



CHARTERED INSTITUTE FOR  
SECURITIES & INVESTMENT

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LEVEL 3  
CERTIFICATE IN INVESTMENT OPERATIONS

UNIT 6  
GLOBAL SECURITIES OPERATIONS

EFFECTIVE FROM 01 July 2013







## OBJECTIVE OF THE EXAMINATION

The objective of the examination is to ensure that candidates have an introduction to global securities services and administration as far as this relates to the needs of operations and administration staff.

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

- Securities
- Main Industry Participants
- Settlement Characteristics
- Other Investor Services
- Aspects of Taxation
- Risk

**For the purpose of this syllabus the selected markets referred to herein are defined as:**

UK; US; Japan; Australia; Euronext; Germany; Spain; India; Hong Kong; Singapore; Korea; Brazil

## 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. Learning objectives prefixed:

- **know** require the candidate to recall information such as facts, rules and principles
- **understand** require the candidate to demonstrate comprehension of an issue, fact, rule or principle
- **be able to calculate** require 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) 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. However, the number of questions tested in each element should not change by more than plus or minus 2.

<b>Examination specification 50 multiple choice questions</b>		
<b>Element number</b>	<b>Element</b>	<b>Questions</b>
1	Securities	10
2	Main Industry Participants	10
3	Settlement Characteristics	10
4	Other Investor Services	14
5	Aspects of Taxation	3
6	Risk	3
<b>Total</b>		<b>50</b>

**ASSESSMENT STRUCTURE**

A 1 hour examination of 50 multiple choice questions.

Candidates sitting the examination by Computer Based Testing will have, in addition, 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 SECURITIES**

- 1.1 Securities
- 1.2 Principles of Trading

**ELEMENT 2 MAIN INDUSTRY PARTICIPANTS**

- 2.1 Investors and Custody Service Suppliers
- 2.2 International Central Securities Depositories and Central Securities Depositories
- 2.3 Communications and Technology

**ELEMENT 3 SETTLEMENT CHARACTERISTICS**

- 3.1 Pre-settlement
- 3.2 Settlement
- 3.3 Failed Settlement

**ELEMENT 4 OTHER INVESTOR SERVICES**

- 4.1 Safekeeping
- 4.2 Corporate Actions
- 4.3 Cash Management
- 4.4 Securities Lending

**ELEMENT 5 ASPECTS OF TAXATION**

- 5.1 General

**ELEMENT 6 RISK**

- 6.1 Identifying and Managing Risk
- 6.2 Mitigating Risk through Reconciliation

## ELEMENT 1 SECURITIES

### 1.1 Securities

On completion, the candidate should:

#### 1.1.1 *understand* the characteristics of ordinary shares:

- ranking in liquidation
- dividends
- voting rights / non-voting shares
- deferred shares
- registration
- bearer / unlisted securities
- transfer restrictions

#### 1.1.2 *understand* the characteristics of preference shares:

- ranking in liquidation
- dividends
- voting rights / non-voting shares
- cumulative / non cumulative
- participating
- redeemable
- convertible



1.1.3 *understand* the characteristics of Depositary Receipts:

- American Depositary Receipt
- Global Depositary Receipt
- Depositary Interest
- transferability / registration / transfer to underlying
- how created / pre-release facility
- rights
- stamp duty and conversion fees

1.1.4 *understand* the characteristics of warrants and covered warrants:

- what are warrants and covered warrants
- how they are valued
- affect on price of maturity and the underlying security
- purpose
- detachability
- exercise and expiry
- benefit to the issuing company and purpose
- issue by a third party
- right to subscribe for capital

1.1.5 *understand* the characteristics of fixed income instruments:

- corporate bonds
- eurobonds
- convertible bonds
- government bonds
- discount securities
- floating rate notes
- coupon payment intervals
- coupon calculations (may be tested by the use of simple calculations)
- accrued interest calculations (may be tested by the use of simple calculations):
  - actual/actual
  - 30/360
- clean and dirty prices
- mortgage backed securities
- asset backed securities
- index linked bonds

1.1.6 *know* the characteristics of:

- exchange traded funds
- mutual funds
- hedge funds
- investment trusts
- real estate funds
- private equity

1.1.7 *know* how securities are identified:

- ISIN
- CUSIP
- SEDOL
- tickers

1.1.8 *understand* how securities are issued:

- equities:
  - offers for subscription
  - offers for sale
  - introductions
  - placing
  - offer to tender
- government bonds:
  - auction
  - tap
  - tranche
- eurobonds:
  - lead manager
  - syndicate
  - underwriting

## **1.2 Principles of Trading**

On completion, the candidate should:

1.2.1 *know* the characteristics of the Regulated Markets and Multilateral Trading Facilities (MTFs)

1.2.2 *understand* the differences between:

- on exchange / MTF
- over the counter

1.2.3 *understand* the main characteristics of:

- order driven markets
- quote driven markets
- principal trading
- agent trading
- agency crosses (systematic internalisers)
- multilateral trading facilities
- dark pools

1.2.4 *know* the roles of:

- market makers / liquidity providers
- sales traders
- proprietary traders

1.2.5 *know* the principles of programme trades, algorithmic trading and high frequency trading

1.2.6 *understand* the principles of multiple listed shares

1.2.7 *know* the settlement periods for equities and bonds in the selected markets

## ELEMENT 2 MAIN INDUSTRY PARTICIPANTS

### 2.1 Investors and Custody Service Suppliers

On completion, the candidate should:

2.1.1 *know* the characteristics of the following types of participant:

- individual
- institutional
- investment manager
- prime broker
- broker
- inter-dealer broker
- investment bank
- central bank

2.1.2 *understand* the advantages, disadvantages and purposes of the following types of custodian:

- global
- sub-custodian

2.1.3 *understand* the purpose and provisions of custody and sub-custody agreements

2.1.4 *understand* the purpose of a Request For Proposal (RFP) in the selection of a global custodian by an investor

2.1.5 *understand* the requirements of a Service Level Agreement between an investor and its custodian

2.1.6 *understand* how legislation can affect the appointment of custodians

## **2.2 International Central Securities Depositories and Central Securities Depositories**

On completion, the candidate should:

- 2.2.1 *understand* the roles of ICSDs and CSDs generally for the selected markets:
  - depositories available
  - participation requirements
- 2.2.2 *understand* the concepts of certificated, immobilised and dematerialised securities
- 2.2.3 *understand* the roles played by Euroclear and Clearstream including the Bridge
- 2.2.4 *know* how securities and cash are held by ICSDs and CSDs
- 2.2.5 *know* the range of custody and settlement services offered by the ICSDs
- 2.2.6 *know* the proposed intentions of Target2-Securities
- 2.2.7 *know* the structure and functions of Link-Up Markets

## **2.3 Communications and Technology**

On completion, the candidate should:

- 2.3.1 *understand* the advantages of straight-through processing
- 2.3.2 *know* the features and benefits of SWIFT and SWIFT messaging
- 2.3.3 *know* the features and benefits of FIX Protocol messaging
- 2.3.4 *know* the communication methods used with Euroclear and Clearstream

## **ELEMENT 3 SETTLEMENT CHARACTERISTICS**

### **3.1 Pre-settlement**

On completion, the candidate should:

- 3.1.1 *understand* the data required for matching of settlement instructions
- 3.1.2 *understand* the process of clearing (matching and the assumption of risk – trade for trade versus central counterparty)
- 3.1.3 *understand* the role of third party service providers in the pre-settlement process e.g. OMGEO
- 3.1.4 *understand* netting in pre-settlement

### 3.2 Settlement

On completion, the candidate should:

3.2.1 *know* the role of the following types of financial institutions in the settlement process:

- brokers
- investment banks
- investment managers
- custodians
- sub-custodians
- Central Counterparty Clearing Houses (CCPs) and clearing members
- ICSDs and CSDs

3.2.2 *know* the characteristics of the following cash systems:

- CHIPS
- CHAPS
- TARGET 2
- Fedwire
- CLS

3.2.3 *understand* the following settlement concepts:

- trade for trade
- netting – bilateral and multilateral
- trade date netting, continuous net settlement
- fixed date settlement
- rolling settlement
- free of payment transactions
- delivery vs. payment
- book entry settlement
- physical settlement
- foreign exchange settlement

3.2.4 *understand* the transfer of legal title:

- bearer
- registered

3.2.5 *understand* Contractual Settlement Date Accounting (CSDA) and Actual Settlement Date Accounting (ASDA)

3.2.6 *know* the main Giovannini Barriers to the creation of a harmonised market for Europe

### **3.3 Failed Settlement**

On completion, the candidate should:

3.3.1 *understand* the main reasons for failed settlement:

- failure to match
- insufficient stock
- insufficient cash
- counterparty default
- corporate event



3.3.2 *understand* the risks associated with:

- buy-ins
- sell-outs
- interest claims
- settlement fines
- matching fines
- suspension of trading
- short sale fines

3.3.3 *understand* interest claims (ICMA rules on fixed income and ISITC for equities)

3.3.4 *be able to calculate* interest claims based on the above rules

#### **ELEMENT 4 OTHER INVESTOR SERVICES**

##### **4.1 Safekeeping**

On completion, the candidate should:

4.1.1 *understand* the principles of safekeeping client assets:

- to safeguard assets
- to segregate safe custody investments
- to reconcile safe custody investments
- to maintain records and controls in respect of the use of mandates

4.1.2 *understand* the requirements of substantial shareholding reporting

4.1.3 *understand* the functions of nominee companies and the following concepts:

- legal title
- beneficial ownership
- pooled nominee holdings
- designated nominee holdings
- nominee as bare trustee
- omnibus accounts
- segregated accounts

4.1.4 *understand* how a custodian charges for the services it provides to its clients

4.1.5 *be able to calculate* the cost of custody for a given portfolio given a value of assets held and the basis point price

## **4.2 Corporate Actions**

On completion, the candidate should:

4.2.1 *know* the characteristics of the following mandatory events:

- dividends (cash and scrip)
- interest and coupon payments
- capitalisation issues
- splits and consolidations
- capital repayments / redemptions

4.2.2 *know* the characteristics of the following voluntary events:

- rights issue subscription
- conversions
- takeovers
- exchanges
- initial public offers
- proxy voting
- exercise of warrants

4.2.3 *understand* the importance of receiving timely and accurate corporate action data and the risks involved

4.2.4 *understand* the following terms: record date; ex date; pay date; effective date; cum benefit; ex benefit and special ex and special cum

4.2.5 *be able to calculate* corporate actions related data on capitalisations, scrip and rights issues and the effect on the underlying share price

### **4.3 Cash Management**

On completion, the candidate should:

4.3.1 *understand* the importance and use of cash management

4.3.2 *understand* the advantages and disadvantages of operating single and multi-currency accounts

4.3.3 *know* what is meant by the terms sweeping and pooling as they relate to base currency and settlement currency

4.3.4 *understand* the importance of cash forecasting tools

### **4.4 Securities Lending**

On completion, the candidate should:

4.4.1 *understand* the role of a custodian in securities lending and the risks and rewards to those involved

4.4.2 *know* the definition, legal ownership implications and the advantages and disadvantages to the market

4.4.3 *understand* the reasons for securities lending

- 4.4.4 *understand* the reasons why loans might be delayed or prevented
- 4.4.5 *understand* the use of repo agreements
- 4.4.6 *understand* the lenders' and borrowers' rights (including manufactured dividends and voting rights)
- 4.4.7 *understand* collateral and marking to market
- 4.4.8 *know* the role of a Stock Borrowing and Lending Intermediary
- 4.4.9 *understand* the reasons why a loan might be recalled

## **ELEMENT 5 ASPECTS OF TAXATION**

### **5.1 General**

On completion, the candidate should:

- 5.1.1 *understand* the tax treatment of dividends
- 5.1.2 *understand* the tax treatment of bond interest
- 5.1.3 *understand* capital gains tax as it applies to equities and bonds
- 5.1.4 *understand* the tax treatment of discount securities
- 5.1.5 *understand* the advantages, disadvantages and uses of:
  - withholding tax
  - double taxation treaties
  - relief at source
  - tax reclamation
  - being an authorised US approved Qualifying Intermediary
  - FATCA rules
- 5.1.6 *understand* transaction based taxes

## ELEMENT 6 RISK

### 6.1 Identifying and Managing Risk

On completion, the candidate should:

6.1.1 *know* the following major categories of risk:

- market
- counterparty
- issuer
- settlement
- operational
- political
- regulatory

6.1.2 *understand* the factors that should be taken into account when conducting risk reviews of market infrastructures and sub-custodian networks

6.1.3 *understand* the areas of global custody risk and appropriate countermeasures

6.1.4 *know* the purpose of a ISAE 3402 report

6.1.5 *understand* the concept of shareholder limits and restrictions

### 6.2 Mitigating Risk through Reconciliation

On completion, the candidate should:

6.2.1 *understand* the risks associated with a failure to reconcile the following:

- open trades
- counterparty cash
- corporate actions
- cash accounts
- custodian holdings
- client assets
- entitlements