

Paper 7 — Financial Markets

Topic 1: The Global Financial System

- 1 The role of the financial system in the global economy**
 - Supply and demand
 - Economic sectors
 - Flow of funds
 - International capital and investment flows
 - Participants in the global financial system
 - Money and the banking system
- 2 The financial system and markets**
 - Central banks
 - The process of intermediation and disintermediation
 - Characteristics of an effective financial market
 - Types of financial markets
 - Participants in financial markets
 - Prudential regulation and supervision
- 3 Factors affecting global financial markets**
 - Economic factors and indicators
 - Changes affecting global economies
 - Globalisation and technology
 - Market expectations
 - Lessons from the 1997 Asian financial crisis

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Topic 2: Financial System in Hong Kong

- 1 Role of the government and regulators**
 - The Hong Kong Monetary Authority
 - The Securities and Futures Commission
 - The Mandatory Provident Fund Schemes Authority
 - The Hong Kong Mortgage Corporation Limited
 - The Insurance Authority
 - Self-regulatory bodies
- 2 Participants in the Hong Kong financial system**
- 3 Factors affecting the Hong Kong market**
 - Government objectives and policy
 - The government budget
 - China, a major trading and investment partner
 - The US economy
 - Other global and regional influences
 - Regulatory, political and social trends
 - The impact of technology

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Topic 3: The Equity Market

- 1 Overview**
 - What is equity?
 - Why raise equity finance?
 - Methods of raising equity finance
 - Why invest in equity?

2 Fundamentals of equity securities

- Initial Public Offerings
- Rights issues
- Bonus issues

3 The stock market

- Stock market indices
- The stock exchange
- Bull and bear markets

4 Privatisation of government-owned companies

5 The Hong Kong equity market

- Structure of the stock market
- Types of equity securities
- Participants in the equity market
- Trading and settlement systems

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Topic 4: The Debt Market

1 Overview

- What is debt?
- Characteristics of debt
- Interest rates

2 Categorisation of bonds

3 Fundamentals of pricing debt securities

- The time value of money
- Pricing of zero-coupon debt securities
- Pricing of coupon debt securities
- Credit ratings

4 Role of the yield curve

5 The Hong Kong debt market

- Development of the Hong Kong debt market
- Structure of the debt market
- Types of debt securities
- Participants in the debt market
- Trading and settlement systems

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Topic 5: The Foreign Exchange and Derivatives Markets

1 The foreign exchange market

- Background and definitions
- History of exchange rates
- Exchange rate regimes
- The foreign exchange market

2 The derivatives market

- What are derivatives?
- Function of derivatives
- Classification of derivatives

3 The derivatives market in Hong Kong

- Structure of the derivatives market
- Types of derivatives
- Participants in the derivatives market
- Trading and settlement systems

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Topic 6: Financial Risk Management

1 Overview

- What is risk?
- Risk versus expected return
- Fundamental risk management techniques

2 Types of financial risks

- Credit risk
- Market risk
- Liquidity risk
- Operational risk
- Other risks

3 The risk management process

- Identifying risk
- Measuring risk
- Managing risk
- Monitoring risk

4 Financial risk management in Hong Kong

- Financial risk management systems and processes
- Financial risk management techniques
- Financial risk management in the future — lessons from the past

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Topic 7: Applications in the Financial Sector**1 Corporate finance**

- What is corporate finance?
- Why corporate finance is important?
- The work of corporate finance professionals

2 Asset management

- What is asset management?
- Why asset management is important?
- The work of asset management professionals

3 Retail financial advising

- What is retail financial advising?
- Why retail financial advising is important?
- The work of retail financial advisors

4 Interdependence of functions in the financial markets

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