

# The Licensing Examination for Securities and Futures Intermediaries

## Paper 7 Financial Markets

### Syllabus

#### 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 Financial systems 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 financial crises

#### Topic 2: Financial system in Hong Kong

- 1 Roles of the government and regulators
  - Hong Kong Monetary Authority
  - Securities and Futures Commission
  - Mandatory Provident Fund

Schemes Authority

- The Hong Kong Mortgage Corporation Limited
- Insurance Authority
- Exchanges and self-regulatory bodies

2 Participants in the Hong Kong financial system

- Hong Kong Monetary Authority
- Authorized institutions
- Fund houses
- Brokerage houses
- Hong Kong Exchanges and Clearing Limited
- Investment banks

3 Factors affecting the Hong Kong market

- Government objectives and policies
- Mainland China as a major trading and investment partner
- The US economy
- Other global and regional influences
- Regulatory, political and social trends
- The impact of technology

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

#### **Topic 4: The debt market**

- 1 Overview
  - What is debt?
  - Debt securities
  - Advantages of investing in debt securities
  - Characteristics of debt
  - Interest rates
- 2 Categorisation of bonds
- 3 Fundamentals of pricing debt securities
  - Time value of money
  - Pricing of zero coupon debt securities
  - Pricing of coupon debt securities
  - Credit ratings
- 4 Role of the yield curve
  - Yield versus price
  - What is the yield curve?
  - Types of 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

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

#### **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 and settlement risk
  - Market risk and basis 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

## **Topic 7: Applications in the financial sector**

- 1 Corporate finance
  - What is corporate finance?
  - Why is corporate finance important?
  - The work of corporate finance professionals
- 2 Asset management
  - What is asset management?
  - Why is asset management important?
  - The work of asset management professionals
- 3 Financial advising
  - What is financial advising?
  - Why is financial advising important?
  - The work of financial advisers
- 4 Interdependence of functions in the financial markets – an illustration

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