



**CFA Institute**  
Investment Foundations

## SYLLABUS OVERVIEW



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# MODULE 1

## INDUSTRY OVERVIEW

It is about getting to the heart and the core purpose of the investment industry – its vital role in the world: from helping people save for the future to funding schools, hospitals, roads and other essentials. The benefits this brings when done well (ethically and all parts working together) help serve society.



## **CHAPTER 1**

### **THE INVESTMENT INDUSTRY: A TOP-DOWN VIEW**

After completing this chapter, you should be able to do the following:

- Describe the financial services industry;
- Identify types of financial institutions, including banks and insurance companies;
- Define the investment industry;
- Explain how economies benefit from the existence of the investment industry;
- Explain how investors benefit from the existence of the investment industry;
- Describe types and functions of participants of the investment industry;
- Describe forces that affect the evolution of the investment industry.

# MODULE 2

## ETHICS AND REGULATION

This module focuses on the essential foundations for the investment world – ethics and regulation. The firm ground on which we build for our clients: trust, reputation, confidence and value – the essentials of a strong and healthy client-focused industry.



## CHAPTER 2

### ETHICS AND INVESTMENT PROFESSIONALISM

After completing this chapter, you should be able to do the following:

- Describe the need for ethics in the investment industry;
- Identify obligations that individuals in the investment industry have to clients, prospective clients, employers, and co-workers;
- Identify elements of the CFA Institute Code of Ethics;
- Explain standards of practice (professional principles) that are based on the CFA Institute Code of Ethics;
- Describe benefits of ethical conduct;
- Describe consequences of conduct that is unethical or unprofessional;
- Describe a framework for making ethical decisions.

## CHAPTER 3

### REGULATION

After completing this chapter, you should be able to do the following:

- Define regulations;
- Describe objectives of regulation;
- Describe potential consequences of regulatory failure;
- Describe a regulatory process and the importance of each step in the process;
- Identify specific types of regulation and describe the reasons for each;
- Describe elements of a company's policies and procedures to ensure the company complies with regulation;
- Describe potential consequences of compliance failure.

# MODULE 3

## INPUTS AND TOOLS

This is about understanding how the (economic) world works – the big picture and the fine detail. How the actions of individuals, corporations and governments play out at micro, macro and international levels, how this translates to a company's finances, and how to get a clearer understanding of what this all means.





## CHAPTER 4 MICROECONOMICS

After completing this chapter, you should be able to do the following:

- Define economics;
- Define microeconomics and macroeconomics;
- Describe factors that affect quantity demanded;
- Describe how demand for a product or service is affected by substitute and complementary products and services;
- Describe factors that affect quantity supplied;
- Describe market equilibrium;
- Describe and interpret price and income elasticities of demand and their effects on quantity and revenue;
- Distinguish between accounting profit and economic profit;
- Describe production levels and costs, including fixed and variable costs, and describe the effect of fixed costs on profitability;
- Identify factors that affect pricing;
- Compare types of market environment: perfect competition, pure monopoly, monopolistic competition, and oligopoly.

## CHAPTER 5 MACROECONOMICS

After completing this chapter, you should be able to do the following:

- Describe why macroeconomic considerations are important to an investment firm and how macroeconomic information may be used;
- Define gross domestic product (GDP) and GDP per capita;
- Identify basic components of GDP;
- Describe economic growth and factors that affect it;
- Describe phases of a business cycle and their characteristics;
- Explain the global nature of business cycles;
- Describe economic indicators and their uses and limitations;
- Define inflation, deflation, stagflation, and hyperinflation, and describe how inflation affects consumers, businesses, and investments;
- Describe and compare monetary and fiscal policy;
- Explain limitations of monetary policy and fiscal policy.

## CHAPTER 6

### ECONOMICS OF INTERNATIONAL TRADE

After completing this chapter, you should be able to do the following:

- Define imports and exports and describe the need for and trends in imports and exports;
- Describe comparative advantages among countries;
- Describe the balance of payments and explain the relationship between the current account and the capital and financial account;
- Describe why a country runs a current account deficit and describe the effect of a current account deficit on the country's currency;
- Describe types of foreign exchange rate systems;
- Describe factors affecting the value of a currency;
- Describe how to assess the relative strength of currencies;
- Describe foreign exchange rate quotes;
- Compare spot and forward markets.

## CHAPTER 7

### FINANCIAL STATEMENTS

After completing this chapter, you should be able to do the following:

- Describe the roles of standard setters, regulators, and auditors in financial reporting;
- Describe information provided by the balance sheet;
- Compare types of assets, liabilities, and equity;
- Describe information provided by the income statement;
- Distinguish between profit and net cash flow;
- Describe information provided by the cash flow statement;
- Identify and compare cash flow classifications of operating, investing, and financing activities;
- Explain links between the income statement, balance sheet, and cash flow statement;
- Explain the usefulness of ratio analysis for financial statements;
- Identify and interpret ratios used to analyse a company's liquidity, profitability, financing, shareholder return, and shareholder value.

## CHAPTER 8

### QUANTITATIVE CONCEPTS

After completing this chapter, you should be able to do the following:

- Define the concept of interest;
- Compare simple and compound interest;
- Define present value, future value, and discount rate;
- Describe how time and discount rate affect present and future values;
- Explain the relevance of net present value in valuing financial investments;
- Describe applications of time value of money;
- Explain uses of mean, median, and mode, which are measures of frequency or central tendency;
- Explain uses of range, percentile, standard deviation, and variance, which are measures of dispersion;
- Describe and interpret the characteristics of a normal distribution;
- Describe and interpret correlation.

# MODULE 4

## INVESTMENT INSTRUMENTS

This module covers the basic investment options, what they are and their purpose – from conventional equities and bonds to more specialized investments such as real estate and derivatives.



## CHAPTER 9

### DEBT SECURITIES

After completing this chapter, you should be able to do the following:

- Identify issuers of debt securities;
- Describe features of debt securities;
- Describe seniority ranking of debt securities when default occurs;
- Describe types of bonds;
- Describe bonds with embedded provisions;
- Describe securitisation and asset-backed securities;
- Define current yield;
- Describe the discounted cash flow approach to valuing debt securities;
- Describe a bond's yield to maturity;
- Explain the relationship between a bond's price and its yield to maturity;
- Define yield curve;
- Explain risks of investing in debt securities;
- Define a credit spread.

## CHAPTER 10

### EQUITY SECURITIES

After completing this chapter, you should be able to do the following:

- Describe features of equity securities;
- Describe types of equity securities;
- Compare risk and return of equity and debt securities;
- Describe approaches to valuing common shares;
- Describe company actions that affect the company's shares outstanding.

## **CHAPTER 11**

### **DERIVATIVES**

After completing this chapter, you should be able to do the following:

- Define a derivative contract;
- Describe uses of derivative contracts;
- Describe key terms of derivative contracts;
- Describe forwards and futures;
- Distinguish between forwards and futures;
- Describe options and their uses;
- Define swaps and their uses.

## **CHAPTER 12**

### **ALTERNATIVE INVESTMENTS**

After completing this chapter, you should be able to do the following:

- Describe advantages and limitations of alternative investments;
- Describe private equity investments;
- Describe real estate investments;
- Describe commodity investments.

# MODULE 5

## INDUSTRY STRUCTURE

The industry is complex and highly interdependent. This module looks at how the industry helps us invest, who the participants are and what they do, the different markets where investments take place, and the investment products themselves.



## CHAPTER 13

### STRUCTURE OF THE INVESTMENT INDUSTRY

After completing this chapter, you should be able to do the following:

- Describe needs served by the investment industry;
- Describe financial planning services;
- Describe investment management services;
- Describe investment information services;
- Describe trading services;
- Compare the roles of brokers and dealers;
- Distinguish between buy-side and sell-side firms in the investment industry;
- Distinguish between front-, middle-, and back-office functions in the investment industry;
- Identify positions and responsibilities within firms in the investment industry.

## CHAPTER 14

### INVESTMENT VEHICLES

After completing this chapter, you should be able to do the following:

- Compare direct and indirect investing in securities and assets;
- Distinguish between pooled investments, including open-end mutual funds, closed-end funds, and exchange-traded funds;
- Describe security market indices including their construction and valuation, and identify types of indices;
- Describe index funds, including their purposes and construction;
- Describe hedge funds;
- Describe funds of funds;
- Describe managed accounts;
- Describe tax-advantaged accounts and describe the use of taxable accounts to manage tax liabilities.



## CHAPTER 15

### THE FUNCTIONING OF FINANCIAL MARKETS

After completing this chapter, you should be able to do the following:

- Distinguish between primary and secondary markets;
- Explain the role of investment banks in helping issuers raise capital;
- Describe primary market transactions, including public offerings, private placements, and right issues;
- Explain the roles of trading venues, including exchanges and alternative trading venues;
- Identify characteristics of quote-driven, order-driven, and brokered markets;
- Compare long, short, and leveraged positions in terms of risk and potential return;
- Describe order instructions and types of orders;
- Describe clearing and settlement of trades;
- Identify types of transaction costs;
- Describe market efficiency in terms of operations, information, and allocation.

# MODULE 6

## SERVING CLIENT NEEDS

This is about focusing on clients – gaining a clear understanding of their needs, circumstances, motivations and ambitions so investments can be allocated and managed in the right way for them.



## CHAPTER 16

### INVESTORS AND THEIR NEEDS

After completing this chapter, you should be able to do the following:

- Describe the importance of identifying investor needs to the investment process;
- Identify, describe, and compare types of individual and institutional investors;
- Compare defined benefit pension plans and defined contribution pension plans;
- Explain factors that affect investor needs;
- Describe the rationale for and structure of investment policy statements in serving client needs.

## CHAPTER 17

### INVESTMENT MANAGEMENT

After completing this chapter, you should be able to do the following:

- Describe systematic risk and specific risk;
- Describe how diversification affects the risk of a portfolio;
- Describe how portfolios are constructed to address client investment objectives and constraints;
- Describe strategic and tactical asset allocation;
- Compare passive and active investment management;
- Explain factors necessary for successful active management;
- Describe how active managers attempt to identify and capture market inefficiencies.

# MODULE 7

## INDUSTRY CONTROLS

Controls are critical in helping ensure everything runs smoothly. In the fast moving world of investments and risk it is essential to understand how systems and controls are used in the industry to ensure the client is properly served.



## **CHAPTER 18**

### **RISK MANAGEMENT**

After completing this chapter, you should be able to do the following:

- Define risk and identify types of risk;
- Define risk management;
- Describe a risk management process;
- Describe risk management functions;
- Describe benefits and costs of risk management;
- Define operational risk and explain how it is managed;
- Define compliance risk and explain how it is managed;
- Define investment risk and explain how it is managed;
- Define value at risk and describe its advantages and weaknesses.

## **CHAPTER 19**

### **PERFORMANCE EVALUATION**

After completing this chapter, you should be able to do the following:

- Describe a performance evaluation process;
- Describe measures of return, including holding-period returns and time-weighted rates of return;

- Compare use of arithmetic and geometric mean rates of returns in performance evaluation;
- Describe measures of risk, including standard deviation and downside deviation;
- Describe reward-to-risk ratios, including the Sharpe and Treynor ratios;
- Describe uses of benchmarks and explain the selection of a benchmark;
- Explain measures of relative performance, including tracking error and the information ratio;
- Explain the concept of alpha;
- Explain uses of performance attribution.

## **CHAPTER 20**

### **INVESTMENT INDUSTRY DOCUMENTATION**

After completing this chapter, you should be able to do the following:

- Define a document;
- Describe objectives of documentation;
- Describe document classification systems;
- Describe types of internal documentation;
- Describe types of external documentation;
- Describe document management.

# EXAM WEIGHTING

Questions in the examination will be allocated approximately as follows:

Module 1	5%
Module 2	10%
Module 3	20%
Module 4	20%
Module 5	20%
Module 6	5%
Module 7	20%

Note: These weightings may be subject to slight variation to allow for effective question trialing and to achieve an equal balance of difficulty for all candidates.



