

CFA UK guidance notes on RDR gap-fill for holders of the *Associate Examinations* (ASIP designation by examination):

Summary

The FSA's Appropriate Qualifications list includes 'Associate' of the CFA Society of the UK (ASIP designation) for the activities of *advising and dealing in securities* and *derivatives*. The listing recognises the level, status and relevance of the Associate Examinations in meeting the qualification requirements under the Retail Distribution Review (RDR). It confirms that those who completed* the Associate Examinations need not take further exams but there remains a requirement to meet any gaps between the Associate Examinations syllabus and the RDR Examination Standards.

Although the Associate Examinations were rigorous, (at a level well beyond the RDR level 4 minimum), with wide coverage and depth there has been significant change in the industry since the exams were discontinued in 2002. In the RDR gap-fill mapping this is reflected most obviously in two areas: regulation and derivatives trading. Other areas where gaps are apparent are: approaches to mainstream retail advice, application of tax planning and ethics. Although some content cover has been recognised in the Associate Examinations syllabus these areas were not the qualification's focus and additional CPD is required to fill the gaps.

*Any members who are unsure whether they completed the Associate Examinations should contact CFA UK and provide details and certificate scans for the examinations they took. Records are archived so it may take time to process a request for confirmation.

Gap-fill guidance table

The FSA has produced templated gap-fill tables for advisors to demonstrate how they have met the requirements by a combination of qualification and CPD gap-fill. A blank table for members to use is available on the CFA UK website. The gap-fill guidance table below shows all the 'learning outcomes' required of those wishing to advise retail clients investing in securities and derivatives. The **red**, **amber**, **green** notation shows the degree to which the Associate Examination syllabus already meets the RDR Examination Standards 'learning outcomes'. Those with a green 'Yes' rating can be considered learning outcomes that have already been met and can be ticked off. The others require additional structured CPD. Suggested gap-fill is listed in the final column. In most cases this can be met through content contained in the IMC level 4 syllabus.

Filling the gaps

Almost all the gaps to be filled are covered in the first Unit of the new level 4 IMC. Most of the content of the Unit 1 syllabus would be required to complete the gap-fill. The IMC was re-developed and re-launched in September 2010 specifically to meet the new RDR 'Core' Examination Standards so the new IMC syllabus provides a particularly accessible source of content. The FSA has been clear that examination achievement at level 3 (including the IMC passed before September 2010) can *not* be used for RDR gap-fill. The table below indicates which topics of the new level 4 IMC fill the gaps not covered in the Associate Examinations syllabus.

Those who completed the Associate Examinations (ASIP designation by examination) are not required to take further exams but they do have to complete 'structured', verifiable CPD, which in most cases will be a formal training course. With the exception of some specialist learning outcomes* this CPD can be achieved by attending preparatory training courses for Unit 1 of the IMC and gaining evidence of successful completion from a training company. Such courses are available throughout the year, last 2-3 days and are typically priced well below the cost of executive education training days. This provides a convenient, intensive and immediately available way for Associates to meet their RDR requirements well before the 2013 deadline. For more information on this visit the CFA UK website or discuss with the leading IMC training providers: 7City Learning, BPP, Kaplan Financial and Quartic Training. (CFA UK does not recommend individual providers nor does it have any commercial interests relating to CPD gap-fill training).

*For Associates needing to meet RDR requirements to advise on *derivatives* there are several learning outcomes not covered by either the new IMC or the Associate Examination syllabus. CFA UK is arranging an appropriate means for derivatives advisors to complete these gaps through a study task based on CFA Curriculum readings. (More guidance will be posted on the CFA UK website from May 2011).

Core content covered by the Associate Examinations

3 Sets of RDR examination standards constitute the 'Core' content:

Financial Services, Regulation and Ethics

None of the RDR learning outcomes are fully met by content in the Associate Examinations, although some are partially met. The gap-fill for this can be met in full through formal training for the IMC level 4 Unit 1: *Investment environment* examination. The specific IMC topics are listed in Table 1 below.

Investment principles and risk

Most of the RDR learning outcomes are fully met by the content of the Associate Examinations. Three learning outcomes are partially met. The gap-fill requirement for these can be met through formal training for the IMC level 4 Unit 1: *Investment environment*. The specific IMC topics are listed in Table 2 below.

One learning outcome requires some additional content relating to Topic 19 of the level 4 IMC found in Unit 2: *Investment Practice*. Topic 19, (*Investment Products*), is not covered in training courses for the IMC Unit 1 examination. Associates are advised to purchase a Topic 19 excerpt of the IMC Official Training Manual (available from CFA UK from May 2011) which will be used as a study task to fill the remaining gaps. For more details about the Topic 19 study task check the CFA UK website from May 2011.

Personal taxation

None of the RDR learning outcomes are fully met by content in the Associate Examinations, although some are partially met. The gap-fill requirement for these examination standards can be met in full through formal training for the IMC level 4 Unit 1: *Investment environment* examination. The specific IMC topics are listed in Table 3 below.

Specialist content covered by the Associate Examinations

2 sets of RDR examination standards are partially covered by the Associate Examinations:

Securities

The Associate Examinations syllabus partially meets the Securities learning outcomes, (one is fully met). The gap-fill requirement this can be met through formal training for the IMC level 4 Unit 1: *Investment environment* examination.

One learning outcome requires additional content relating to Topic 19 of the level 4 IMC found in Unit 2: *Investment Practice*. Topic 19, (Investment Products), is not covered in training courses for the IMC Unit 1 examination. Associates are advised to purchase a Topic 19 excerpt of the IMC Official Training Manual (available from CFA UK from May 2011) which will be used as a study task to fill the remaining gaps. For more details about the Topic 19 study task check the CFA UK website from May 2011.

Derivatives

Two of the learning outcomes are fully met, some are partially met and several are not met at all through Associate Examinations content. The gap-fill requirement for these examination standards can be met in part through formal training for the IMC level 4 Unit 1: *Investment environment* examination.

Several learning outcomes require additional content relating to Topic 19 of the level 4 IMC found in Unit 2: *Investment Practice*. Topic 19, (Investment Products), is not covered in training courses for the IMC Unit 1 examination. Associates are advised to purchase a Topic 19 excerpt of the IMC Official Training Manual (available from CFA UK from May 2011) and use this as a study task to fill the gaps.

In addition a study task based on a selection of excerpts from the CFA Curriculum is required to complete the Derivatives exam standards. Details of how to obtain the readings and to access the study task will be available on the CFA UK website from May 2011. It will be a series of readings followed by an online comprehension check available from the CFA UK website.

How to fill the gaps: summary

Advising in securities:

- Follow a formal training programme in preparation for IMC Unit 1. Taking the examination is not required but evidence of successful attendance from the training provider is necessary. 2 and 3-day courses are available weekly round the year from: BPP, 7City Learning and Kaplan Financial.
- Additional study task based on IMC Topic 19 (Investment Products). This will be available from the CFA UK website from May 2011.

Advising in derivatives:

- Follow formal training programme in preparation for IMC Unit 1. Taking the examination is not required but evidence of successful attendance from the training provider is necessary. 2 and 3-day courses available weekly round the year from: BPP, 7City Learning and Kaplan Financial.
- Additional study task based on IMC Topic 19 (Investment Products). This will be available from the CFA UK website from May 2011.
- Additional study task based on CFA Curriculum readings on the topic of derivatives trading. The readings and study task will be available from the CFA UK website from May 2011

Core content

Table 1 - Financial Services, Regulation and Ethics

1	2	3	4	SUGGESTED FILL
Attainment level	Learning outcome	Indicative content	Covered in qualification ? (Y/N)	IMC level 4 topic content to cover through structured training
Understand	The UK financial services industry in its European and global context		PARTIAL	1
		<ul style="list-style-type: none"> role and structure of the UK and international markets, key participants the impact of the EU on UK regulation 		
		<ul style="list-style-type: none"> the role of government – economic and industrial policy, regulation, taxation and social welfare 		
		<ul style="list-style-type: none"> the function and operation of financial services within the wider economy 		
Understand	How the retail consumer is served by the financial services industry		PARTIAL	11, 12
		<ul style="list-style-type: none"> obligations towards consumers and their perception of financial services; consumers’ main financial needs and how they are prioritised: <ul style="list-style-type: none"> - managing debt - budgeting and borrowing, including house purchase - protection - saving and investing - retirement - estate planning and tax planning how those needs are met <ul style="list-style-type: none"> - mortgages and loans - life and health insurance 		

		- savings and investments		
		- State benefits		
		- the main types of pension provision		
Understand	The legal concepts and considerations relevant to financial advice		NO	3
		• legal persons and power of attorney		
		• basic law of contract and agency		
		• ownership of property		
		• insolvency and bankruptcy		
		• wills and intestacy		
		• use of trusts		
		- the main types of trusts and their uses		
		- how to create and administer trusts		
Understand	The regulation of financial services		NO	4,5
		• the role of the Financial Services Authority (FSA), HM Treasury and the Bank of England – market regulation		
		• the role of other regulating bodies such as the Competition Commission, the Office of Fair Trading, the Pensions Regulator, the Information Commissioner		
		• Financial Services and Markets Act (FSMA) 2000, other relevant legislation		
		• the role of EU regulation and relevant Directives		
		• additional oversight – senior management, trustees, auditors, external compliance support services		
Understand	The FSA’s responsibilities and approach to regulation		NO	5,6,7
		• Statutory objectives and how FSA is structured to achieve these:		
		- powers and activities		
		- financial stability and prudential regulation		

		- powers to deal with financial crime		
		- financial capability – National Strategy		
		• the FSA handbook – the main principles and rules		
		- the high level standards		
		- Prudential standards		
		- Business Standards		
		◦ Conduct of Business (COBS)		
		◦ rules for dealing with client assets		
		◦ Market Conduct code		
		◦ Training and Competence		
		- regulatory processes:		
		◦ authorisation, supervision, approved persons, significant influence functions, controlled functions, appointed representatives		
		• risk based supervision, discipline and enforcement, sanctions to deal with criminal activities		
Apply	The principles and risk as set out in the regulatory framework		NO	6,7
		• regulated activities and authorisation requirements		
		• approved person and controlled function responsibilities		
		• record keeping, reporting and notification requirements		
		• professionalism and the training and competence requirements		
		• Anti money laundering and proceeds of crime obligations		
		• Data protection including data security		
		• complaints procedures and responsibilities to consumers		
		• the Financial Ombudsman Service (FOS)		
		• the Financial Services Compensation Scheme (FSCS)		
Apply	The regulatory advice framework in practice for the consumer		PARTIAL	7
		• client relationships and adviser responsibilities		

		- types of clients		
		- fiduciary relationship – duty of care, confidentiality, primacy of clients’ interests		
		- clarity of service provision and charges, status disclosure including terms of business and client agreements, execution only		
		- limitations to own authority or expertise, referrals to and relationships with relevant specialists		
		- clients’ cancellation rights		
		• regulated advice standards		
		• monitoring and reviewing clients’ plans and circumstances and taking account of relevant changes		
Understand	The range of skills required when advising clients		NO	12,13
		• Communicating clearly, assessing and adapting to the differing capabilities of clients		
		• gathering information, assessment and analysis of client’s needs and circumstances, reaching conclusions and making appropriate recommendations		
Understand	The FSA’s use of principles and outcomes based regulation to promote ethical and fair outcomes		NO	8
		• the Principles for Business and the discretionary obligations these place on firms		
		• corporate culture and leadership		
		• the responsibilities that rest with approved persons and the need for integrity, competence and fair outcomes for clients, including dealing with conflicts of interest		
Apply	The Code of Ethics and professional standards to business behaviours of individuals		NO	9,10
		• the over-arching Code of Ethics		
		• the professional principles and values on which the Code is based		
		• identifying ethical dilemmas		

		<ul style="list-style-type: none"> the steps involved in managing ethical dilemmas 		
Critically evaluate	The outcomes that distinguish between ethical and compliance driven behaviours		NO	9,10
		<ul style="list-style-type: none"> typical behavioural indicators – positive and negative 		
		<ul style="list-style-type: none"> the outcomes which may result from behaving ethically – for the industry, the firm, individual advisers and consumers 		
		<ul style="list-style-type: none"> the outcomes which may result from limiting behaviour to compliance with the rules – for the industry, firm, individual advisers and consumers 		

Table 2 - Investment principles and risk

1	2	3	4	SUGGESTED FILL
Attainment level	Learning outcome	indicative content	Covered in qualification ? (Y/N)	IMC level 4 topic content to cover through structured training
Analyse	The characteristics, inherent risks, behaviour and correlation of asset classes		YES	
		<ul style="list-style-type: none"> • cash and cash equivalents: 		
		<ul style="list-style-type: none"> - main types, costs and charges 		
		<ul style="list-style-type: none"> • fixed interest securities 		
		<ul style="list-style-type: none"> - main types 		
		<ul style="list-style-type: none"> - running and redemption yields, interest rates and yield curves 		
		<ul style="list-style-type: none"> - markets and indices 		
		<ul style="list-style-type: none"> - transaction costs – purchase and sale 		
		<ul style="list-style-type: none"> • equities 		
		<ul style="list-style-type: none"> - main types, private equity 		
		<ul style="list-style-type: none"> - valuation measures – price/earnings (P/E) ratio, dividend yield and cover, Net Asset Value (NAV) 		
		<ul style="list-style-type: none"> - stock markets – indices, listings 		
		<ul style="list-style-type: none"> - transaction costs 		
		<ul style="list-style-type: none"> • property 		
		<ul style="list-style-type: none"> - main types, residential and commercial, income profile and gearing 		
		<ul style="list-style-type: none"> - valuation 		
		<ul style="list-style-type: none"> - performance benchmarking 		
	<ul style="list-style-type: none"> - transaction and on-going costs 			
	<ul style="list-style-type: none"> • alternative investments such as commodities, and physical assets 			
	<ul style="list-style-type: none"> • pricing, liquidity and fair value 			

		<ul style="list-style-type: none"> correlation of asset classes – relevance to asset allocation 		
Understand	The macro-economic environment and its impact on asset classes		YES	
		<ul style="list-style-type: none"> main long term UK and global socio-economic trends 		
		<ul style="list-style-type: none"> overview of world economies and globalisation of markets 		
		<ul style="list-style-type: none"> economic and financial cycles – predictability, regional economy differences 		
		<ul style="list-style-type: none"> the key economic indicators – trends and their interpretation 		
		<ul style="list-style-type: none"> significance of monetary and fiscal policy 		
		<ul style="list-style-type: none"> relevance of money, inflation, deflation, interest rates and exchange rates 		
		<ul style="list-style-type: none"> balance of payments and international capital flows 		
Understand	The merits and limitations of the main investment theories	<ul style="list-style-type: none"> the role of financial investment in the economy 		
			YES	
		<ul style="list-style-type: none"> key features of the main investment theories 		
		<ul style="list-style-type: none"> - Modern portfolio theory 		
		<ul style="list-style-type: none"> - Multi factor theory 		
		<ul style="list-style-type: none"> - Efficient market hypothesis 		
		<ul style="list-style-type: none"> - Capital asset pricing model (CAPM) 		
		<ul style="list-style-type: none"> portfolio theory, diversification and hedging 		
		<ul style="list-style-type: none"> - correlation between asset classes 		
		<ul style="list-style-type: none"> - total return and an awareness of beta and alpha 		
Apply	The principles of the time value of money	<ul style="list-style-type: none"> - risk adjusted returns 		
		<ul style="list-style-type: none"> basics of behavioural finance – market and individual behaviours 		
			YES	
		<ul style="list-style-type: none"> compound interest and discounting 		
		<ul style="list-style-type: none"> real returns and nominal returns 		

Analyse and explain	The nature and impact of the main types of risk on investment performance		YES	
		<ul style="list-style-type: none"> liquidity and access 		
		<ul style="list-style-type: none"> income and capital growth including shortfall 		
		<ul style="list-style-type: none"> short term volatility 		
		<ul style="list-style-type: none"> long term performance 		
		<ul style="list-style-type: none"> gearing 		
		<ul style="list-style-type: none"> currency 		
		<ul style="list-style-type: none"> inflation 		
		<ul style="list-style-type: none"> interest rates 		
	<ul style="list-style-type: none"> systemic and non-systemic, including fraud and counterparty, institutional, market timing 			
Analyse	The characteristics, inherent risks, behaviours and relevant tax considerations of investment products		PARTIAL	16, 17, 19
		<ul style="list-style-type: none"> the advantages and disadvantages of direct investment in securities and assets compared to indirect investment through collectives and other products 		
		<ul style="list-style-type: none"> the main types and use of indirect investment products: <ul style="list-style-type: none"> investment structures <ul style="list-style-type: none"> collective investment funds – onshore and offshore <ul style="list-style-type: none"> Exchange Traded Funds (ETFs) and Exchange Traded Commodities (ETCs) closed ended funds / investment companies – onshore and offshore Individual Savings Account (ISAs) and Child Trust Funds (CTFs) National Savings and Investments life assurance based investments – onshore and offshore Defined contribution (DC) pension arrangements 		

		<ul style="list-style-type: none"> ◦ Real Estate Investment Trusts (REITs) and other property based products ◦ Venture Capital Trusts (VCTs) and Enterprise Investments Schemes (EISs) – basic structures and uses ◦ Broker funds and distributor influenced funds (DIFs) - derivatives ◦ basic structure, main types and uses - investment strategy based products ◦ hedge fund and funds of hedge funds ◦ absolute return funds ◦ structured products – income and capital growth, structure and analysis ◦ with profit funds – main principles 		
Apply	The investment advice process		PARTIAL	7, 12, 13
		<ul style="list-style-type: none"> • know your client requirements <ul style="list-style-type: none"> - explain the investment process - establish client relationships, capability and circumstances including assets and debts - agree and prioritise needs and wants - agree investment objectives, growth, income, time horizons, debt and credit management and repayment - determine and agree risk profile – objective and subjective factors - assess affordability and other suitability considerations, ethical, social responsibility and religious preferences - agree strategy and rationale to achieve the objectives - agree benchmark / performance measures and review process • asset allocation <ul style="list-style-type: none"> - alignment with client risk profile and requirements - diversification and correlation benefits - accumulation and decumulation 		
Understand	The principles of investment planning		PARTIAL	11, 12, 17

		<ul style="list-style-type: none"> • asset allocation <ul style="list-style-type: none"> - stochastic modelling - strategic and tactical asset allocation • portfolio construction <ul style="list-style-type: none"> - stock and fund selection - diversification by sector, geographical area and currency - main fund management strategies and styles - costs, charges, Total Expense Ratios (TERs), Portfolio Turnover Rates (PTRs) - selection of products, tax wrapper and services - provider selection and due diligence - recommendations and suitability • wrap and other platforms <ul style="list-style-type: none"> - concept and uses - benefits and risks - costs/charges 		
Analyse	The performance of investments		YES	
		<ul style="list-style-type: none"> • portfolio performance <ul style="list-style-type: none"> - methods of evaluating portfolio performance - selection and use of benchmarks - new money and timing factors • portfolio review and administration <ul style="list-style-type: none"> - changes in client circumstances - changes in financial environment - new products and services available - maintenance of products and services - use of external services / benchmarking - rebalancing 		

Table 3 - Personal taxation

1	2	3	4	SUGGESTED FILL
Attainment level	Learning outcome	Indicative content	Covered in qualification ? (Y/N)	IMC level 4 topic content to cover through structured training
Understand	The UK tax system as relevant to the needs and circumstances of individuals and trusts		PARTIAL	14, 15, 16, 17
		<ul style="list-style-type: none"> income tax – sources of income, liability, allowances, reliefs, priorities for taxing income, income of trusts and beneficiaries 		
		<ul style="list-style-type: none"> National Insurance Contributions (NICs) – liability for employers, employees, self-employed contribution levels, voluntary NICs 		
		<ul style="list-style-type: none"> Capital Gains Tax (CGT) – liability, rate, disposals, gains and losses, reliefs and exemptions, capital gains of trusts 		
		<ul style="list-style-type: none"> Inheritance Tax (IHT) – liability, transfers, nil rate band, rates, reliefs and exemptions, assets held in trusts, transfers to and from trusts 		
		<ul style="list-style-type: none"> residence and domicile – main rules, impact on liability to income tax, CGT and IHT 		
		<ul style="list-style-type: none"> UK tax compliance – self assessment, Pay as You Earn (PAYE), tax returns, tax payments, tax evasion and avoidance issues 		
		<ul style="list-style-type: none"> Stamp duty reserve tax and stamp duty land tax – transactions subject to tax, rates of tax, main reliefs outline of Value Added Tax (VAT) and Corporation Tax 		
Analyse	The taxation of investments as relevant to the needs and circumstances of individuals and trusts		PARTIAL	14, 15, 16, 17
		<ul style="list-style-type: none"> direct investments – cash and cash equivalents, fixed interest securities, equities and property 		
		<ul style="list-style-type: none"> indirect investments - pension arrangements 		

		- Individual Savings Accounts (ISAs) and Child Trust Funds (CTFs)		
		- onshore and offshore collectives and investment companies		
		- onshore and offshore life assurance policies		
		- Real Estate Investment Trusts (REITS)		
		- Venture Capital Trusts (VCTs) and Enterprise Initiative Schemes (EISs) – basic outline		
Analyse	The role and relevance of tax in the financial affairs of individuals and trusts		NO	14, 15, 16, 17
		<ul style="list-style-type: none"> the impact of taxes on individuals, trusts and their investments 		
		<ul style="list-style-type: none"> key principles of income tax planning – spouse, civil partners, children, pension contributions, ISA allowances, use of the main CGT exemptions and reliefs 		
		<ul style="list-style-type: none"> main uses of lifetime gifts and trusts in basic IHT mitigation 		
Apply	the knowledge of personal taxation to the provision of investment advice		PARTIAL	14, 15, 16, 17
		<ul style="list-style-type: none"> to carry out computations on the most common elements of income tax and NICs; CGT; IHT including the impact of lifetime transfers and transfers at death 		
		<ul style="list-style-type: none"> to make elementary tax planning recommendations in the context of investment advice 		

Specialist content

Table 4 - Securities

1	2	3	4	SUGGESTED FILL
Attainment level	Learning outcome	Indicative content	Covered in qualification ? (Y/N)	IMC level 4 topic content to cover through structured training
Understand	The securities market structure, features, regulatory and trading environment		PARTIAL	2
		<ul style="list-style-type: none"> • Role, structure and regulation of global securities 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 participants and roles • 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 		

		<ul style="list-style-type: none"> ◦ Corporate bonds 		
		<ul style="list-style-type: none"> - Other trading venues: 		
		<ul style="list-style-type: none"> ◦ Multilateral Trading Facilities (MTFs) 		
		<ul style="list-style-type: none"> ◦ Systemic Internalisers 		
		<ul style="list-style-type: none"> ◦ Dark pools 		
		<ul style="list-style-type: none"> • International markets 		
		<ul style="list-style-type: none"> - Developed markets 		
		<ul style="list-style-type: none"> - Emerging markets 		
		<ul style="list-style-type: none"> - Foreign exchange market 		
		<ul style="list-style-type: none"> - Structure and access considerations 		
Apply	Dealing principles and practice to relevant client investment activity		PARTIAL	2,7
		<ul style="list-style-type: none"> • Dealing – domestic markets, rules and principles 		
		<ul style="list-style-type: none"> - Best Execution 		
		<ul style="list-style-type: none"> - Aggregation and Allocation 		
		<ul style="list-style-type: none"> - Front running 		
		<ul style="list-style-type: none"> • International markets – main differences in principle and practice 		
Understand	Clearing, settlement and custody principles and practice relevant to client investment activity		PARTIAL	2, 7
		<ul style="list-style-type: none"> • Clearing and central counterparty – UK process, duties, risks 		
		<ul style="list-style-type: none"> • Settlement: 		
		<ul style="list-style-type: none"> - UK process 		
		<ul style="list-style-type: none"> - International Central Securities Depositories (CSDs) 		
		<ul style="list-style-type: none"> • Custody of assets and client money 		
		<ul style="list-style-type: none"> • Relevance and impact of corporate actions 		

Assess	The factors that influence market behaviour relevant to investment advice		PARTIAL	19 NB Topic 19 is from Unit 2 of the IMC. CFA UK will create a structured study task to cover this topic.
		<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 announcement, corporate actions - Transparency obligations – transaction reporting, share ownership and disclosure, short selling - Market data convention 		
Analyse	The characteristics, features, behaviours and risks of securities in the context of the market for these products		YES	
		<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 rates movements, price/yield relationship - Creditor ratings, creditor rankings 		

		<ul style="list-style-type: none"> • 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 - Asset cover, redemption yields - Investment management styles and fund selection - Passported products • ETFs and structured products • Cash and cash equivalents • Foreign Exchange 		
Apply	The relevant factors and considerations to decide and implement investment recommendations		PARTIAL	All of IMC Unit 1: Topics 1-17
		<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 • 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 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 - Asset allocation factors and relationship to overall portfolio 		

		- Matching to client risk appetite		
		• Take account of relevant tax, accounting and costs considerations		
		• Comply with advice and dealing regulation specific to securities – 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		

Table 5 - Derivatives

1	2	3	4	SUGGESTED FILL
Attainment level	Learning outcome	Indicative content	Covered in qualification ? (Y/N)	IMC TOPIC OR ADDITIONAL CONTENT THROUGH STRUCTURED LEARNING
Understand	The derivatives market structure, features, regulatory and trading environment		PARTIAL	19 NB Topic 19 is from Unit 2 of the IMC. CFA UK will create a structured study task to cover this topic. + Additional study task based on readings from the CFA Curriculum (details available on CFA UK website from May 2011)
		• role, structure and regulation of global derivatives markets		
		- role of regulators, other supervisory bodies and trade associations		
		• range of derivative instruments and typical risks		

		- financial derivatives		
		- commodity derivatives		
		- property derivatives		
		- exotic derivatives		
		• market terminology		
		• key market participants and roles		
		• exchange trading and over-the-counter (OTC) trading – main differences		
		- 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		
Understand	The principles, components, characteristics and risks of derivatives relative to the underlying		YES	
		• relationships to underlying		
		• physically settled versus cash settled		
		• general pricing principles – futures, options		
Understand	The market environment, product types and characteristics of Exchange Traded derivatives		PARTIAL	+ Additional study task based on readings from the CFA Curriculum (details available on CFA UK website from May 2011)
		• main products		
		- futures		

		- options		
		• main UK and international exchanges		
		• trading platforms		
		- Mechanisms and procedures		
		• wholesale trading facilities		
		- significance and uses		
		• clearing mechanisms and processes		
Understand	The pricing, trading and market practice of Exchange Traded derivatives		YES	
		• calculation of profit/loss on delivery or expiry – futures and options		
		• mechanisms for futures pricing		
		- factors influencing pricing		
		- bases for calculation		
		• mechanisms of options pricing		
		- 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		
Understand	The main types and characteristics of OTC traded derivatives		NO	+ Additional study task based on readings from the CFA Curriculum (details available on CFA UK website from May 2011)
		• Forwards and forward rate agreements (FRAs)		
		• OTC option products		

		<ul style="list-style-type: none"> • contracts for difference 		
		<ul style="list-style-type: none"> • swaps <ul style="list-style-type: none"> - interest rate swaps 		
		<ul style="list-style-type: none"> • credit derivatives <ul style="list-style-type: none"> - credit default swaps 		
		<ul style="list-style-type: none"> • structured products 		
		<ul style="list-style-type: none"> • OTC trade capture, confirmation and clearing mechanisms 		
Understand	Clearing, margin, settlement, exercise and delivery of both Exchange Traded and OTC derivatives		NO	19 NB Topic 19 is from Unit 2 of the IMC. CFA UK will create a structured study task to cover this topic. + Additional study task based on readings from the CFA Curriculum (details available on CFA UK website from May 2011)
		<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 		
		<ul style="list-style-type: none"> • purpose, types and application of collateral 		
		<ul style="list-style-type: none"> • delivery and settlement 		
		<ul style="list-style-type: none"> • exercise of options, assignment of obligations, abandonment and expiry 		
Evaluate	The purpose, merits, limitations		PARTIAL	19

	and risks of the main derivatives strategies for trading, hedging and investment relevant to client investment activity			<p>NB Topic 19 is from Unit 2 of the IMC. CFA UK will create a structured study task to cover this topic.</p> <p>+ Additional study task based on readings from the CFA Curriculum (details available on CFA UK website from May 2011)</p>
		<ul style="list-style-type: none"> • trading and speculation 		
		<ul style="list-style-type: none"> • Hedging <ul style="list-style-type: none"> - options strategies - futures strategies 		
		<ul style="list-style-type: none"> • investment and derivatives, including use of synthetics <ul style="list-style-type: none"> - portfolio hedging - portfolio yield enhancement - structured funds and ETFs 		
Apply	The relevant factors and considerations to decide and implement investment recommendations		PARTIAL	<p>ALL OF IMC UNIT 1 + TOPIC 19</p> <p>NB Topic 19 is from Unit 2 of the IMC. CFA UK will create a structured study task to cover this topic.</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 		
		<ul style="list-style-type: none"> • synthesise client and relevant market information to provide basis for assumptions and decisions 		
		<ul style="list-style-type: none"> • analyse the advantages and disadvantages of the appropriate strategies 		
		<ul style="list-style-type: none"> • select, recommend, explain and justify, and transact 		

		- sources and use of research and other information		
		• holding derivatives within an investment portfolio		
		- direct holdings, indirect holdings and combinations		
		- 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 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		