

Unit 5: Other Markets and Investments

Student Workbook

Unit 5

Unit Aim: Explore other financial assets and markets.

Relevance of this unit to the course:
This unit will refer back to some of the macroeconomic concepts explored in unit 2. Connections will also be made in chapters 9 and 11 to the market instruments reviewed in this unit.

Learning Objective	Learning Outcomes	Chapter Section
5.1.1	Know the characteristics of fixed-term and instant access deposit accounts	2
5.1.2	Know the advantages and disadvantages of investing in cash	2
5.1.3	Know the difference between crypto currencies and flat currencies	2
5.2.1	Know the difference between a capital market instrument and a money market instrument	3
5.2.2	Know the definition and features of the following: • Treasury Bill • Commercial Paper • Certificate of Deposit • Money market funds	3
5.2.3	Know the advantages and disadvantages of investing in money market instruments	3
5.3.1	Know the characteristics of property investment: • Commercial / residential property • Direct / indirect investment	4
5.3.2	Know the potential advantages and disadvantages of investing in property	4
5.4.1	Know the basic structure of the foreign exchange market including: • Currency quotes • Settlement • Spot / forward • Short term currency swaps	5
5.4.2	Be able to calculate a forward exchange rate using interest rate parity formula	5

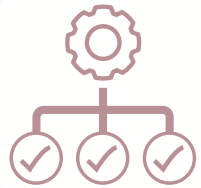
How to use this student workbook

Throughout this student workbook, look out for the different icons to support your learning:

Understand and learn – these sections will help you to develop your knowledge and understanding of the assessed learning objectives.



Apply and practise – Practise and test your newly acquired learning by undertaking a range of activities to help you prepare for the multiple choice assessment at the end of the course.



Further your knowledge – Consolidate your understanding of key concepts by reading and interacting with current, credible resources to help further enhance your learning.



Introduction

Imagine you had £1,000 for the purpose of saving. Research the different types of savings account that you could use and the different interest rates you could achieve if you left the money in the account for 12 months and do not withdraw it.





Learning Outcome 5.1 – Cash Deposits

5.1.1: Know the characteristics of fixed-term and instant access deposit accounts

5.1.2: Know the advantages and disadvantages of investing in cash

5.1.3: Know the difference between crypto currencies and fiat currencies

Cash deposits

Read the section on cash deposits in chapter 5 of the course workbook and answer the following questions.

1. Which institutions offer cash deposit accounts?

2. What are the main characteristics of cash deposits?

3. What type of cash deposit accounts are available?

4. What factors will influence the interest rate paid on deposits?

Cash deposits Continued...

Read the section on cash deposits in chapter 5 of the course workbook and answer the following questions.

5. Is interest paid gross or net of tax?

6. Who is the regulator for deposit takers?

7. The Financial Services Compensation Scheme (FSCS) provides protection up to what limit of deposit per person with an authorised institution?

The advantages and disadvantages of investing in cash

Advantages	Disadvantages

Anya's savings

Anya has invested her recent inheritance of £100,000 into a deposit account with ABC Building Society. She wants to use the interest earned to supplement her income as she is planning to retire in 3 years time.

She describes herself as a very cautious investor and has asked you to explain the risks she is taking with this investment.



Cryptocurrencies

Log into the professional refresher section of the CISI learning platform and complete the cryptocurrencies (6 mins) micromodule to gain an understanding of what cryptocurrencies are and how they are created and used.



Cryptocurrencies

Fill in the remaining blanks:

Cryptocurrencies are a type of digital currency or that can be traded, , and transferred .

- There is no single definition of cryptocurrencies, but one from the European regulatory authorities is that they are:
- A currency that is represented by a digital not issued by a central or similar institution
- Not a established currency
- In some circumstances, can be used as an alternative to .
- The best known cryptocurrency is Bitcoin, which uses , technology to build a decentralised that has no central trusted and is open to anyone to participate.

Crypto vs Fiat Currency

Refer to the table in chapter 5 of the course workbook and summarise the key differences between Crypto and Fiat Currency.

Cryptocurrency	Fiat Currency

Further your knowledge – Cryptocurrencies (Optional)

Log into the professional refresher section of the CISI learning platform and complete the cryptocurrencies (2hr) module. This module explores the different types of cryptocurrencies, how and if they can be adequately regulated, the way they are traded and what role they might play in the future.





Learning Outcome 5.2 – The Money Markets

5.2.1: Know the difference between a capital market instrument and a money market instrument

5.2.2: Know the definition and features of the following:

- Treasury Bill
- Commercial Paper
- Certificate of Deposit
- Money market funds

5.2.3: Know the advantages and disadvantages of investing in money market instruments

What are Money Markets?

To understand the difference between capital and money markets, watch the CISI YouTube video about money markets and answer the following questions.

1. What is the key difference between capital and money markets?
2. Explain the 3 main types of money market instruments?

The main types of money market instruments

Using section 3 in chapter 5 of the course workbook, summarise the key features of treasury bills, certificates of deposit (CDs) and commercial paper (CP)

Treasury Bills	Certificates of Deposit (CDs)	Commercial Paper (CP)

Money market instruments

Using chapter 5 of the course workbook, answer the following questions.

1. How often are treasury bills issued?

2. What is a money market fund with a constant or fluctuating NAV known as?

3. Who issues treasury bills?

4. How do investors make a return on Commercial Papers?

Money market instruments Continued...

Using chapter 5 of the course workbook, answer the following questions.

5. Why are CDs and equities similar?

6. What are the advantages of investing in money market instruments?

7. What are the disadvantages of investing in money market instruments?

8. How do investors make a return on Certificates of Deposit?

Money market instruments Continued...

Using chapter 5 of the course workbook, answer the following questions.

9. How long can Certificates of Deposit be held for?

10. Are treasury bills interest bearing?



Further your knowledge – money market instruments

If you want to understand more about the 3 key money market instruments, undertake some research around the following:

- Treasury Bills on the Debt Management Office website
- Certificates of deposit on the Bank of England website
- Commercial Paper on Investopedia



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The key features of money market funds

Summarise the key features of money market funds under the following headings. Use section 3, chapter 5 of the course workbook.

Money Market Funds			
Regulation	**Risk**	**Returns**	**Sectors** (as introduced by the IA)

What are market makers?

To extend your knowledge of markets, watch this tutorial about market makers.

1. What is the role of a market maker?

2. Give 3 examples of market makers.

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Further your knowledge – UK Money Markets Code

Log into the professional refresher section of the CISI learning platform and complete the UK Money Markets Code (1hr) module. This module sets out the standards and best practice expected in the deposit, repo and securities lending markets in the UK. It also outlines the contents of the Code and who it applies to.





Learning Outcome 5.3 – Property

5.3.1: Know the characteristics of property investment:

- Commercial / residential property
- Direct / indirect investment

5.3.2: Know the potential advantages and disadvantages of investing in property

The characteristics of property investment – True or False?

Read section 4 in chapter 5 about property and decide if the following statements are true or false.

	True	False
1. The property market is highly liquid	◯	◯
2. The valuation of property is subjective	◯	◯
3. The supply of land is infinite	◯	◯
4. The property market is impacted by legislation and planning regulations	◯	◯
5. The price of property is determined by changes in demand	◯	◯

Residential vs Commercial Property

Outline the key differences between commercial and residential property.

	Residential Property	Commercial Property
Direct Investment		
Tenancies		
Repairs		
Returns		

Residential vs Commercial Property

Look at the different types of property listed below and determine whether they are either residential or commercial.

	Residential	Commercial
Retail units	◯	◯
House of multiple occupancy	◯	◯
Buy to let rental	◯	◯
Industrial units	◯	◯
Holiday home	◯	◯
Agricultural land	◯	◯
Second homes	◯	◯
Office developments	◯	◯

Investing in property scenario

Anton is considering investing in a buy to let property and has come to you for advice on the main economic risks he should consider before doing so. What are the economic factors that Anton needs to consider?



Advantages and disadvantages of investing in property

API Global specialise in UK property investments. Read their blog about whether property investment is worth it for building wealth and bullet point the key pros and cons of property investment in the UK.

Advantages	Disadvantages

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Learning Outcome 5.4 – The Foreign Exchange Market

5.4.1: Know the basic structure of the foreign exchange market including:

- Currency quotes
- Settlement
- Spot / forward
- Short term currency swaps

5.4.2: Be able to calculate a forward exchange rate using interest rate parity formula

Background to the foreign exchange market

In the past, currencies were backed by gold as money had intrinsic value. This 'gold standard' was replaced after the second world war by the Bretton Woods Agreement, which itself was abandoned in the 1970s. Now, currencies are able to float freely against one another, leading to the development of new financial instruments and speculation in the currency market.

Currencies are abbreviated to a three digit reference. Which currencies do these refer to? Do you know any others?

1. USD
2. GBP
3. CHF
4. JPY
5. EUR
6. HRK
7. ZAR
8. SGD

Currency Quotes

Read the section in the course workbook about foreign exchange and answer the following questions.

1. What are the two main features of currency trading?

2. Where is the world's largest foreign exchange (FX) market?

3. Which are the most commonly quotes currency pairs?

4. When currencies are quoted, which is the base and which is the counter or quote currency?

Currency Quotes

5. What is the base currency always equal to?

6. Is the FX market exchange traded or OTC?

7. Who are the main participants in the FX market?

8. What does it mean when the exchange rate is 'going up'?

9. What does a GBP/USD currency quote of 1.1164/66 mean?

FX transactions

Read the section about FX transaction in the course workbook and complete the table below.

	Definitions and features
Spot transaction	
Forward transaction	
Future	
Swap	

Settlement of FX transactions

Settlement of FX transactions are made through CLS Bank or the worldwide international banking system. Answer the following questions about CLS Bank:

1. What type of bank is it?

2. When was it created?

3. Who is it owned by?

4. What is it used for?

Settlement of FX transactions Continued...

5. What system does it use?

6. Does it allow settlement directly between participants accounts?



Forward Exchange Rates

A forward exchange **contract** is an agreement between two parties to either buy or sell foreign currency at a fixed exchange rate for settlement at a future date.

The forward exchange **rate** is the exchange rate set today even though the transaction will not settle until some agreed point in the future eg. in 3 months time.

The relationship between the spot exchange rate and forward exchange rate for 2 currencies is given by the differential between their respective nominal interest rates oner the term being considered (it is a purely mathematical relationship and has nothing to do with market expectations.

The interest rate parity **formula** is as follows:

$$\text{Forward rate} = \text{spot rate} \times \left(\frac{1 + \text{quote currency sort term rate}}{1 + \text{base currency short term rate}} \right)$$

Calculating a 3 month forward rate for GBP/USD

The GBP/USD spot rate is 1.25
Three month LIBOR rates are 0.50% in the UK and 1% in the US (quoted on an annual basis)

Step 1:
The annual interest rates need adjusting to quarterly rates:
UK rates: 0.50% ÷ 4 = 0.125%
US rates: 1.00% ÷ = 0.25%

Step 2:
Calculate the forward rate using the formula given

$$1.25 \times \left(\frac{1 + 0.0025}{1 + 0.00125} \right) = 1.2516$$

NB: In this example interest rates are higher in the UK so the forward rate is higher than the spot rate

Calculate the Forward Exchange rate for the following example:

One year contract:
The EUR/USD spot rate is 1.20
The EUR interest rate is 0.5%
The USD interest rate is 1%

Answer =

Further your knowledge – Foreign Exchange

Log into the professional refresher section of the CISI learning platform and complete the Foreign Exchange (2hrs 15mins) module. This module provides an overview of the foreign exchange markets and introduces some of the most important trading techniques as well as how businesses use foreign exchange to manage risk.



(optional) Movie Time – 2008 Financial Crisis

Read the Bank of England's summary about the 2007/8 financial crisis and watch some of our movie / documentary recommendations to understand the global impact of the 2008 financial crisis.

Movies

Margin Call - Follows the key people at an investment bank over a 24-hour period during the early stages of the 2008 financial crisis.

Inside Job - Takes a closer look at what brought about the 2008 financial meltdown. This documentary explains how the insatiable greed (of US corporations and government) made things possible. Academics were paid hundreds of thousands to write deceptive papers of praise. US rating agencies were paid by banks to falsely grade subprime mortgage-backed securities as AAA (rather than risky and toxic). It also explains the mind boggling CDO scam and how it back fired on AIG which then needed bailing out using taxpayers money (~ $150bn).

Too Big Too Fail - HBO docu-drama which recounts the Sep 2008 financial collapse but more on the stressful moments that went on behind the scenes.

Documentaries

- The Bank That Almost Broke Britain | BBC Documentary 2018 HD - YouTube
- Freefall (Part One) - YouTube (Irish Financial Crash 2008)
- Freefall part two - YouTube
- Richard Fuld - Lehman Brothers Bankruptcy Testimony (Enhanced Audio) - YouTube
- Warren Buffett - HBO Documentary HD - YouTube
- The real truth about the 2008 financial crisis | Brian S. Wesbury | TEDxCountyLineRoad - YouTube
- The shocking reality of how close Britain came to financial meltdown - BBC - YouTube

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End of Unit 5
Multiple Choice Assessment

Test your knowledge

1. The Financial Services Compensation Scheme (FSCS) protects cash invested with authorised deposit takers up to:

- A. £850,000
- B. £85000
- C. 100,000
- D. 1,000,000

2. Which one of the following is classified as a long term debt instrument?

- A. Certificates of Deposit
- B. Zero Coupon Bonds
- C. Treasury Bills
- D. Commercial Paper

Test your knowledge

3. According to the FCA, which of the following is NOT a type of crytoasset

- A. Exchange tokens
- B. Security tokens
- C. Currency tokens
- D. Utility tokens

4. Which ONE of the following following foreign currency transactions would be settled two business days after the deal was agreed?

- A. Forward
- B. Option
- C. Future
- D. Spot

Test your knowledge

5. Which ONE of the following is a short term security issued by commercial banks in exchange for fixed term deposits?

- A. Certificates of Deposit
- B. Commercial Paper
- C. Listed Futures Contract
- D. Treasury Bills

6. Which one of the following is NOT a feature of deposit-based investment?

- A. Inflation may reduce the real value of the deposited capital over time
- B. Return simply comprises interest income with no potential for capital growth
- C. The FSCS protects cash deposited with authorised deposit takers
- D. Interest is paid to deposit holders net of tax

Test your knowledge

7. Which of the following is NOT an advantage of investing in money market instruments?

- A. The nominal is preserved
- B. It is a professional market
- C. They are a good investment in times of uncertainty
- D. Quick returns can be gained

8. Which ONE of the following is a feature of treasury bills?

- A. They finance long term government borrowing
- B. They are priced at a discount to par value
- C. They pay quarterly interest
- D. They are issued on a quarterly basis

Test your knowledge

9. Which of the following is NOT an advantage to investing in cash?

- A. Liquidity
- B. No exposure to market volatility
- C. Capital is always protected from the risk of defaulting deposit-taking institutions
- D. Savings vehicle

10. Which body regulates banks and other deposit takers in the UK?

- A. Financial Conduct Authority
- B. Prudential Regulatory Authority
- C. Debt Management Office
- D. Financial Services Compensation Scheme

Test your knowledge

11. A currency quotation for USD/CHF is said to be 'going up'. Which ONE of the following is true?

A. The base currency is the US dollar and it is weakening relative to the Swiss franc

B. The base currency is the Swiss franc and it is weakening relative to the US dollar

C. The base currency is the US dollar and it is strengthening relative to the Swiss franc

D. The base currency is the Swiss franc and it is strengthening relative to the US dollar

Test your knowledge

12. What is the settlement date for a FX forward transaction?

- A. Date is agreed between the two parties
- B. Predefined transaction date
- C. Two business days after the transaction date
- D. Three months after the transaction date

13. Which of the following describes a money market fund which has either a constant or fluctuating NAV?

- A. Money Market Funds
- B. Short term Money Market Funds
- C. Commercial Paper
- D. Certificates of Deposit

Test your knowledge

14. Which of the following statement is true regarding cryptocurrency:

- A. Transactions are often faster than transactions of fiat currency
- B. Prices are generally considered more stable than fiat currency
- C. Transactions are always anonymous
- D. Value is backed by physical commodities

15. The first currency quoted in a pair is known as:

- A. The base currency
- B. The counter currency
- C. The quote currency
- D. The second currency

Test your knowledge

16. A trader quotes 1.2544/48 for a GBP/USD foreign exchange transaction. This means:

A. If the client wants to buy £100,000, they will need to deliver $125,444

B. If the client wants to buy £100,000 they will need to pay $1.2544 for every GBP

C. If the client wants to buy £100,000 they will need to deliver $125,480

D. If the client wants to sell £100,000, they will receive $125,480

Test your knowledge

17. Which of the following is NOT a feature of property as an asset class:

- A. It is subject to complex legal consideration
- B. Diversification is difficult
- C. Price is primarily determined by changes in supply
- D. It is considered relatively illiquid

18. Which of the following is NOT true of direct investment in property

- A. It has historically provided positive, real and long term returns
- B. It has historically provided a reliable source of income with low volatility
- C. Many private investors have chosen to become involved in the market through commercial property
- D. It is a relatively illiquid form of investment

Test your knowledge

19. Which ONE of the following is a typical feature of a treasury bill?

- A. Term to maturity of between 1-2 years
- B. Purchase price is less than the nominal value
- C. par value is less than the redeemable sum
- D. Rate of interest between 2% and 3% per annum

20. Commercial Papers are issued by:

- A. Banks
- B. Governments
- C. Large Companies
- D. REITs

Monitoring my progress – Unit 5

My multiple choice assessment mark is / 20

I am happy with the progress that I made on the multiple choice assessment

◯ Yes ◯ No

To improve my knowledge and understanding, I now need to…

1.

2.

3.

Need more help?

If you feel that your multiple choice score can be improved further, complete the end of unit 5 multiple choice questions in the course workbook.



Answers

Page 6 -7

1) Which institutions offer cash deposit accounts? Banks and building societies
2) What are the main characteristics of cash deposits?

- The return simply comprises interest income with no potential for capital growth
- The amount invested (the capital) is repaid in full at the end of the investment term or when withdrawn

3) What type of cash deposit accounts are available? Instant or Easy Access or Fixed term
4) What factors will influence the interest rate paid on deposits?

- The amount of money deposited
- The amount of time for which the money is tied up
- Market rates/Competition between deposit taking institutions

5) Is interest paid gross or net of tax? Gross
6) Who is the regulator for deposit takers? Prudential Regulatory Authority (PRA)
7) The Financial Services Compensation Scheme (FSCS) provides protection up to what limit of deposit per person with an authorised institution? £85,000

Page 8

Advantages:

- Liquidity, which is the ease and speed with which an investment can be turned into cash to meet spending needs. Most investors are likely to have a need for cash at short notice and so should plan to hold some cash on deposit to meet possible needs and emergencies before considering other less liquid investments
- A savings vehicle/ Interest return
- Not exposed to market volatility, as is the case with other types of assets

Disadvantages:

- Deposit taking institutions are of varying creditworthiness; the risk they may default needs to be assessed and taken into account
- Inflation reduces the real return that is being earned on cash deposits and could mean the real return after tax is negative
- Interest rates vary and so the returns from cash based deposits will also vary
- There is a currency risk, and different regulatory regimes to take account of, where funds are invested offshore on in a different currency

Page 9

Anya faces two potential risks with this investment:

1) The risk of issuer default. She needs to check that her deposit with ABC Building Society is FSCS protected in the first instance. If it is, she will receive compensation for only the first £85,000 of her capital so may wish to consider opening a second deposit account with another provider for full protection.
2) The risk that the real value of her capital will be eroded by inflation.

Page 11

Cryptocurrencies are a type of **digital** currency or **asset** that can be traded, **stored** and transferred **electronically**.

There is no single definition of cryptocurrencies, but one from the European regulatory authorities is that they are:

- a **virtual** currency that is represented by a digital **record**
- not issued by a central **bank** or similar institution
- not a **legally** established currency
- in some circumstances, can be used as an alternative to **money**

Answers

The best known cryptocurrency is Bitcoin, which uses **blockchain** technology to build a decentralised **network** that has no central trusted **authority** and is open to anyone to participate.

Page 12

Form held:

FC: Physical forms of money, such as coins and banknotes, exist alongside digital representations in electronic banking systems.

CC: Primarily digital, cryptocurrencies do not have a physical form. Transactions are recorded on a blockchain, and ownership is established through cryptographic keys.

Centralisation:

FC: Issued and regulated by a central authority, usually a government or central bank. The central authority has the power to control the money supply, implement monetary policies and regulate financial institutions.

CC: Operated on decentralised networks based on blockchain technology. There is no central authority governing or controlling cryptocurrencies like Bitcoin. Instead, they rely on a distributed ledger maintained by a network of nodes.

Issuance and supply:

FC: Central authorities, like central banks, have the authority to issue and regulate the supply of fiat currencies. They can print more money or withdraw money from circulation as needed.

CC: The supply of most cryptocurrencies is typically capped, creating a maximum limit on the total number of coins that can ever be in circulation. For example, the total supply of Bitcoin is capped at 21 million coins.

Regulatory oversight:

FC: Traditional financial systems are subject to extensive regulatory oversight. Governments and central banks enact and enforce laws related to banking, monetary policy, and financial transactions. Regulatory bodies such as the FCA ensure compliance with anti-money laundering (AML) and know your customer (KYC) regulations.

CC: Regulations for cryptocurrencies vary widely across jurisdictions. Regulatory measures often focus on consumer protection, preventing illegal activities and ensuring tax compliance. For example, the UK has been working to align its crypto regulations with AML directives. Crypto exchanges and wallet providers are typically subject to AML regulations to prevent illicit financial activities and must be officially registered with the FCA.

Anonymity and transparency:

FC: Transactions with fiat currencies are generally traceable, as banks and financial institutions are subject to regulatory oversight and record- keeping requirements.

CC: Transactions on a blockchain are transparent and traceable, but the level of anonymity can vary depending on the cryptocurrency. Some cryptocurrencies offer more privacy features than others.

Intrinsic value

FC: Fiat money does not have intrinsic value; its value is derived from the trust people have in the issuing authority and the belief that it can be exchanged for goods and services.

CC: Value is often derived from factors like scarcity, utility within a blockchain ecosystem, and market demand. Cryptocurrencies are not backed by physical commodities like gold, but gain value from network consensus and adoption.

Answers

Transaction speed and currency accessibility:
FC: Transactions involving fiat currencies can sometimes take longer, especially in cross-border transactions, and accessibility may be limited in certain regions.
CC: Transactions are often faster, and cryptocurrencies can be accessed by anyone with an internet connection.

Volatility:
FC: While exchange rates can fluctuate, fiat currencies are generally considered more stable than cryptocurrencies.
CC: Cryptocurrency prices can be highly volatile, with values sometimes experiencing significant fluctuations over short periods.

Page 15

1. Capital - financial markets where longer term capital is raised by companies and governments in the form of shares and bonds. Money – where companies and governments can meet their short term borrowing needs usually around 3 month but not exceeding a year
2. Treasury bill, commercial paper and certificate of deposit

Page 16

Treasury bills – these are issued weekly by the Debt Management Office (DMO) on behalf of the Treasury. The money is used for the government's short-term borrowing needs. Treasury bills are non-interest-bearing instruments (sometimes referred to as 'zero coupon' instruments, see chapter 4, section 4.2.6). Instead of interest being paid out on them, they are normally issued at a discount to par – ie, a price of less than £100 per £100 nominal (the amount of the Treasury bill that will be repaid on maturity) – and commonly redeem after one, three or six months. For example, a Treasury bill might be issued for £999 and mature at £1,000 three months later. The investor's return is the difference between the £999 they paid, and the £1,000 they receive on the Treasury bill's maturity.

Certificates of deposit (CDs) – these are issued by banks in return for deposited money and are tradeable on the money markets. Until the late 1960s, a rigidity in the interbank market meant that deposits, once taken, could not be traded during their lifetime. To overcome this, CDs were introduced which could be traded on a secondary market. By market convention, it is a short-term marketable instrument with a maturity up to five years, although the vast majority are issued for periods of less than six months. Interest can be at a fixed or variable rate, although they may also be issued at a discount and without a coupon. Most sterling CDs are held by banks, building societies and other money market participants.

Commercial paper (CP) – this is the corporate equivalent of a Treasury bill. CP is issued by large companies to meet their short-term borrowing needs. A company's ability to issue CP is typically agreed with banks in advance. For example, a company might agree with its bank to a programme of £10 billion worth of CP. This would enable the company to issue various forms of CP with different maturities (eg, one month, three months and six months), and possibly different currencies, to investors. As with Treasury bills, CP is zero coupon and issued at a discount to its par value.

Page 17 - 19

1) Weekly
2) A short timer money money market fund
3) The DMO
4) They are issued at a discount to par value and investor receives the difference between the two at maturity

Answers

5) They are both tradable and negotiable
6) Advantages: low risk, useful during times of uncertainty, quick returns, pooling of funds in the money market funds gives the investor access to assets they may otherwise not be able to invest in
7) Disadvantages: they are only suitable for short term investing, available to the professional market only unless through money market funds or money market accounts, over the medium to long term the money markets have under-performed compared to many other investment types
8) The bank pays interest on the deposited amount, which can be fixed or variable and the investor receives their deposited sum back at the set end date
9) A maximum of 5 years but is usually much less
10) No - no coupons are paid on treasury bills

Page 21

Returns:

Should be greater than a simple money market account offered by a bank.

Risk:

Will invest in a range of instruments from many providers, and as long as they are AAA-rated they can offer high security levels.

Money market funds may invest in assets denominated in other currencies and so are open to exchange rate risk.

Regulation:

Under UK regulatory rules, money market funds can only invest in approved money market instruments and deposits with credit institutions and meet other conditions on the structure of the underlying portfolio.

There are also new EU-wide regulations which permit variations in the structure of short term money market funds.

Sectors:

The IA introduced two money market sectors with effect from January 2012. They are based on the European definitions of money market funds that have been adopted by the FCA: short term money market funds and money market funds.

Short term money market funds can have a constant or a fluctuating NAV. A constant NAV face value means they should have an unchanging NAV when income in the fund is accrued daily and can either be paid out to the unit holder or used to purchase more units in the scheme.

Money market funds by contrast must have a fluctuating NAV.

Page 25

1. The property market is highly liquid – **FALSE** – it's illiquid
2. The valuation of property is subjective - **TRUE**
3. The supply of land is infinite – **FALSE** – it's finite
4. The property market is impacted by legislation and planning regulations - **TRUE**
5. The price of property is determined by changes in demand - **TRUE**

Page 26

Direct Investment:

Residential Property: Range of investment opportunities including second homes, holiday homes and buy to let purchased directly from estate agents

Commercial Property: Size of investment required means direct investment in commercial property is limited to property companies and institutional investors

Answers

Tenancies:
Residential Property: Typically short, renewable leases
Commercial Property: Long term contracts with periods commonly in excess of 10 years

Repairs:
Residential Property: Landlord responsible
Commercial Property: Tenant is usually responsible for

Returns:
Residential Property: Largely linked to increase in house prices
Commercial Property: Significant component is return from rental income

Page 27
Residential
- Buy to let
- Holiday home
- Second home
- House of multiple occupancy

Commercial
- Retail units
- Industrial units
- Agricultural land
- Office development

Page 28
- Rising interest rates
- Maintenance and repair costs
- Any additional works that the property may need
- Changes in supply and demand for rental properties
- Changes in legislation
- Residential property values
- Changes in taxation

Page 31
- USD - US dollar
- JPY - Japanese Yen
- CHF- Swiss Franc
- GBP - British pound
- EUR - Euro
- HRK - Croatian Kuna
- ZAR - South African Rand
- SGD - Singapore dollar

Page 32 – 33
1) 24 hour trading and always done in pairs
2) London
3) USD/JPY, EUR/USD, USD/CHF, GBP/USD, EUR/GBP
4) First currency is always the base currency and second is the counter or quote currency

Answers

5) The base currency is always equal to one unit of that currency (eg one dollar)
6) OTC
7) Large international banks - they continually provide the market with both bid (buy) and ask (sell) prices. Central banks are also major participants which they use to try to control money supply, inflation and interest rates.
8) This means the value of the base currency is rising relative to the other currency (also referred to as currency strengthening).
9) This quote includes a bid price and an ask price - if you want to buy £100,000 you will need to pay the higher of the two prices and deliver $111,660; if you want to sell £100,000 you will receive the lower of the two prices $111,640. NOTE that the GBP is not mentioned as the standard convention is that the base currency is always one unit.

Page 34

Spot Transaction: spot rate is rate quoted by a bank for the exchange of one currency for another with immediate effect (on the spot). It is worth noting that, in many cases, spot trades are settled two business days after the transaction (a settlement period of T+2)

Forward Transaction: money does not actually change hands until an agreed future date. The buyer and seller agree on an exchange rate for any date in the future, for a fixed sum of money, and the transaction occurs on that date, regardless of market rates. The duration can be a few days, months or years.

Future: foreign currency futures are a standardised version of forward transactions that are traded on derivatives exchanges for standard sizes and maturity dates. The average contract length is roughly three months.

Swap: the most common type of forward FX transaction. Two parties exchange currencies for a certain length of time and agree to revers the transaction at a later date. These are not exchange-traded contracts but instead are negotiated individually between the parties to a swap. They are a type of OTC derivative.

Page 35 – 36

1) Specialist
2) 2002
3) Many of the world's largest financial institutions
4) for settling FX transactions between member banks
5) 'payment-versus-payment (PvP)
6) Yes - banks hold accounts with each other as well as overseas branches and subsidiaries and settlement of trades can occur via these accounts

Page 38

Answer = 1.914

NB as this is a 1 year contract, step 1 can be left out

Test your knowledge

1B	8B	15A
2B	9C	16C
3C	10B	17C
4D	11C	18C
5A	12A	19B
6D	13B	20C
7B	14A	