

## Higher National Unit Specification

### General information for centres

**Unit title:** Financial Regulations and Market Trading Mechanisms

**Unit code:** DX2P 34

**Unit purpose:** This Unit is designed to introduce candidates to the role of regulation in the UK Financial Services market and to financial products traded by individual and corporate investors. It has been designed to prepare candidates who wish to apply for positions of employment or are already in employment in the financial services sector, specifically in insurance companies, stock broking and investment firms and providers of investment operation support. Candidates who complete this Unit and the Unit Financial Services Market: The Personal Investor (DX2N 34) will have covered the learning outcomes of the Securities and Investment Institute qualification: Introduction to Securities and Investment and be eligible to apply for exemption from this qualification provided that the integrated Assessment conditions detailed in the Evidence Requirements have been met.

On completion of the Unit the candidate should be able to:

- 1 Explain the features of the regulatory background to the financial services industry.
- 2 Explain the features of equities and gilts and their methods of trading in the UK.
- 3 Explain the features of the bond and money markets.
- 4 Describe the types and uses of derivatives.
- 5 Explain the features of pooled investments and how they are traded.

**Credit points and level:** 1 HN Credit at SCQF level 7: (8 SCQF credit points at SCQF level 7\*).

*\*SCQF credit points are used to allocate credit to qualifications in the Scottish Credit and Qualifications Framework (SCQF). Each qualification in the Framework is allocated a number of SCQF credit points at an SCQF level. There are 12 SCQF levels, ranging from Access 1 to Doctorates.*

**Recommended prior knowledge and skills:** Access to this Unit is at the discretion of the centre, however, it is preferred that candidates have good written communication and numerical skills. These may be demonstrated by the achievement of core skill Communication at Intermediate 2 level, or by possession of Standard Grade English, or a suitable NC module, and core skill Using Numbers at Intermediate 2 level by possession of a relevant Unit or Module.

**Core Skills:** There are opportunities to develop the Core Skills of Numeracy and Problem Solving in this Unit, although there is no automatic certification of Core Skills or Core Skills components.

## General information for centres (cont)

**Context for delivery:** If this Unit is delivered as part of a Group Award, it is recommended that it should be taught and assessed within the subject area of the Group Award to which it contributes.

**Assessment:** In order to achieve the **Advanced Certificate** in Securities and Investment (G87K 17), this Unit must be assessed using the integrative assessment covering both units contained in the Group Award — the multiple choice exam provided by the SQA and a report. Candidates who successfully complete the Group Award will be eligible to apply for exemption from the Securities and Investment Institute qualification: Introduction to Securities and Investment.

For candidates wishing to achieve the **Unit only** (not as part of the Group Award), the Unit should be assessed through an end of Unit assessment containing extended response questions covering a sample of the knowledge and skills detailed in the Unit.

## **Higher National Unit specification: statement of standards**

**Unit title:** Financial Regulations and Market Trading Mechanisms

**Unit code:** DX2P 34

The sections of the Unit stating the Outcomes, knowledge and/or skills, and evidence requirements are mandatory.

Where evidence for Outcomes is assessed on a sample basis, the whole of the content listed in the knowledge and/or skills section must be taught and available for assessment. Candidates should not know in advance the items on which they will be assessed and different items should be sampled on each assessment occasion.

### **Outcome 1**

Explain the features of the regulatory background to the financial services industry

#### **Knowledge and/or skills**

- ◆ Financial Services and Markets Act 2000 (FSMA)
- ◆ Money Laundering
- ◆ Insider Dealing and Market Abuse
- ◆ Takeovers and Mergers
- ◆ Data Protection Act 1998
- ◆ Investor Compensation Schemes
- ◆ Handling Customer complaints

### **Outcome 2**

Explain the features of equities and gilts and their methods of trading

#### **Knowledge and/or skills**

- ◆ Features of Equities
- ◆ Implications of being a shareholder
- ◆ Types of corporate actions and their impact on shareholders
- ◆ Trading Platforms for UK equities
- ◆ Roles of the various players in the equity markets
- ◆ Settlement of Equity Trades
- ◆ Features of Gilts
- ◆ Gilt edged securities Dealing

## **Higher National Unit specification: statement of standards**

**Unit title:** Financial Regulations and Market Trading Mechanisms

### **Outcome 3**

Explain the bond and money markets

#### **Knowledge and/or skills**

- ◆ Features, pricing and settlement of Bonds
- ◆ Features and settlement of money market instruments

### **Outcome 4**

Describe the types and uses of derivatives

#### **Knowledge and/or skills**

- ◆ Derivatives
- ◆ Financial Futures
- ◆ Equity Traded Options

### **Outcome 5**

Explain the features of Pooled Investment Funds and how they are traded

#### **Knowledge and/or skills**

- ◆ Unit Trusts
- ◆ OEICs/ICVCs
- ◆ Investment Trusts
- ◆ Exchange traded funds
- ◆ Hedge Funds

### **Evidence Requirements for the Unit**

#### ***For Candidates undertaking the Advanced Certificate***

In order to achieve the Group Award, candidates must undertake one multiple choice paper (provided by SQA bi-annually) and a report.

The examination will consist of 50 questions (covering both Units) and must be carried out under controlled, closed book conditions within a maximum one-hour period. In order to achieve this assessment, candidates must obtain a minimum mark of 70%. Candidates who do not achieve the assessment at first attempt must undertake a completely new examination provided by SQA.

Within the examination, candidates will be required to:

- ◆ correctly identify and use personal investment terminology
- ◆ correctly identify the features of personal investment products
- ◆ identify relevant personal investment products in a given scenario

## Higher National Unit specification: statement of standards (cont)

### Unit title: Financial Regulations and Market Trading Mechanisms

- ◆ perform calculations to support investment decision making
- ◆ correctly identify the features of financial services regulation
- ◆ correctly identify the features of the key UK personal investment trading markets
- ◆ correctly identify and use financial investment and regulatory terminology
- ◆ correctly identify the features of corporate investment products and market trading mechanisms
- ◆ identify investor protection applicable in a given scenario

The report should be a minimum of 2,000 words, carried out under open book conditions and chosen from **one** of the topics listed below. In order to achieve the assessment, candidates should provide an accurate description and explanation of each of the knowledge and/or skills items covered in the associated unit outcome and an understanding of related issues and implications for the UK market. Reference should be made to the relevant regulatory regime that applies.

Candidates who do not meet the required standard must complete a report for a completely new topic area.

Report topics:

- ◆ the role and structure of Financial Services in the UK economy
- ◆ the key personal financial products available in the UK
- ◆ Equities and gilts and their methods of trading
- ◆ Pooled Investment funds and how they are traded

### *For Candidates undertaking the Unit only*

In order to achieve this Unit, candidates must complete an end of Unit assessment consisting of a minimum of 10 extended response questions covering a sample of knowledge and skills outlined below. The assessment must be carried out under controlled, closed book conditions within an approximate two hour period. In order to achieve this assessment, candidates must obtain a mark of minimum of 70%.

### **Outcome 1**

A sample of three of the knowledge and skills should be covered for this Outcome.

Candidate responses may be judged to be satisfactory where they have:

- ◆ described the regulatory framework set out by the Financial Services and Markets Act 2000 (FSMA) and the scope of activities requiring authorisation
- ◆ explained two of the following: the stages in the money laundering process, the provisions and sanctions of the Proceeds of Crime Act and the Money Laundering Regulations 2003; the identification of suspicious transactions and the reporting requirements that apply; satisfactory evidence of customer identity.
- ◆ identified where insider dealing or market abuse is occurring

## Higher National Unit specification: statement of standards (cont)

### Unit title: Financial Regulations and Market Trading Mechanisms

- ◆ explained one of the following: the legal restrictions on takeovers and mergers in the UK; the role of the Office of Fair Trading, the Competition Commission and the Panel on Takeovers and Mergers, The City Code on Takeovers and Mergers
- ◆ described the Data Protection Act 1998 data protection principles
- ◆ explained the operation of Investor Compensation Scheme
- ◆ described regulated complaint handling procedures

#### Outcome 2

A sample of three of the knowledge and skills should be covered for this Outcome.

Candidate responses may be judged to be satisfactory where they have:

- ◆ compared and contrasted the features of equities and gilts
- ◆ discussed the implications of holding either ordinary, preference shares or gilts
- ◆ explained the impact of a corporate action on a shareholder
- ◆ described the operation of the trading platforms for UK equities
- ◆ explained the roles of the key players in the equity market
- ◆ discussed the mechanisms for settling gilt and equity trades

#### Outcome 3

A sample of one of the knowledge and skills should be covered for this Outcome.

Candidate responses may be judged to be satisfactory where they have:

- ◆ explained the features including settlement of bonds
- ◆ explained the factors that influence the pricing of bonds
- ◆ explained the features and settlement of money market instruments

#### Outcome 4

Candidate responses may be judged to be satisfactory where they have:

- ◆ explained the key definitions and terminology used for either Derivatives, Financial Futures or Equity Traded Options

#### Outcome 5

Candidate responses may be judged to be satisfactory where they have:

- ◆ Compared and contrasted one of the following features (structure, pricing, management trading mechanisms) of two of the following Pooled Investment funds
  - unit trusts
  - Open Ended Investment Companies (OEICS)
  - Investment Companies with Variable Capital (ICVC)
  - Investment Trusts
- ◆ Compare and contrast the features of Exchange Traded Funds and Hedge Funds.

## **Higher National Unit specification: statement of standards (cont)**

**Unit title:** Financial Regulations and Market Trading Mechanisms

### **Assessment guidelines for the Unit**

#### *For candidates undertaking the Advanced Certificate*

Planning for the examination should take account of the exam period set by SQA.

It is recommended that the report is undertaken at the end of this Unit and the Unit Financial Services Market: The Personal Investor (DX2N 34).

#### *For candidates undertaking the Unit only*

It is recommended that assessment for this Unit is carried out as an end of Unit assessment. This could be in the form of separate questions or questions relating to a case study. Each question should address a separate knowledge and skill item.

## Administrative Information

<b>Unit code:</b>	DX2P 34
<b>Unit title:</b>	Financial Regulations and Marketing Trading Mechanisms
<b>Superclass category:</b>	AL
<b>Original date of publication:</b>	July 2006
<b>Version:</b>	01

### History of Changes:

Version	Description of change	Date

**Source:** SQA

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## **Higher National Unit specification: support notes**

### **Unit title: Financial Regulations and Market Trading Mechanisms**

This part of the Unit specification is offered as guidance. The support notes are not mandatory.

While the exact time allocated to this Unit is at the discretion of the centre, the notional design length is 40 hours.

### **Guidance on the content and context for this Unit**

The Unit is one of two Units which make up the Advanced Certificate in Securities and Investment (G87K 17).

The Unit is designed to enhance the knowledge and understanding of candidates and to enable them to make use of this knowledge and understanding to identify regulatory protection available, to explain the various market trading mechanisms and to explain the bond, money derivative and pooled investment markets. The Unit should raise awareness among candidates of the workings of the Financial Services sector as well as current trends within the development of market regulation and trading mechanisms.

The following notes give some additional information on each Outcome. Throughout, the unit should relate to legislation and practice that is current at the time the unit is delivered.

#### **Outcome 1**

Guidance on the content of this Unit

Outcome 1 examines the regulatory background to the financial services industry.

Candidates should be familiar with the relevant terminology and should make use of this.

It is expected that Centres will cover the following topics:

- ◆ The statutory objectives of the FSA.
- ◆ The range of activities that require FSA authorisation, the reasons why authorisation is required and how it is obtained.
- ◆ Approved Persons; the reasons for this status and the categories of controlled functions requiring approved persons status.
- ◆ The three stages of the money laundering process.
- ◆ The purpose, provisions and sanctions of the Proceeds of Crime Act 2002 (POCA) and the Money Laundering Regulations 2003.
- ◆ Reporting requirements applying to Money Laundering.
- ◆ What constitutes satisfactory evidence of identity.
- ◆ The offences that constitute insider dealing and market abuse and the financial instruments covered by these offences.
- ◆ Takeovers and mergers: the legal restrictions on takeovers/mergers in the UK and the role of the Office of Fair Trading, the Competition Commission and the Panel on Takeovers and Mergers

## Higher National Unit specification: support notes (cont)

### Unit title: Financial Regulations and Market Trading Mechanisms

- ◆ POTAM City Code on Takeovers and Mergers: The 10 principles, the distinction between effective control and legal control; the bid timetable, the rules relating to Substantial Acquisition of Shares (SARs)
- ◆ The Data Protection Act 1998 — the purpose of the Act and the eight data protection principles
- ◆ Customer Complaints: The role of the Financial Ombudsman Scheme and the circumstances under which the Financial Services Compensation Scheme pays compensation and the compensation payable for investment claims. The procedures for handling complaints, communications with complainants and the timetables that have to be adhered to.

### Outcome 2

Outcome 2 examines the features of equities and gilts and their methods of trading in the UK

Candidates should become familiar with the relevant terminology and should make use of this.

It is expected that Centres will cover the following topics:

- ◆ Companies: how companies are formed, the documentation required and the distinction between public and private companies, the purpose and format of Annual General Meetings.
- ◆ Equities: features and benefits of ordinary and preference shares (dividend, capital gain, trade perks, right to subscribe for new issues, right to vote); the risks associated with share ownership (price risk, liquidity risk, issuer risk) how title can be held (bearer and registered).
- ◆ The features of corporate actions: the definition and the distinction between mandatory, voluntary and mandatory with options; bonus, scrip, capitalisation issues, rights issues and dividend payments.
- ◆ Listing: The advantages and disadvantages of a company obtaining a listing of its shares on the London Stock Exchange and the main requirements for listing.
- ◆ Indices: The meaning of a stock exchange index, the selection criteria of the constituents of FTSE 100; FTSE 250; FTSE 350 and FTSE All Share indices; The major world market indices (Dow Jones, S and P 500, Nikkei 225, CAC40, XETRA Dax, NASDAQ Composite).
- ◆ Alternative Investment Market: The role of the Alternative Investment Market (AIM), the eligibility requirements for admission to AOM and the role of the nominated adviser.
- ◆ Stock Exchange Electronic Trading System (SETS): the securities that trade on SETS, queue priority in SETS, who has access to sets, order types (limit, at best, fill or kill, execute and eliminate and market order); SET operating times, the role of the Central Counterparty Service.
- ◆ Stock Exchange Automated Quotation System (SEAQ): the securities that trade on SEAQ, the role of market makers, Mandatory Quote periods and SEAQ opening times, the significance of minimum and normal market size; SEAQ terminology (yellow strip, touch, choice, bid, offer and backwardation), the role of SEAQ International.
- ◆ Equity Settlement: settlement periods, the confirmation and registration of shares, certificated and uncertificated settlement, the role of and members of CREST.
- ◆ Gilts: The definition and features of gilts; the DMO maturity classification of gilts and how gilts are issued.
- ◆ Secondary Gilt Markets: The role of Gilt Edged Market Makers (GEMMs) the London Stock Exchange and the Bank of England Brokerage Service.

## **Higher National Unit specification: support notes (cont)**

### **Unit title:** Financial Regulations and Market Trading Mechanisms

#### **Outcome 3**

Outcome 3 examines the features of the bond and derivative markets in the UK.

Candidates should become familiar with the relevant terminology and should make use of this.

It is expected that Centres will cover the following topics:

- ◆ Bonds Definitions and features of main types of bonds (domestic, foreign, Eurobond, zero coupon bonds and convertible bonds).
- ◆ Factors that influence bond pricing, calculation of flat yields, the definition (but not calculation) of gross redemption yield and yield to maturity.
- ◆ Money Market Instruments: the difference between a capital market and money market instruments; the definition and features of treasury bills, Certificates of Deposit and Commercial Paper.

#### **Outcome 4**

Outcome 4 examines the features of the futures markets and the role they play within the Financial Services industry in the UK.

Candidates should become familiar with the relevant terminology and should make use of this.

It is expected that Centres will cover the following topics:

- ◆ Forwards: definition, the difference between Exchange Traded and Over the counter (OTC) derivatives.
- ◆ Futures: definition, the difference between Exchange Traded and Over the Counter (OTC) derivatives.
- ◆ Futures terminology: buy, sell, long, short, open, close.
- ◆ Options: Definition, Options terminology (calls, puts, holding, writing, opening, closing, long, short, premium, in-the-money, out-of-the-money, Exercise/Strike price, breakeven point).

#### **Outcome 5**

Outcome 5 examines the features of pooled investment funds and the role they play within the Financial Services industry in the UK

Candidates should become familiar with the relevant terminology and should make use of this.

It is expected that Centres will cover the following topics:

- ◆ Collective Investments: The rationale behind collective investments; the differences between authorised and unauthorised funds and onshore and offshore funds.
- ◆ Unit Trusts: Definition of Unit Trusts; the role of the Manager and the Trustee, types of Authorised Unit Trusts, the reasons why an investor might wish to purchase unit trusts.

## Higher National Unit specification: support notes (cont)

### Unit title: Financial Regulations and Market Trading Mechanisms

- ◆ Pricing of Unit Trusts ( the factors that determine the pricing, the reasons for the manager’s “box”, the difference between single and dual pricing, how units are bought and sold.
- ◆ Open ended Investment Companies (OEICs)/Investment Companies with Variable Capital (ICVCs): Structure of an OEIC/ICVC and how it differs from a unit trust in terms of pricing, management and supervision, the roles of the Authorised Corporate Director and the Depositary.
- ◆ Investment Trust Companies: Structure of an investment trust, the factors that determine pricing including discounts to assets value and how Trust company shares are bought and sold.
- ◆ Exchange Traded Funds: definition and features (pricing and tax considerations) of ETFs
- ◆ Hedge Funds: basic characteristics of hedge funds, their use, risk and risk types, cost and liquidity.

### Guidance on the delivery and assessment of this Unit

The Unit can be delivered on a stand-alone basis or as part of a development programme for new or potential new entrants to the financial services sector

Delivery of this Unit will involve ensuring that candidates do acquire the relevant underpinning knowledge. In this respect the Unit is ideally suited to distance learning. However, candidates must be able to apply the knowledge that they have acquired to identify and understand the regulations within the industry and the financial products traded within the market. For this reason, they should be given relevant short scenarios and case studies. This type of activity could be encouraged through self-assessment tasks incorporated into a Distance Learning Programme.

The instrument of assessment provided by SQA to comply with the requirements of the Securities and Investment Institute will be structured as follows:

The multiple-choice examination will consist of 50 questions

Financial Services Market: The Personal Investor (DX2N 34)

Outcome 1	8 questions
Outcome 2	6 questions
Outcome 3	2 questions
Outcome 4	2 questions

Financial Regulations and Market Trading Mechanisms (DX2P 34)

Outcome 1	8 questions
Outcome 2 and 3	13 questions
Outcome 4	2 questions
Outcome 5	9 questions

Candidates will be required to show that their knowledge is current and reflects the legislation at the time of assessment.

## **Higher National Unit specification: support notes (cont)**

**Unit title:** Financial Regulations and Market Trading Mechanisms

### ***Opportunities for developing Core Skills***

*(This section should be used to provide information on the opportunities to develop Core Skills in this Unit. It should expand on the summary information given on page 1).*

### **Open learning**

This Unit is particularly suitable for Open Learning as candidates should be able to acquire the relevant knowledge by working through the distance learning material which will be available for this Unit. Appropriate arrangements would need to be made for assessment and quality assurance.

### **Candidates with disabilities and/or additional support needs**

The additional support needs of individual candidates should be taken into account when planning learning experiences, selecting assessment instruments or considering alternative Outcomes for Units. For information on these, please refer to the SQA document *Guidance on Alternative Assessment Arrangements for Candidates with Disabilities and/or Additional Support Needs*, which is available on SQA's website: **[www.sqa.org.uk](http://www.sqa.org.uk)**.

## **General information for candidates**

### **Unit title:** Financial Regulations and Market Trading Mechanism

This Unit is a mandatory Unit in the Advanced Certificate in Securities and Investment (G87K 17) accredited by SQA. It has been designed to prepare candidates who wish to apply for positions of employment or are already in employment in the financial services sector, specifically in insurance companies, stock broking and investment firms and providers of investment operation support.

The Unit enables you to learn about the role of regulation in the UK financial services market and the financial products traded by individual and corporate investors. You will be given support materials to help you understand the regulations and the various market trading mechanisms, including case studies of relevant situations.

For candidates undertaking the Unit only, the Unit is assessed through a series of extended response questions lasting 2 hours carried out through closed book controlled conditions.

For candidates undertaking the Advanced Certificate in Securities and Investment (G87K 17), this Unit is jointly assessed with the Unit Financial Services Market: The Personal Investor (DX2N 34) by means of a multiple-choice examination and a report. The examination will test your knowledge of current and possible future aspects of the personal financial services market in the UK. The examination will be closed book, lasting one hour, and you will be expected to achieve a mark of 70% or more. The investigation will require you to research a number of aspects of the products and regulation of the financial services market.

On achievement of the Advanced Certificate in Securities and Investment (D87K 17), you will be eligible to apply for exemption from the Securities and Investment Institute qualification: Introduction to Securities and Investment.