning 6.2.3 Analyse how the use of annual CGT exemptions, the realisation of losses, the timing of disposals, and sale and repurchase of similar assets can mitigate CGT 6.2.4 Calculate the most common elements of income tax, NICs, CGT and IHT, including the impact of lifetime transfers and transfers at death 6.2.5 Select elementary tax planning recommendations in the context of investments and pensions advice **TOPIC 16 – INVESTMENT PRODUCTS** 16.1.1 Compare and contrast investing through direct investments in securities and assets, and investing through indirect investments

	16.1.2 Distinguish the features, risks and benefits of unit trusts, investment trusts and open-ended investment companies 16.1.3 Identify the key features and objectives of exchange traded funds (ETFs) and exchange traded commodities (ETCs) 16.1.4 Identify the advantages and disadvantages of investing in ETFs 16.1.5 Explain the additional benefits and risks of investing in split capital investment trusts 16.1.6 Explain the features and objectives of: private client funds, structured products, wraps and other platforms 16.1.7 Identify the characteristics and advantages of life assurance-based investments 16.1.8 Identify the characteristics and advantages of defined contribution pension Arrangements 16.2.1 Explain the features and objectives of hedge funds and funds of hedge funds 16.2.2 Describe the various hedge fund strategies 16.2.3 Describe the various approaches to private equity investing 16.2.4 Identify the potential benefits and limitations of hedge funds 16.2.5 Identify the potential benefits and limitations of private equity investing 16.2.6 Describe the management fee structure for hedge funds and private equity investing
b. understand the total amount of costs and charges to be incurred by the client in the context of the type of investment product being offered or recommended and the costs related to the provision of advice and any other related services being offered;	**TOPIC 1 – FINANCIAL MARKETS AND INSTITUTIONS** 1.2.5 Calculate round trip transaction costs incorporating bid–ask spreads, dealing commission and transaction taxes, both in percentages and in absolute amounts **TOPIC 3 – FINANCIAL MARKETS AND INSTITUTIONS (ADVICE** 3.5.16 Explain the rules relating to providing information about the firm and compensation information (COBS 6.1) ***3.5.17 Explain the rules on adviser charging and remuneration (COBS 6.3 & 6.4)*** **TOPIC 5 – CLIENT ADVICE** 5.5.2 Explain the key roles of charges and the financial stability of the provider as criteria within the fund selection process, and the use of past performance **TOPIC 15 – PORTFOLIO MANAGEMENT** 15.5.1 Explain the relationship between pricing, liquidity and fair value for the asset classes of

	equity, fixed income, derivatives and alternative investments 15.5.2 Explain the relationship between liquidity and the capacity of investment strategies 15.5.3 Identify, explain and calculate transaction costs associated with dealing in: – UK equities – fixed income securities – derivatives – alternative investments 15.5.4 Evaluate the impact of alternative trading platforms, facilitated by MiFID, on transaction costs associated with equity dealing 15.5.5 Contrast trading methods for fixed income securities with equities and analyse the impact on trading costs 15.6.2 Distinguish between active and passive fund management, and explain the costs and benefits to the investor
c. fulfil the obligations required by firms in relation the suitability requirements including the obligations as set out in the Guidelines on certain aspects of the MiFID suitability requirements;	**TOPIC 3 – THE REGULATION OF FINANCIAL MARKETS AND INSTITUTIONS** 3.1.3 Explain the purpose and scope of the Markets in Financial Instruments Directives 3.5.19 Explain the rules relating to assessing suitability (COBS 9.2) 3.5.20 Explain the rules relating to assessing appropriateness (COBS 10.2) 3.5.21 Explain the rules relating to warning a client (COBS 10.3) 3.5.22 Identify circumstances when assessing appropriateness is not required (COBS 10.4, 10.5 & 10.6) 3.5.23 Identify circumstances where own authority or expertise is limited and there is the need to refer to specialists 3.5.24 Distinguish between independent advice and restricted advice (COBS 6.2A) 3.2.4 Explain the scope of the Regulated Activities Order 2001 (as amended) in terms of regulated activities and specified investments **TOPIC 5 – CLIENT ADVICE** 5.6.1 Describe the need for advisers to communicate clearly, assessing and adapting to the differing levels of knowledge and understanding of their clients.
d. understand how the type of investment product provided by the firm may not be suitable for the client, having assessed the relevant information provided by the client against potential changes that may have occurred since the relevant information was gathered;	**TOPIC 5 – CLIENT ADVICE** 5.1 TYPES AND CHARACTERISTICS OF INVESTORS 5.1.1 Describe and compare different types of investors 5.1.2 Explain the obligations of a firm towards retail clients 5.1.3 Explain the main needs of retail clients and how they are prioritised

	5.2 THE CLIENT'S FINANCIAL OBJECTIVES 5.2.1 Explain the importance of establishing and quantifying a client's objectives 5.2.2 Explain the need to prioritise objectives to accommodate a client's affordability 5.3 THE CLIENT'S CURRENT CIRCUMSTANCES 5.3.1 Explain the importance of the fact find process in establishing a client's current financial circumstances and requirements 5.3.2 Identify the factors shaping a client's circumstances 5.4 THE CLIENT'S RISK PROFILE 5.4.1 Analyse the main types of investment risk as they affect investors 5.4.2 Explain the role of diversification in mitigating risk 5.4.3 Analyse the factors affecting a client's risk profile 5.4.4 Explain the key methods of determining a client's risk profile 5.5 ADVICE AND RECOMMENDATIONS 5.5.1 Explain why asset allocation always comes before investment or product selection 5.5.2 Explain the key roles of charges and the financial stability of the provider as criteria within the fund selection process, and the use of past performance 5.5.3 Explain the importance of stability, independence and standing of trustees, fund custodians and auditors in the fund selection process 5.5.4 Identify benchmarks and other performance measures 5.5.5 Explain the importance of reviews within the financial planning process 5.6 SKILLS REQUIRED WHEN ADVISING CLIENTS 5.6.1 Describe the need for advisers to communicate clearly, assessing and adapting to the differing levels of knowledge and understanding of their clients. 5.6.2 Identify and apply suitable investment solutions to suit different needs of retail clients
e. understand how financial markets function and how they affect the value and pricing of investment products offered or recommended to clients;	**TOPIC 1 – FINANCIAL MARKETS AND INSTITUTIONS** 1.1 INTRODUCTION TO FINANCIAL MARKETS 1.1.1 Explain the functions of the financial services industry in allocating capital within the global economy 1.1.2 Explain the role and impact of the main financial institutions 1.1.3 Explain the role of government including economic and industrial policy, regulation, taxation and social welfare

	1.2 THE ROLE OF SECURITIES MARKETS IN PROVIDING LIQUIDITY AND PRICE TRANSPARENCY 1.2.1 Differentiate between a financial security and a real asset 1.2.2 Identify the key features of: an ordinary share, a bond, a derivative contract, a unit in a pooled fund, and a foreign exchange transaction 1.2.3 Identify the functions of securities markets in providing price transparency and liquidity 1.2.4 Identify the reasons why liquidity and price transparency are thought to be important for the efficient allocation of capital costs when trading in securities markets 1.2.5 Calculate round trip transaction costs incorporating bid–ask spreads, dealing commission and transaction taxes, both in percentages and in absolute amounts 1.2.6 Identify the types of securities and the market conditions where price transparency, liquidity and depth are likely to be high/low 1.2.7 Define liquidity risk and identify why it is important 1.3 TYPES OF FINANCIAL MARKETS 1.3.1 Identify the main dealing systems and facilities offered in the UK equities market 1.3.2 Identify the nature of the securities that would be traded on each of the main dealing systems and facilities 1.3.3 Explain the structure and operation of the primary and secondary UK markets for gilts and corporate bonds 1.3.4 Explain the motivations for, and implications of, dual-listing for a company 1.3.5 Compare and contrast exchange traded and over-the-counter (OTC) markets 1.3.6 Distinguish between the following alternative trading venues: multilateral trading facilities, systematic internalisers, dark pools 1.3.7 Distinguish between a quote-driven and an order-driven market 1.3.8 Explain the roles of the various participants in the UK equity market 1.3.9 Explain high-frequency trading, its benefits and risks 1.4 SETTLEMENT PROCEDURES IN THE UK 1.4.1 Explain the clearing and settlement procedures for UK exchange traded securities 1.5 THE UK LISTING AUTHORITY AND PROSPECTUS REQUIREMENTS 1.5.1 Explain the role of the FCA as the UK listing authority

	1.5.2 Identify the listing rules in Financial Services and Markets Act (FSMA) 2000 as amended, and Relevant EU directives 1.5.3 Explain the main conditions for listing on the Official List, AIM and ISDX 1.5.4 Explain the purpose of the requirement for prospectus or listing particulars 1.5.5 Identify the main exemptions from listing particulars
f. understand the impact of economic figures, national/regional/global events on markets and on the value of investment products being offered or recommended to clients;	**TOPIC 9 – MACROECONOMICS** 9.1.1 Identify the main long-term UK and global socio-economic trends 9.1.2 Identify key economic indicators and their trends 9.1.3 Describe the relationship between and importance of the main world economies 9.1.4 Identify international differences in consumption, credit and savings 9.1.5 Describe economic and financial cycles including their predictability and regional differences 9.2 determination of national income, the circular flow of income, Consumption, the multiplier, the paradox of thrift, foreign trade and income determination 9.2.1 Distinguish between gross domestic product (GDP), gross national product (GNP) and national income 9.2.2 Identify the difference between real and nominal GDP 9.2.3 Identify the components of the circular flow of income, distinguishing between injections into and withdrawals ('leakages') from the circular flow 9.2.4 Distinguish between national income and GNP 9.2.5 Distinguish between classical economics and the Keynesian and Monetarist schools of thought 9.2.6 Identify the major components of the Keynesian model 9.2.7 Describe Keynesian equilibrium 9.2.8 Calculate the Keynesian multiplier given the marginal propensity to consume (MPC) or propensities to withdraw (tax, import and save) 9.2.9 Identify the nature of the relationship between aggregate saving, consumption and investment as predicted by the Paradox of Thrift 9.3 inflation, unemployment, fiscal and monetary policy and the role of Central banks 9.3.1 Describe fiscal policy and its influence on aggregate demand 9.3.2 Identify the role of debt in the business cycle 9.3.3 Identify the problems associated with fiscal policy 9.3.4 Identify money supply (from 'narrow' through to 'wide') 9.3.5 Identify the key features of the fractional reserve banking system

	9.3.6 Define the money multiplier and identify its determinants 9.3.7 Calculate the potential money multiplier given a cash reserve ratio 9.3.8 Explain the transmission mechanism whereby monetary policy influences economic aggregates 9.3.9 Define inflation (including deflation), explain how it is measured in the UK, and identify the different causes 9.3.10 Define unemployment and explain how it is measured in the UK 9.3.11 Explain the relationship between inflation and unemployment according to the Phillips curve 9.3.12 Explain how inflation targeting operates in the UK 9.3.13 Distinguish between the different mandates and approaches of the major central banks 9.3.14 Explain the unconventional tools used by central banks to manage the economy 9.3.15 Explain the impact of bank capital and liquidity requirements and the move towards macroprudential regulation of the macro-economy 9.3.16 Explain the role of securitisation on credit growth and the wider macro-economy 9.4 the foreign exchange market, government policy and exchange Rates, fixed floating and managed exchange rates, and the balance of payments 9.4.1 Explain how changes in supply and demand for a currency will affect its value on the foreign exchange markets 9.4.2 Identify the key components of the balance of payments 9.4.3 Explain the relationship between the supply and demand for a currency, and the underlying transactions represented in the balance of payments 9.4.4 Distinguish between a fixed, floating and a managed exchange rate (‘dirty floating’ regime) 9.4.5 Explain the economic benefits and costs of a fixed exchange rate mechanism 9.4.6 Explain an optimal currency area (OCA) and identify the advantages and disadvantages of implementing a single currency in an OCA 9.4.7 Explain the implications of persistent global imbalances of trade and capital 9.4.8 Explain the notion of purchasing power parity (PPP) as a forecasting tool for exchange rates 9.4.9 Explain the effectiveness of monetary and fiscal policy in fixed and floating exchange rate regimes 9.4.10 Describe the nature and basic operations of the foreign exchange market

	9.4.11 Explain the nature of exchange rate risk and how it can be managed 9.4.12 Explain spot and forward exchange rates 9.4.13 Distinguish between covered and uncovered interest rate parity and calculate forward rates using the appropriate method 9.4.14 Apply the concept of PPP to forecast expected future spot exchange rates using the differential inflation rates between two countries 9.4.15 Explain the International Fisher effect
g. understand the difference between past performance and future performance scenarios as well as the limits of predictive forecasting;	**TOPIC 3 – THE REGULATION OF FINANCIAL MARKETS AND INSTITUTIONS** 3.5.10 Explain the rules relating to past, simulated past and future performance (COBS 4.6) **TOPIC 5 – CLIENT ADVICE** 5.5.2 Explain the key roles of charges and the financial stability of the provider as criteria within the fund selection process, and the use of past performance **TOPIC 7 – QUANTITATIVE METHODS** 7.3.4 Explain the shortfalls in the application of linear regression to forecasting, including why correlation does not imply causation, and the pitfalls of data-mining 7.3.5 Describe the impact of extreme events on alternative measures of correlation
h. understand issues relating to market abuse and anti-money laundering;	**TOPIC 3 – THE REGULATION OF FINANCIAL MARKETS AND INSTITUTIONS** 3.7.1 Explain the various sources of money laundering and counter-terrorism regulation and legislation (FCA rules, SYSC 6.3, Money Laundering Regulations, Proceeds of Crime Act 2002) 3.7.2 Explain the role of the Joint Money Laundering Steering Group (JMLSG) 3.7.3 Explain the main features of the guidance provided by the JMLSG 3.7.10 Describe the behaviours defined as market abuse (MAR 1.3–1.9) 3.7.11 Explain the enforcement powers of the FCA relating to market abuse (DEPP 6.3)
i. assess data relevant to the type of investment products offered or recommended to clients such as Key Investor Information Documents, prospectuses, financial statements, or financial data;	**TOPIC 3 – THE REGULATION OF FINANCIAL MARKETS AND INSTITUTIONS** Product disclosure – packaged products 3.5.33 Explain the obligations relating to preparing product information (COBS 13.1 & COLL 4.7) 3.5.34 Explain the rules relating to the form and content of a key features document and a key investor information document (COBS 13.2, 13.3, 14.2 & COLL 4.7) 3.5.35 Explain the rules relating to cancellation rights (COBS 15)

	3.5.36 Distinguish between packaged products and retail investment products (COBS 6.2A, COBS 6.3 & COBS 14.2.1) **TOPIC 10 - ACCOUNTING** 10.1.1 Explain the legal requirement to prepare financial statements 10.2.1 Explain the purpose of a balance sheet or statement of financial position 10.5.1 Explain the purpose of a cash flow statement 10.4.1 Identify and explain the classification of expenses based on nature or function
j. understand specific market structures for the type of investment products offered or recommended to clients and where relevant their trading venues or the existence of any secondary markets;	**TOPIC 1 – FINANCIAL MARKETS AND INSTITUTIONS** 1.3 TYPES OF FINANCIAL MARKETS 1.3.1 Identify the main dealing systems and facilities offered in the UK equities market 1.3.2 Identify the nature of the securities that would be traded on each of the main dealing systems and facilities 1.3.3 Explain the structure and operation of the primary and secondary UK markets for gilts and corporate bonds 1.3.4 Explain the motivations for, and implications of, dual-listing for a company 1.3.5 Compare and contrast exchange traded and over-the-counter (OTC) markets 1.3.6 Distinguish between the following alternative trading venues: multilateral trading facilities, systematic internalisers, dark pools 1.3.7 Distinguish between a quote-driven and an order-driven market 1.3.8 Explain the roles of the various participants in the UK equity market 1.3.9 Explain high-frequency trading, its benefits and risks 1.7.1 Explain the structure, features, regulatory and trading environment of international markets, including developed markets and emerging markets **TOPIC 13 - DERIVATIVES** 13.1.2 Explain the nature, trading and settlement of exchange traded derivatives **TOPIC 16 - INVESTMENT PRODUCTS** 16.1.1 Compare and contrast investing through direct investments in securities and assets, and investing through indirect investments 16.1.2 Distinguish the features, risks and benefits of unit trusts, investment trusts and open- ended investment companies 16.1.3 Identify the key features and objectives of exchange traded funds (ETFs) and exchange traded commodities (ETCs) 16.1.4 Identify the advantages and disadvantages of investing in ETFs

	16.1.5 Explain the additional benefits and risks of investing in split capital investment trusts 16.1.6 Explain the features and objectives of: private client funds, structured products, wraps and other platforms 16.1.7 Identify the characteristics and advantages of life assurance-based investments 16.1.8 Identify the characteristics and advantages of defined contribution pension arrangements
k. have a basic knowledge of valuation principles for the type of investment products in relation to which the information is provided.	**TOPIC 7 – QUANTITATIVE METHODS** 7.5.1 Calculate simple and compound interest earned over multiple periods 7.6.1 Calculate and interpret future values for: single sums and annuities 7.6.2 Calculate and interpret present values for: single sums, annuities, and perpetuities **TOPIC 11 – EQUITIES** 11.3.2 Calculate a holding period return for an ordinary share, comprising capital gain and dividend income 11.3.8 Distinguish between and evaluate the merits of relative valuation models and absolute valuation models, and between historic and prospective measures of value 11.3.9 Identify the components, assumptions and limitations of the dividend discount model (Gordon's growth model) 11.3.10 Calculate the present value of a share using the dividend discount model **TOPIC 12 – FIXED INCOME** 12.2.4 Calculate the price of a fixed income security given its maturity, coupon and yield 12.3.1 Identify the components of return of fixed income securities 12.3.4 Identify the nature of the relationship between yield and price 12.4.1 Define and calculate: flat yield, gross redemption yield (GRY), net redemption yield (NRY), grossed-up NRY 12.4.2 Explain when each of these measures may be appropriate to use 12.4.3 Define the yield curve 12.4.4 Explain the theories that contribute to explaining the shape of the yield curve **TOPIC 13 – DERIVATIVES** 13.1.1 Distinguish between forwards, futures and options 13.1.10 Differentiate the time value and intrinsic value components of an option premium 13.1.11 Determine when an option is in-the-money, out-of-the-money or at-the money 13.1.12 Calculate the time value of an option, given the premium, strike price and current market price

	13.1.13 Identify and explain the factors that determine the premium of an option
l. understands the fundamentals of managing a portfolio, including being able to understand the implications of diversification regarding individual investment alternatives.	**TOPIC 15 – PORTFOLIO MANAGEMENT** 15.1 RISK AND RETURN AND THE IMPORTANCE OF DIVERSIFICATION 15.1.1 Explain the 'normal' trade-off between risk and return, and the concept of 'dominance' between investment strategies 15.1.2 Explain the implications of assuming that returns are normally distributed 15.1.3 Explain the importance of risk measurement in the analysis of investments, and why ex-ante and ex-post measures of risk may be very different 15.1.4 Identify the commonly used measures of risk in investment analysis and fund management 15.1.5 Explain the advantages and disadvantages of standard deviation as a measure of risk 15.1.6 Explain tracking error and identify its advantages and disadvantages as a measure of risk 15.1.7 Explain the meaning of drawdown and its advantages and disadvantages as a measure of risk 15.1.8 Explain the meaning of relative weights and the concept of active share and their respective advantages and disadvantages as measures of risk 15.1.9 Explain the impact on changing levels of price volatility over time and how this affects predictions such as tracking error and downside risk 15.1.10 Explain the importance of correlation in constructing efficient portfolios, and the difficulties, limitations and meaning of correlation coefficients 15.1.11 Calculate correlation coefficients from standard deviation/covariance of two investments 15.1.12 Explain diversification and its role in constructing efficient portfolios, and its limitations during extreme market conditions 15.1.13 Explain the meaning of value at risk (VaR) and its advantages and disadvantages for risk management 15.1.14 Analyse and explain other types of investment risk, including inflation, currency, interest rate, fraud and counterparty risk 15.2 CORRELATION BETWEEN ASSET CLASSES 15.2.1 Identify the correlation between the various asset classes (equity, fixed income, property, cash and alternative investments) and explain its relevance to asset allocation 15.2.2 Explain the limitations of correlation analysis in extreme market conditions 15.3 MODELS OF RETURN AND RISK 15.3.1 Explain the concept of investments being exposed to a number of common factors which partially explain their return and risk profile ('arbitrage pricing theory')

	15.3.2 Identify the assumptions behind the single-factor capital asset pricing model (CAPM) and identify other factors in common use 15.3.3 Explain the limitations of the CAPM model 15.3.4 Define the segmentation of risk into systematic (factor) risk and unsystematic ('investment specific') risk 15.3.5 Calculate the total risk given systematic and unsystematic components 15.3.6 Calculate the expected return on a security by applying the CAPM through interpreting the beta of a security 15.3.7 Explain how the historic beta may be estimated using a scatter chart of historic returns 15.3.8 Calculate the beta of an investment given the systematic risk of the investment and the risk of the market 15.3.9 Calculate the beta of an investment given the variance of the market return, and the covariance of the investment return with the market return 15.3.10 Calculate the beta of a portfolio given the component betas and the investment weightings 15.4 THE EFFICIENT MARKETS HYPOTHESIS 15.4.1 Identify and explain the key concepts of the efficient markets hypothesis (EMH) 15.4.2 Explain the limitations of the EMH 15.4.3 Evaluate the evidence on market anomalies in relation to EMH 15.4.4 Explain the basic concepts of the behavioural finance school of thought 15.4.5 Evaluate the evidence on market anomalies in relation to behavioural finance 15.4.6 Explain the concept of 'financial amnesia' and the role of behavioural factors in its promotion 15.4.7 Explain the notion of 'bubbles' in financial markets 15.5 PRICING, LIQUIDITY AND FAIR VALUE 15.5.1 Explain the relationship between pricing, liquidity and fair value for the asset classes of equity, fixed income, derivatives and alternative investments 15.5.2 Explain the relationship between liquidity and the capacity of investment strategies 15.5.3 Identify, explain and calculate transaction costs associated with dealing in: – UK equities – fixed income securities – derivatives – alternative investments 15.5.4 Evaluate the impact of alternative trading platforms, facilitated by MiFID, on transaction costs associated with equity dealing 15.5.5 Contrast trading methods for fixed income securities with equities and analyse the impact on trading costs 15.6 APPROACHES TO FUND MANAGEMENT

	15.6.1 Distinguish between a 'top-down' and 'bottom-up' approach to fund management 15.6.2 Distinguish between active and passive fund management, and explain the costs and benefits to the investor 15.6.3 Distinguish between strategic and tactical asset allocation 15.6.4 Explain the major investment styles prevalent in the fund management industry 15.6.5 Explain socially responsible investing (SRI) and environmental social governance investing (ESGI) 15.6.6 Identify the range of ethical and responsible investment tools 15.7 INVESTMENT MANAGEMENT PRINCIPLES – FIXED INCOME 15.7.1 Explain the following bond portfolio management techniques: cash matching/dedication, immunisation, credit risk management, riding the yield curve 15.7.2 Calculate the theoretical gain from riding the yield curve 15.7.3 Calculate duration for a bond portfolio 15.7.4 Explain the benefits and risks of using barbell and bond portfolio strategies 15.7.5 Explain the characteristics and risks of a liability driven investment (LDI) strategy 15.7.6 Explain the process of an LDI strategy 15.7.7 Evaluate some of the techniques and basic measures of risk used in LDI