

## **LE Paper 7 Financial Markets**

### **Syllabus (Effective from 1 March 2026)**

#### ***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
  - Relevant government agencies and advisory bodies
  - Hong Kong Monetary Authority
  - Securities and Futures Commission
  - Mandatory Provident Fund Schemes Authority
  - Insurance Authority

- Accounting and Financial Reporting Council
- Exchanges and self-regulatory bodies
- 2 Participants in the Hong Kong financial system
  - Authorized institutions
  - Fund houses
  - Brokerage houses
  - Investment banks
  - Financial advisers, private wealth managers and family offices
- 3 Factors affecting the Hong Kong market
  - Government objectives and policies
  - The economy of the Chinese Mainland
  - 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?
  - Equity financing
  - Methods of equity financing
  - Why invest in equity?
- 2 Fundamentals of equity securities
  - Initial public offerings
  - Rights issues
  - Bonus issues
- 3 Equity pricing
- 4 The stock market
  - Stock market indices
  - The stock exchange
  - Bull and bear markets
- 5 Privatisation of government-owned companies
- 6 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
  - 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

## **Expected Learning Outcomes (“ELOs”)**

### ***Topic 1: The global financial system***

The candidates should demonstrate a good understanding of the financial system, its operations, markets, regulation, and influences from economic and global factors.

The candidates are expected to:

- (a) describe the basic concepts that are essential for comprehending the global economy and financial systems, including demand and supply, economic sectors and flow of funds;
- (b) describe the roles of various global organisations that are critical in the financial system;
- (c) describe the classification of money and the role it plays in the financial system;
- (d) explain the typical duties of central banks and other relevant regulators;
- (e) describe the role of intermediaries in financial markets and the advantages of intermediation;
- (f) explain the essential characteristics required for financial markets to be effective and efficient;
- (g) explain the various structures pertaining to financial markets, e.g. primary versus secondary markets, over-the-counter (“OTC”) versus exchange-traded markets, etc.;
- (h) assess the main features of different financial markets and products traded on them;
- (i) differentiate the major categories of market participants in global financial markets and describe their roles;
- (j) describe the key features of prudential regulation and supervision of financial markets and their impact on those markets;
- (k) assess how the financial system is influenced by domestic and global economic, political and regulatory factors, and how these factors are interrelated;
- (l) describe the factors that led to the global financial crises and some of the lessons to be learned.

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

The candidates should demonstrate a good understanding of Hong Kong’s financial governance, key players in the market, and market influences.

The candidates are expected to:

- (a) describe the role and primary functions of the government and regulators in Hong Kong;
- (b) describe the roles of the Currency Board system and the Exchange Fund;

- (c) describe the functions of exchange companies and self-regulatory bodies in Hong Kong;
- (d) describe the role, function and system of authorized institutions (“AI”) in Hong Kong;
- (e) explain the roles of different participants in the Hong Kong financial market;
- (f) explain the functions of monetary and fiscal policies in the economy;
- (g) evaluate the impact of the Chinese Mainland economy on Hong Kong market;
- (h) evaluate the impact of the US economy on the Hong Kong market;
- (i) explain how regulatory, political and social trends influence the Hong Kong economy;
- (j) describe how technology affects Hong Kong’s financial markets.

### ***Topic 3: The equity market***

The candidates should demonstrate a solid understanding of core elements of equity market.

The candidates are expected to:

- (a) describe the various ways in which companies raise equity finance, and determine the most suitable way in different scenarios;
- (b) apply different methods of equity pricing;
- (c) describe the role of the stock market, the stock exchange, stock market indices and privatisation of government-owned companies;
- (d) explain characteristics, structure and operation of the Hong Kong equity market;
- (e) differentiate the various participants and assess the different types of equity securities traded in the Hong Kong equity market;
- (f) assess the systems and initiatives used for trading and settling equity securities.

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

The candidates should demonstrate a solid understanding of core elements of debt markets.

The candidates are expected to:

- (a) describe the concepts of debt and debt securities, and the categorisation of bonds;
- (b) calculate interest rates and differentiate between nominal, real and effective interest rates;
- (c) apply the concept related to bond pricing;
- (d) explain the concept of yield and yield curve, and differentiate between normal, inverse and flat yield curve;
- (e) describe the role and functions of repurchase agreements;

- (f) explain the characteristics, structure and operation of the Hong Kong debt market;
- (g) differentiate the various participants and assess the different kinds of debt securities traded in the Hong Kong debt market;
- (h) assess the systems used for trading and settling debt securities.

### ***Topic 5: The foreign exchange and derivatives markets***

The candidates should demonstrate a solid understanding of core elements of FX and derivatives markets.

The candidates are expected to:

- (a) describe the terms, characteristics, structure and operation of the FX market;
- (b) explain and calculate the cross rate, forward rate, and forward premium or discount;
- (c) differentiate the roles of the various participants in the FX market;
- (d) explain what is meant by “derivatives”;
- (e) differentiate between main categories of derivatives and assess their functions;
- (f) explain the structure of the derivatives market in Hong Kong;
- (g) differentiate and assess the different types of derivatives traded in the Hong Kong derivatives market;
- (h) differentiate the roles of the various participants in the derivatives market; and
- (i) assess the trading and settlement systems for the derivatives market in Hong Kong.

### ***Topic 6: Financial risk management***

The candidates should demonstrate a good understanding of financial risk concepts, management processes, techniques, and regulatory initiatives in Hong Kong.

The candidates are expected to:

- (a) explain the concepts of risk and fundamental risk management techniques;
- (b) differentiate different types of financial risks;
- (c) explain the financial risk management process;
- (d) explain the importance of identifying and measuring financial risk in order to manage it;
- (e) explain the role and importance of implementing and maintaining effective systems, processes and techniques to manage and monitor financial risk;
- (f) explain various financial risk management systems, processes and techniques implemented in the Hong Kong financial system;



- (g) describe the importance of establishing a robust financial risk management process and systems, supported by essential case studies.
- (h) describe the initiatives undertaken by the Government of the Hong Kong Special Administrative Region (“HKSAR Government”) to manage financial risk.

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

The candidates should demonstrate a basic understanding on corporate finance, asset management, and financial advising.

The candidates are expected to:

- (a) explain the roles of corporate financial advisers, asset managers, and financial advisers, as well as their interdependence within Hong Kong financial markets.