

# Paper 1

## Securities Investment Consultant Examination (Debt Instruments, Equity Instruments and Mutual Funds)

Thailand Securities Institute

July 2012

**Paper 1: Securities Investment Consultant Examination**  
**(Debt Instruments, Equity Instruments and Mutual Funds)**

Examination type: Multiple choice (4 choices)

Number of questions: 120

Duration: 3 hours

Passing criteria: 70% overall, including 70% from Module 2

Topics	No. of Questions
<b><u>Section 1 Fundamental</u></b>	<b><u>35</u></b>
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**Paper 1: Securities Investment Consultant Examination**  
**(Debt Instruments, Equity Instruments and Mutual Funds)**  
**Section 1 Fundamental**

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**1. Financial System and Structure of Financial Markets**

**Learning Objective Statement:**

1. To understand the importance of and be able to describe characteristics of invested capital
2. To understand how capital is transferred from savers (investors) to borrowers (businesses)
3. To understand the roles and functions of financial systems
4. To understand the functions of organizations responsible for financial systems
5. To understand the supervision and regulations of financial systems
6. To understand characteristics of financial market structures
7. To understand different types of investors and the investment preferences of each type
8. To describe the characteristics of different types of financial assets (securities in the capital market) and understand the relationship between financial assets and capital markets

**2. International Financial Markets**

**Learning Objective Statement:**

1. To understand the roles, functions, and importance of international financial markets and how funds flow across countries
2. To understand characteristics and roles of an international financial market
3. To understand direct and indirect investment in international financial markets, including both bond and stock markets, and understand risk and return from investing through international financial markets
4. To explain how international financial markets impact domestic financial markets and economic systems

### 3. Risk and Return from Single Asset Investment

#### Learning Objective Statement:

1. To understand how to evaluate the return when investing in a security
2. To calculate total and net return from a security investment
3. To understand how to calculate holding period return, historic return, expected rate of return, marginal return, rate of return from short selling, and compound rate of return
4. To understand how to calculate required rate of return, risk-free rate of return, and real risk-free rate of return
5. To understand and be able to differentiate between various types of risk premiums, including inflation premium
6. To calculate rate of return in each period from treasury bills, corporate bonds, and other types of bonds
7. To calculate rate of return in each period from dividends, rights for current shareholders from dividend reinvestment plans, and stock splits
8. To calculate expected rates of return and historic returns, using both arithmetic and geometric mean methods
9. To be able to compare arithmetic mean returns vs. geometric mean returns
10. To calculate the rate of return from margin calls, rate of return from short sales, and compounded rate of return
11. To calculate after-tax return, required rate of return, risk-free rate of return in dollar terms, and real risk-free rate of return
12. To understand risks of investing in securities
13. To understand various types of risk from investment, whether from macro-economic or micro-economic factors
14. To understand how to measure risk from expected rate of return and from historic returns
15. To measure risk from security investment by calculating variance, standard deviation, and coefficient of variation
16. To understand problems in using standard deviation to measure risk
17. To apply coefficient of variation, or CV, for decision-making in securities
18. To understand systematic and unsystematic risk

19. To differentiate between systematic and unsystematic risk
20. To understand measuring systematic risk using the coefficient beta
21. To understand how to calculate beta

#### 4. Information for Decision-making in Financial Markets

##### Learning Objective Statement:

1. To understand the definition and importance of information related to investment decisions
2. To understand how efficient markets function and be able to classify markets into one of three forms according to the efficient market hypothesis.
3. To understand disclosed information, inside information, anomalies, and inequality of information.
4. To understand how to collect, categorize, and process information in financial statements analysis

#### 5. Security Analyses

##### Learning Objective Statement:

1. To understand the definition, types, and differences between fundamental and technical analysis
2. To understand the overall picture and process in analyzing a security using fundamental analysis
3. To understand the principles of macro-economics, economic life-cycle, economic indicators and tools when analyzing the economy and economic policy
4. To understand the differences between monetary and fiscal policy
5. To analyze global and domestic economy systems to forecast the impact of macro-economic factors on different industries (or sectors).
6. To understand the principles of economic cycles, economic expansion, classification of industries (or sectors) and how macro-economic structural change could influence changes in industry
7. To understand how to analyze competitiveness in industries using the Five Force model and to explain and forecast how the impact on the industry could influence companies in that industry
8. To understand how to analyze a company, types of company, and various types of securities

9. To categorize company information into qualitative and quantitative data
10. To analyze qualitative and quantitative data that related to security investment
11. To apply SWOT analysis when analyzing securities for investment
12. To understand low-cost and differentiation strategies for security investment analysis
13. To understand components of financial statements, types of financial statements, and other reports to stockholders and other investors which represent a company's financial position and performance.
14. To analyze and evaluate a company's financial position and its performance for investment decisions on a company's security using tools such as trend, common size, and financial ratio analysis
15. To understand definitions, principles, hypotheses, theories and tools, and to understand the limitations in using technical analysis.

## **6. Portfolio Management**

### **Learning Objective Statement:**

1. To explain the necessity and advantages of portfolio investment
2. To understand the definition of portfolio investment and the concept of diversifying asset classes
3. To understand factors and limitations that could influence or impact changes in investment behavior and the impact on diversification of such changes
4. To understand processes in managing portfolio investment and the importance of allocating invested capital
5. To understand the necessity of disclosing portfolio investment policy and information that will be used for setting investment policy
6. To understand the principles of portfolio management
7. To understand and be able to describe the concepts of risk and return for portfolios
8. To calculate the expected return for portfolios
9. To know and be able to measure risks of investing in portfolios by calculating variance, standard deviation, and coefficient of variation
10. To describe how the correlation coefficient of securities could influence portfolio diversification

11. To evaluate how adding risk-free assets into a portfolio with risky assets impacts portfolio rate of return and risk
12. To understand and be able to describe the concepts behind the Markowitz portfolio theory
13. To describe the efficient frontier and explain the significance of an investor's willingness to accept higher risk
14. To define and be able to select an efficient portfolio suitable for a given individual
15. To understand and explain the concept of market portfolios and be able to construct a capital market line (CML)
16. To understand and explain the concept and hypothesis of market theory and asset pricing models and including the capital asset pricing model (CAPM)
17. To be able to calculate the rate of return from a security using a security market line (SML) and able to use the SML in determining whether or not the security is suitable for a given investment strategy
18. To estimate beta using a characteristic line and be able to explain its definition
19. To understand and explain the concepts behind and hypothesis of arbitrage pricing theory (APT) and be able to apply APT for investment decisions
20. To explain the necessity of passive
21. To differentiate between passive and active portfolio management
22. To understand the objectives and the importance of portfolio performance measurement and portfolio performance evaluation
23. To understand the principle of portfolio performance evaluation with the Sharpe, Treynor and Jensen models
24. To evaluate portfolio performance using the Sharpe, Treynor Model, Jensen models
25. To compare the advantages and disadvantages of the Sharpe, Treynor, and Jensen models and to describe their application

## **7. Overview of Derivatives and Its Market**

### **Learning Objective Statement:**

1. To understand the history and structure of the derivatives market in Thailand



2. To understand the definition of derivatives instruments and be able to classify various types of derivatives
3. To understand characteristics of derivatives markets and identify differences of each derivatives market
4. To differentiate various types of traders in derivatives markets
5. To explain the advantages of derivatives in general
6. To understand the definitions of and be able to differentiate between derivatives that are traded in the exchange vs. those that are traded over-the-counter (OTC).

## Section 2

### Core Rules and Regulations and Investment Suitability

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#### 1. Rules Governing Conducting Securities Business and Operations of Officers

##### Learning Objective Statement:

1. To understand why the Securities and Exchange Commission regulates and supervises securities companies
2. To understand the importance of protecting against conflicts of interest and be able to identify procedures to prevent such conflicts between securities companies, their staff, and clients
3. To understand and identify differences between watch lists and restricted lists
4. To understand the principles involved in taking care of client assets
5. To understand the role and importance of the compliance unit in a securities company
6. To understand the practices and regulations governing operations of officers of a securities firm and know the differences between the role of the front and back offices
7. To understand the regulations governing the taking of client complaints
8. To understand the rules and duties of securities officers and be able to apply them in contacting, persuading , and advising customers
9. To understand the purpose of customer database preparation and be able to implement such preparation
10. To understand the purpose of investor manuals and be able to identify their components
11. To describe the code of ethics that officers must follow in carrying out their duties
12. To identify the characteristics that would prohibit a person from becoming a securities officer, forbidden procedures for such an officer, and penalties for having such characteristics or carrying out such procedures
13. To understand purposes and benefits of arbitration
14. To provide clear examples of disputes that can go to arbitration
15. To understand arbitration procedures and arrival of verdicts

## 2. Regulations Relating to Unfair Actions in Securities Trading and Protection against Money Laundering

### Learning Objective Statement:

1. To understand the definition of unfair actions according to the Securities and Exchange Act and be able to apply measures to prevent any unfair actions
2. To understand and be able to distinguish the differences between spreading false news, illegally using internal information, and concealing acts in trading securities with intent to defraud
3. To understand criteria and procedures in transaction reporting for financial institutions as well as identify the basic illegal acts covered by the Anti-Money Laundering Act
4. To understand the objectives behind regulations seeking information on the parties involved in and purposes of large transactions through financial institutions, and apply these regulations

## 3. Rules and Regulations on Issuing and Offering Securities

### Learning Objective Statement:

1. To understand and explain the rules and procedures on offering securities
2. To understand and explain the rules, conditions and procedures for distributing securities
3. To understand and apply the rules and procedures for securities bidding
4. To understand the rules and criteria for setting up mutual funds and describe characteristics of each type of mutual fund
5. To understand the procedures of offering security units
6. To understand the purposes of determining investment ratios
7. To understand the key components that must be stated in project descriptions
8. To understand the purpose of preparing prospectus and be able to define key components therein
9. To understand the objectives of NAV calculation and the NAV calculation formula for disclosure to investors

## 4. Investment Suitability

### Learning Objective Statement:

1. To understand the benefits and objectives of investment planning
2. To understand the procedures of investment planning for clients

3. To understand the reasons and necessity of knowing your client before investment planning
4. To understand types of information used in investment planning
5. To understand characteristics and patterns of clients' investment objectives, such as capital protection
6. To understand factors affecting client risk tolerance levels
7. To analyse the types of investment securities relating to client financial investment goals
8. To understand the client limitations and investment conditions and analyse their impact on investment plans
9. To understand the key components in investment planning for customer
10. To understand the basic concept of investment diversification and money allocation
11. To understand the concept of selecting securities to match client risk tolerance levels as well as understand the concept of capital allocation according to the investment pyramid
12. To understand the characteristics of risk and return for various types of securities related to the level of risk tolerance of different client types
13. To analyse and advise investment securities types that are suitable for investment objective and level of risk tolerance of client

## Section 3

### Products Knowledge and Rules and Regulations for Dealing in Securities (Excluding Derivatives)

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#### 3.1: Securities

##### 1. Equity Markets

###### Learning Objective Statement:

1. To explain the roles and importance of equity markets
2. To explain the differences between primary and secondary markets
3. To explain methods of issuing securities in a primary market, including private placement and public offering
4. To distinguish types of securities in equity markets
5. To explain the roles and objectives of The Stock Exchange of Thailand (SET) and the Market for Alternative Investment (mai)
6. To explain listing criteria of the SET and mai
7. To classify types of indices by calculation method
8. To explain the SET index series and their calculation procedures

##### 2. Equity Instruments

###### Learning Objective Statement:

1. To explain the characteristics of various types of equities, which are common stocks, preferred stocks, convertible bonds, unit trusts, warrants, derivative warrants (DWs), and non-voting depository receipts (NVDRs)
2. To compare the advantages and disadvantages of each type of equity instrument
3. To explain risk, return, and advantages of investing in equity instruments
4. To explain the relationship between risk and return of investments
5. To analyze the relationship between risk and return, and explain the risk level of each type of equity instrument
6. To explain taxation regulations applicable to investing through the SET
7. To give an overview of common stock valuation
8. To explain the meaning of value
9. To explain methods and concepts of common stock valuation
10. To explain variables affecting the value of common stock
11. To apply common stock valuation to making investment decisions
12. To describe and explain financial information preparation for common stock valuation

13. To explain the income-based approach for common stock valuation
14. To explain and calculate common stock valuation using discounted cash flow approaches (DCF), including the zero growth, constant growth, and non-constant growth models
15. To explain and apply price per earnings ratio stock valuation
16. To explain the components of a warrant's value
17. To explain influences on warrant prices
18. To analyze warrant prices using various ratios

### **3. Bond Markets**

#### **Learning Objective Statement:**

1. To explain the importance of bond markets to the economic system in terms of funding and investment
2. To explain the advantages of bonds to the national economy, issuers, and investors
3. To explain the issuance of various types of bonds
4. To explain trading in the bond secondary market and the roles of the Bond Electronic Exchange (BEX) and the Thai Bond Market Association (Thai BMA)
5. To explain the roles and functions of bond market participants
6. To explain bond investment in the primary and secondary markets, as well as the intermediary market
7. To explain treasury securities subscription and bid auctions.

### **4. Debt Instruments**

#### **Learning Objective Statement:**

1. To explain the components of debt instruments and their influences on instrument prices
2. To explain the characteristics of each debt instrument classified by various criteria
3. To explain and apply interest rate caps and floors to investing in debt instruments
4. To explain the types of returns from investing in debt instruments and principles of debt instrument valuation
5. To value various types of debt instruments
6. To explain and calculate gross and clean price
7. To explain the meaning of duration, influencing factors on it, and its limitations
8. To apply duration and convexity to debt instrument valuation

9. To explain and calculate various types of bond yields
10. To explain various yield curves and their usage
11. To explain the factors influencing bond value and bond yield;
12. To explain price-yield relationships of various types of debt instruments
13. To explain various risks associated with investing in debt instruments
14. To explain the concepts of credit rating symbols, and the background of credit rating agencies in Thailand
15. To explain and calculate ratios for issue rating
16. To explain taxation of investing in debt instruments relevant to each type of investor

## 5. Mutual Funds and Investment Units

### Learning Objective Statement:

1. To understand the definition of mutual fund and explain its business operation
2. To understand and explain the pros and cons of investment in mutual funds
3. To understand the roles and importance of people involved in mutual funds management
4. To understand and explain the rules, constraints, and limitations of investment in different types of mutual funds
5. To understand the characteristics and expenses of mutual fund investment
6. To understand and classify types of mutual funds based on 1) expenses incurred in purchasing investment units 2) procedures in selling investment units 3) investment policies and 4) sources of capital and investment
7. To understand general details of mutual funds and the effects on its NAV
8. To understand the concepts of determining net asset value (NAV)
9. To explain the tax deduction benefits of mutual funds based on a customer's tax bracket
10. To understand and explain the risks and returns of mutual fund investment
11. To understand the factors, procedures, and strategies relating to mutual fund investment
12. To provide advice on mutual fund investment that takes the investment objectives, risk tolerance, and investment constraints of a given client into consideration
13. To understand and explain investment policies in retirement mutual funds (RMFs) and long-term equity funds (LTFs)

14. To understand and explain investment conditions and tax benefits from RMFs and LTFs
15. To advise on RMF and LTF investment, including their pros and cons, and cautions for each investor type
16. To be able to compare RMF to LTF investment
17. To understand the definitions, objectives, and status of provident funds and their policies and regulations
18. To understand and explain returns and tax benefits of provident funds
19. To understand and explain investment policies of provident funds
20. To understand pros and cons of provident funds
21. To understand and explain the definition of private fund and its investment structure
22. To understand and explain the pros and cons of private funds
23. To understand and explain the returns and tax benefits of private funds
24. To understand characteristics of hedge funds
25. To understand difference between hedge and mutual funds
26. To understand investment strategies of hedge fund and their risks
27. To know and understand types and structures of exchange-traded funds (ETFs)
28. To understand characteristics of risk and return of ETFs
29. To understand when using an ETF is appropriate
30. To understand and explain the characteristics and formats of property fund investment
31. To understand policies, types and constraints of property funds
32. To understand characteristics of risk and return of investment in property funds
33. To be able to identify types of clients for whom investing in property funds would be appropriate
34. To understand characteristics and formats of gold fund investment
35. To understand characteristics of risk and return of gold funds
36. To understand investment analysis approaches in gold funds
37. To understand the importance of measurement and evaluation in operating mutual funds
38. To understand and explain measurement and evaluation procedures in operating mutual funds



39. To understand and explain importance of measurement and evaluation of mutual fund operation using risk-adjusted return
40. To calculate, measures, evaluate the operation of mutual funds using Sharpe's ratio, Treynor's ratio, Jensen measure, and information ratio

### 3.2: Rules and Regulations for Dealing in Securities (Excluding Derivatives)

#### 1. Equity Instrument Trading Principles and Procedures

##### Learning Objective Statement:

1. To explain the trading system, order matching method, and trading hours of SET
2. To explain trading methods and procedures of SET's trading system
3. To explain the types of orders and their limitations
4. To explain trading size and describe the types of SET trading boards
5. To explain the criteria for ceiling and floor limits and spread
6. To explain the methods and procedures for opening a trading account
7. To explain the types of trading accounts and their differences
8. To explain rules for margin accounts
9. To explain and calculate margins
10. To explain prohibited trading behaviors
11. To explain SET's roles and measures used in trading supervision
12. To explain the objectives and meanings of signs posted on the trading board indicating situations or conditions applicable to a particular security
13. To explain the circuit breaker mechanism
14. To explain SET's contingency plan for computer malfunctions

#### 2. Debt Instrument Trading Principles and Procedures

##### Learning Objective Statement:

1. To explain the Thai BMA system and methods for debt instrument trading
2. To explain BEX's trading procedures, including account opening, ordering, settlement, and delivery
3. To explain BEX's trading system, methods, and rules
4. To explain the symbols indicating the names of instruments traded on BEX
5. To explain the objectives and meaning of signs indicating situations or conditions applicable to particular security

### 3. Rules and regulations governing mutual fund trading

#### Learning Objective Statement:

1. To understand and describe mutual fund investment procedures
2. To understand investment unit bid and offer prices
3. To understand the rules, conditions and limitations of investing in mutual funds issued by different regulators
4. To understand the standard measurements used for evaluating performance under different mutual fund investment policies based on Association of Asset Management Companies criteria
5. To understand the expenses related to mutual fund operations
6. To understand the rules, conditions, setup procedures and management of mutual funds

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