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EXAMINATIONS
COUNCIL

**Caribbean Advanced
Proficiency Examination®**

SYLLABUS

FINANCIAL SERVICES STUDIES

CXC A38/U2/22

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CAPE®

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Contents

INTRODUCTION	i
RATIONALE	1
AIMS.....	2
SKILLS AND ABILITIES TO BE ASSESSED	2
PREREQUISITES OF THE SYLLABUS.....	3
SOFTWARE AND EQUIPMENT	4
STRUCTURE OF THE SYLLABUS.....	4
APPROACHES TO TEACHING THE SYLLABUS	4
UNIT 1: CONCEPTUAL ISSUES IN FINANCIAL SERVICES	5
MODULE 1: INTRODUCTION TO FINANCIAL PRODUCTS AND SERVICES.....	5
MODULE 2: PORTFOLIO MANAGEMENT AND INVESTMENT	15
MODULE 3: GOVERNANCE, REGULATIONS AND ETHICS	25
UNIT 2: CUSTOMER VALUE, INFORMATION SYSTEM, AND FINANCIAL SERVICES	35
MODULE 1: THE FINANCIAL SERVICES ENVIRONMENTS	35
MODULE 2: COMPLIANCE LEGISLATION AND STATUTES.....	43
MODULE 3: FINANCIAL REPORTING.....	55
OUTLINE OF ASSESSMENT	61
GUIDELINES TO TEACHERS FOR THE CONDUCT OF SCHOOL-BASED ASSESSMENT	62
REGULATIONS FOR PRIVATE CANDIDATES	71
REGULATIONS FOR RESIT CANDIDATES	72
ASSESSMENT GRID	72
FINANCIAL SERVICES FORMULAE.....	73
GLOSSARY OF FINANCIAL SERVICES TERMS.....	78
GLOSSARY OF TERMS USED IN THE FINANCIAL SERVICES STUDIES EXAMINATION	91

NOTE TO TEACHERS AND LEARNERS

Please note that the syllabus has been revised and amendments are indicated by italics.

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For access to short courses, training opportunities and teacher orientation webinars and workshops go to our Learning Institute at <https://pli.cxc.org/>.

PLEASE NOTE



This icon is used throughout the syllabus to represent key features which teachers and learners may find useful.

Introduction

The Caribbean Advanced Proficiency Examination (**CAPE®**) is designed to provide certification of the academic, vocational and technical achievement of students in the Caribbean who, having completed a minimum of five years of secondary education, wish to further their studies. The examinations address the skills and knowledge acquired by students under a flexible and articulated system where subjects are organised in 1-Unit or 2-Unit courses with each Unit containing three Modules. Subjects examined under **CAPE®** may be studied concurrently or singly.

The Caribbean Examinations Council® offers three types of certification at the **CAPE®** level. The first is the award of a certificate showing each **CAPE®** Unit completed. The second is the **CAPE®** Diploma, awarded to candidates who have satisfactorily completed at least six Units, including Caribbean Studies. The third is the **CXC®** Associate Degree, awarded for the satisfactory completion of a prescribed cluster of 10 **CAPE®** Units including Caribbean Studies, Communication Studies and Integrated Mathematics. Integrated Mathematics is not a requirement for candidates pursuing the **CXC®** Associate Degree in Mathematics or pursuing Pure and Applied Mathematics Unit 1 OR 2. The complete list of Associate Degrees may be found in the **CXC®** Associate Degree Handbook.

For the **CAPE®** Diploma and the **CXC®** Associate Degree, candidates must complete the cluster of required Units within a maximum period of five years. To be eligible for a **CXC®** Associate Degree, the educational institution presenting the candidates for the award, must select the Associate Degree of choice at the time of registration at the sitting (year) the candidates are expected to qualify for the award. Candidates will not be awarded an Associate Degree for which they were not registered.

Financial Services Studies Syllabus

♦ RATIONALE

Financial Services Studies is a course of study that focuses on the knowledge and skill sets related to the provision of economic goods and services within the finance industry. The impact of globalisation has heightened the importance of financial security and sustainability, and the movement of funds associated with the daily operations of world economies have changed the face of the financial services industry. *This has created the need* for Caribbean territories to develop facilities or plans to prepare their nationals for the regional market as well as for the international markets which are consistently expanding. These markets will attract the best of the pool of experts from all over the world, with the Caribbean being no exception to the rule as seen in several other fields. The lack of preparation of Caribbean nationals *would* not augur well for the alleviation of the unemployment crisis in the Region, or for the improvement in the quality of life experienced by citizens when economies experience growth and development.

The study of **CAPE®** Financial Services Studies will *therefore* assist in the formal preparation and certification of Caribbean persons to access an untapped market space and contribute to the development of more competent international financial services experts in an area which is poised for high profitable growth across the Region. This programme will contribute to a Caribbean person who is more aware of the international importance of the financial services industry and the impact of international financial policies on the Caribbean. This will lead to a better quality of life for present and future generations while providing wealth creation through new and innovative job opportunities and other economic possibilities including entrepreneurship.

Through the application of learner-centered approaches to teaching, learning and assessment, this Syllabus is designed to provide the appropriate knowledge, skills and competencies that are required for *the Twenty-first Century*, further studies in Financial Services, as well as for the world of work; to produce citizens who will be more aware of developmental challenges in the Caribbean region while finding solutions that will lead to sustainable development and economic growth. The approach to the development of a **CAPE®** syllabus in Financial Services Studies is one that combines academic and technical studies. The syllabus, therefore, seeks to develop professional, *employment* and entrepreneurial skills which are relevant to the field of financial services.

Ultimately, this course of study in **CAPE®** Financial Services Studies will develop the Ideal Caribbean Person who, as articulated by CARICOM Heads of Government at their 18th Summit, is emotionally secure with a high level of self-confidence and self-esteem; demonstrates multiple literacies, independent and critical thinking; questions the practices of *the* past and present and brings this to bear on the innovative application of science and technology to problem solving. *This individual* has a positive work ethic; *values community cohesion and moral issues including responsibility for and accountability to self and community*; and values and displays creative imagination *in its various manifestation and nurture its development in the economic and entrepreneurial spheres and in all other areas of life*. In keeping with the UNESCO Five Pillars of Learning, on completion of this course of study, students will learn to know, to do, to be, to live together, and to transform themselves and society.

◆ AIMS

This syllabus aims to:

1. promote an awareness of the international importance of the financial services industry *and policies in the Caribbean*;
2. help students understand the impact of globalisation and the global financial industry on the Caribbean;
3. help students understand the value of the customers and information systems in the offshore financial services industry;
4. *develop critical understanding and application of the theories, methodologies and fundamental considerations for portfolio management and investment in a dynamic context*;
5. *help students understand the nature, scope and associated risks of the types of investment products in the financial services environment and their role in society*;
6. *develop an appreciation of how businesses are organized, financed, operated, governed and regulated; and the application of these considerations regionally and globally*;
7. *develop an awareness of the social, political, technological, legal and ethical factors and issues associated with financial services activities and the strategies for mitigating these issues*;
8. *Foster an understanding of the theories and standards which underpin financial processes and reporting and the considerations for their application in a range of contexts*;
9. develop the capacity for critical thinking, creativity, problem-solving, leadership and management, positive cooperative behaviours, emotional intelligence, entrepreneurial skills *research* and technological competence through authentic learning experiences; and,
10. *help students to understand the importance of integrating information and communications technology (ICT) tools and skills in the financial services industry and to value its impact on the industry.*

◆ SKILLS AND ABILITIES TO BE ASSESSED

The skills and abilities that students are expected to develop on completion of this syllabus have been grouped under three headings:

1. Knowledge and Understanding (K&U);
2. Interpretation and Application (I&A); and,
3. Analysis and Evaluation (A&E).

Knowledge and Understanding

The ability to:

- (a) define the terms, concepts and principles in financial services and portfolio management and investment; and,
- (b) demonstrate knowledge and understanding of facts, terms, concepts, conventions, theories and techniques commonly applied to or used as part of business behaviour and practices in the financial services sector.

Interpretation and Application

The ability to:

- (a) apply their knowledge and understanding of facts, terms, concepts, conventions, theories and techniques;
- (b) apply knowledge and understanding to problems and issues in a variety of familiar and unfamiliar business situations and contexts; and,
- (c) interpret and make inferences from qualitative and quantitative data.

Analysis and Evaluation

The ability to analyse business problems, issues and situations by:

- (a) using appropriate methods and techniques to make sense of qualitative and quantitative business information;
- (b) analysing and interpreting complex issues and situations in their constituent parts and searching for causes, impact and consequences;
- (c) distinguishing between factual evidence and opinion or value judgement;
- (d) drawing valid inferences and making valid generalisations; and,
- (e) evaluating business evidence, explanation, argument, discussion and analysis in order to make reasoned judgments, present measured conclusions and where appropriate make recommendations for action and implementation.

◆ PREREQUISITES OF THE SYLLABUS

Any person who has completed five years of secondary education or its equivalent should normally be able to pursue the course of study defined by the syllabus. However, it is desirable that a candidate has some knowledge of business related subjects and Mathematics, as well as good verbal and written communication skills.

◆ SOFTWARE AND EQUIPMENT

Candidates must be able to access equipment and materials that provide them with opportunities to participate in activities in a learning environment similar to that of a real financial service workplace. This access can be inside or outside of the classroom and should include open source software relevant to Financial Services.

◆ STRUCTURE OF THE SYLLABUS

The subject is organised in two (2) Units. A Unit comprises three (3) Modules each requiring fifty (50) hours. The total time for each Unit, is therefore, expected to be one hundred and fifty (150) hours with at least thirty (30) percent of the time dedicated to practical work. Each Unit can independently offer students a comprehensive programme of study with appropriate balance between depth and coverage to provide a basis for further study in this field.

UNIT 1: Conceptual Issues in Financial Services

Module 1	-	Introduction to Financial Products and Services
Module 2	-	Portfolio Management and Investment
Module 3	-	Governance, Regulations, and Ethics

UNIT 2: Customer Value, Information System, and Financial Services

Module 1	-	Financial Services Environment
Module 2	-	Compliance, Legislation and Statutes
Module 3	-	Financial Reporting

In this syllabus, the specific objectives which are denoted by an asterisk (*) are particularly suitable for practical exercises. However, practical work should not necessarily be limited to these objectives.

◆ APPROACHES TO TEACHING THE SYLLABUS

The specific objectives indicate the scope of the content and the activities that should be covered. The students should be exposed to accurate and unbiased content and skills that will foster more creative and prepared citizens capable of effectively participating in a dynamic society. Therefore, the role of the teacher is to employ a collaborative, authentic, highly practical and learner-centered approach to facilitate students' learning.

♦ UNIT 1: CONCEPTUAL ISSUES IN FINANCIAL SERVICES

MODULE 1: INTRODUCTION TO FINANCIAL PRODUCTS AND SERVICES

GENERAL OBJECTIVES

On completion of this Module, students should:

1. know the functional components within the international financial services industry and understand their interrelationships;
2. *develop an awareness of the importance of technology in the financial services industry;*
3. understand key issues in the international financial services industry and their impact on the global economy;
4. *develop an awareness of international financial services operations in onshore and offshore facilities;*
5. demonstrate knowledge *of the different banking codes and their purposes;*
6. demonstrate an awareness and appreciation of financial markets, instruments and institutions;
7. appreciate the importance of financial *institutions* in the global economy and the Caribbean region;
8. develop critical thinking, problem solving, and basic skills *needed in financial services;*
9. demonstrate awareness of the appropriate use of financial services for development;
10. understand the importance *of money and the evolution of the payment system; and,*
11. *be aware of career possibilities and skill sets needed in the financial services.*

SPECIFIC OBJECTIVES

Students should be able to:

1. define terms related to financial services;

CONTENT

Definition of terms:

Onshore financial centres, offshore financial centres; financial markets; primary, secondary, money market, debt, equity, exchange and over-the-counter, foreign exchange, eurocurrency; direct and indirect finance; financial intermediaries; *insurance; e-commerce; cryptocurrency; blockchain technology and m-commerce.*

See Glossary.

UNIT 1

MODULE 1: INTRODUCTION TO FINANCIAL PRODUCTS AND SERVICES (cont'd)

SPECIFIC OBJECTIVES

Students should be able to:

2. compare onshore and offshore financial institutions;
3. discuss the history of offshore banking globally and in the Caribbean;
4. describe the different transactions typical to offshore financial institutions;
5. discuss the different career possibilities in the financial services industry;

CONTENT

Similarities and differences between onshore and offshore financial institutions.

History of offshore banking.

Attention can be paid to one Caribbean and one Global territory, for example:

Antigua, Bahamas, Bermuda, British Virgin Islands, Cayman Islands, Turks and Caicos Islands; and,

China, Singapore, and United States of America.

Definitions and characteristics of:

- (a) *Eurocurrency loans and deposits;*
- (b) *underwriting, trading in different securities for investment purposes;*
- (c) *risk and wealth management;*
- (d) *private banking; and,*
- (e) *asset transformation.*

Careers to include:

- (a) *analysts;*
- (b) *actuaries;*
- (c) *brokers;*
- (d) *wealth management advisors;*
- (e) *financial advisors;*
- (f) *compliance managers;*
- (g) *bank examiners;*
- (h) *loans officers;*
- (i) *securities traders; and,*
- (j) *insurance managers.*

UNIT 1

MODULE 1: INTRODUCTION TO FINANCIAL PRODUCTS AND SERVICES (cont'd)

SPECIFIC OBJECTIVES

Students should be able to:

6. *assess the benefits of offshore banking;*
7. *discuss the importance of financial markets and financial intermediation as it relates to economic growth and development;*
8. *distinguish among securities (instruments) traded in financial markets;*

CONTENT

Benefits of offshore banking:

- (a) *efficient allocation of capital;*
- (b) *liquidity intermediation; and,*
- (c) *contribution to economic activity.*
- (a) The reasons for the existence of financial intermediation and intermediaries:
 - (i) *reduce transaction cost;*
 - (ii) *reduce asymmetric information; and,*
 - (iii) *asset transformation.*
- (b) How financial markets contribute to economic growth and development-channel funds from lenders/savers to borrowers/spenders.

Financial Instruments:

- (a) *Money market instruments:*
 - (i) *treasury bills;*
 - (ii) *negotiable bank certificates of deposit, and commercial papers;*
 - (iii) *banker's acceptance;*
 - (iv) *repurchase agreements; and,*
 - (v) *federal funds.*
- (b) *Debt instruments:*
 - (i) *Treasury notes;*
 - (ii) *Government bonds;*
 - (iii) *Corporate bonds; and,*
 - (iv) *Debentures.*

UNIT 1

MODULE 1: INTRODUCTION TO FINANCIAL PRODUCTS AND SERVICES (cont'd)

SPECIFIC OBJECTIVES

Students should be able to:

CONTENT

- (c) *Capital market instruments:*
- (i) *Stocks, mortgages;*
 - (ii) *Corporate bonds;*
 - (iii) *Government securities (sovereign and municipal);*
 - (iv) *State and local government bonds; and,*
 - (v) *Consumer and bank commercial loans.*
9. *describe the structure of financial markets;*
- Structure of financial markets:*
- (a) *Money market.*
 - (b) *Debt and equity markets (stock market, money market):*
 - (i) *Primary and secondary markets;*
 - (ii) *Money market, Capital market; and,*
 - (iii) *Exchange and over-the-counter markets.*
10. *describe the types of financial institutions (intermediaries) typically found in financial services;*
- Financial institutions or intermediaries:*
- (a) *Depository institutions:*
 - (i) *commercial banks;*
 - (ii) *savings and loan associations;*
 - (iii) *mutual savings banks; and,*
 - (iv) *credit unions.*

UNIT 1

MODULE 1: INTRODUCTION TO FINANCIAL PRODUCTS AND SERVICES (cont'd)

SPECIFIC OBJECTIVES

Students should be able to:

11. *explain the *main* functions of money;

CONTENT

- (b) Contractual savings institutions (or non-depository institutions):
 - (i) life insurance companies;
 - (ii) pension funds; and,
 - (iii) government retirement funds.
- (c) Investment intermediaries:
 - (i) finance companies;
 - (ii) mutual funds;
 - (iii) money market mutual funds;
 - (iv) investment banks;
 - (v) *Blockchain exchanges*; and,
 - (vi) *Blockchain investment firms*.

Meaning of Money and its function:

- (a) Varying meanings of money:
 - (i) currency;
 - (ii) wealth; and,
 - (iii) income.
- (b) Functions of money:
 - (i) medium of exchange;
 - (ii) unit of account; and,
 - (iii) store of value.
- (c) Evolution of the payment system:
 - (i) commodity money;
 - (ii) fiat money;
 - (iii) cheques;
 - (iv) electronic payment; and,
 - (v) E-money.

UNIT 1

MODULE 1: INTRODUCTION TO FINANCIAL PRODUCTS AND SERVICES (cont'd)

SPECIFIC OBJECTIVES

Students should be able to:

CONTENT

- (d) *How money is measured using monetary aggregates:*
- (i) *M1 (narrow money); and,*
 - (ii) *M2 (broad money).*
12. explain the factors that influence asset demand;
- Factors that influence the demand for an asset (Theory of portfolio choice):
- (a) wealth;
 - (b) expected return;
 - (c) risk; and,
 - (d) liquidity.
13. *explain how interest rates are determined using demand and supply analysis;
- (a) Determination of interest rates:
- (i) Demand and Supply Analysis;
 - (ii) Changes in equilibrium interest rates; and,
 - (iii) Supply and demand for money based on liquidity preference framework.
- (b) Risk and term structure of interest rates:
- (i) term structure of interest rates:
 - risks: default, liquidity, income tax considerations.
 - (ii) illustration and interpretation of the yield curve.
 - (iii) theories explaining the yield curve:
 - expectation theory;
 - segmented market theory; and,
 - liquidity preference theory.

UNIT 1

MODULE 1: INTRODUCTION TO FINANCIAL PRODUCTS AND SERVICES (cont'd)

SPECIFIC OBJECTIVES

Students should be able to:

14. *apply the various models for computing the price for common stock and the theory of expectation and efficient market hypothesis; and,
15. *explain the importance of *Electronic Funds transfer Systems (EFTS)* wire transfer codes in banking.

CONTENT

Simple calculations related to stock prices:

- (a) Computation of stock prices;
- (b) One-period valuation model;
- (c) Generalised dividend valuation model;
- (d) Gordon Growth Model;
- (e) Rational expectations; and,
- (f) Efficient market hypothesis.

Focus should be on the following:

- (a) Definition of *Electronic Funds transfer Systems (EFTS)*.
- (b) *Types of EFTS:*
 - (i) *RTGS Real-time Gross Settlement; and,*
 - (ii) *ACH Automated Clearing House.*
- (c) *The importance of EFTS:*
 - (i) *Faster settlement of payments; and,*
 - (ii) *Lower transaction costs.*
- (d) Definition of wire transfer codes.
- (e) The importance of wire transfer codes:
 - (i) improve cross border actions; and,
 - (ii) enhanced security.

UNIT 1

MODULE 1: INTRODUCTION TO FINANCIAL PRODUCTS AND SERVICES (cont'd)

SPECIFIC OBJECTIVES

Students should be able to:

CONTENT

- (f) Examples of wire transfer codes:
 - (i) International Bank Account Number (IBAN);
 - (ii) Society for Worldwide Inter-Bank Financial Transfers (SWIFT);
 - (iii) Bank Identifier Code (BIC) and Clave Bancaria Estandarizada [Standardised Banking Cipher] (CLABE); and,
 - (iv) *Sort Code*.

Suggested Teaching and Learning Activities

To facilitate students' attainment of the objectives in this Module, teachers are advised to engage students in the following teaching and learning activities which may be done separately or merged to facilitate sequencing and the completion of the SBA task. Teachers should use cooperative grouping and simulation as often as possible to afford students the opportunity to have authentic and meaningful experiences.

1. *Have students* prepare and present *information which identifies and describes* securities (instruments) traded in financial markets using a suitable technological tool. *Questions will be* posed to the class to allow the students to explain the various types of securities, and the similarities and differences among them. When the students have completed that task, *have them work in teams of four*, with a mix of gender and performance levels. Issue each team a list of five questions based on the presentation, for them to discuss among themselves and arrive at the answers within twenty minutes. Students will *then* complete a quiz on the material individually, at which time they may not help each other. Total the quiz points to form team scores and the team that wins will earn a reward.
2. *Have students participate in a session/seminar* with guest speakers from local financial institutions or arrange field trips to get students to learn about the everyday use of codes and their importance. Prior to the session/*field trip*, provide the students with a worksheet on the topic, accompanied by a marking scheme as a guide regarding the types of answers they should give. After the *presentation/visit*, *have students organize themselves* into groups of *four* and collaborate to arrive at the *responses* to the questions.
3. *Have students engage in research using online sources*, textbooks and other printed material, as well as view PowerPoint presentations and *videos* on the different transactions typical to a financial service provider. Afterwards, engage them in a full-class discussion on the topic, and then in group work where each group creates a brochure, *infographic* or *web 2.0 tool* describing the various forms of typical transactions. *These should be shared with the class*.

UNIT 1

MODULE 1: INTRODUCTION TO FINANCIAL PRODUCTS AND SERVICES (cont'd)

Suggested Teaching and Learning Activities

4. *Using simulated or actual data, ask students to construct/plot a graph to show the relationship between interest rates and the demand/supply for money. Allow students to discuss the changes that may occur. (Ensure that students can explain how interest rates are determined using demand and supply analysis.*
5. *Have students create a class website or wiki and post relevant information on topics covered in the Module such as their responses to activities 1 and 3.*
6. *Have students work in pairs, to identify a specific financial institution and illustrate its purpose and functions in the global economy and the Caribbean region using pictures or videos.*

UNIT 1

MODULE 1: INTRODUCTION TO FINANCIAL PRODUCTS AND SERVICES (cont'd)

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<https://www.nber.org/>

UNIT 1

MODULE 2: PORTFOLIO MANAGEMENT AND INVESTMENT

GENERAL OBJECTIVES

On completion of this Module, students should *be able to*:

1. understand theories used to conceptualise *fundamental* ideas for portfolio management and Investment;
2. understand key portfolio management and investment methodologies;
3. *develop an appreciation of the risk return relationship in portfolio management*;
4. *understand the ethical considerations involved in financial services and actions to circumvent unethical issues/challenges; and,*
5. *develop critical thinking, and problem-solving skills, and the skill sets needed in financial services.*

SPECIFIC OBJECTIVES

Students should be able to:

1. distinguish among terms relevant to portfolio management and investment;
2. describe the regional and global investment environment;
3. compare the different types of investors;

CONTENT

Definition *and distinction* of terms such as:

Investment and financial assets: risk averse, risk neutral, risk loving, risk free rate; nominal interest rate, real interest rate, expected rate of inflation, expected rate of return, risk premium, capital market line (CML), *Security Market Line (SML)*, fixed income securities, coupon bond, discount bond.

See Glossary.

- (a) Past and present investment environment regionally and globally–*definition, characteristics, features.*
- (b) Specific historical achievements for Caribbean countries with regards to offshore banking:
 - (i) financial assets; and,
 - (ii) financial investments.
- (a) Comparison of different *types of* investors:
 - (i) individual investors;

UNIT 1

MODULE 2: PORTFOLIO MANAGEMENT AND INVESTMENT (cont'd)

SPECIFIC OBJECTIVES

Students should be able to:

CONTENT

4. *determine required rates of return;*
- (ii) corporations (institutional), investors with different marginal tax rates;
 - (iii) informed; and,
 - (iv) uninformed investors.
- (a) Factors that determine the required rates of return:
- (i) risk free rate – nominal and real;
 - (ii) expected rate of inflation;
 - (iii) risk premium;
 - (iv) *Internal Rate of Return (IRR)*;
 - (v) *Net Present Value (NPV)*; and;
 - (vi) *Return on Investment (ROI)*.
- (b) *Calculation of the risk premium using factors listed above.*
5. *analyse the different measures of risk in investments;*
- (a) Measures of risk in investment:
- (i) Standard Deviation Value at Risk;
 - (ii) Measured Market Risk (*Sharpe ratio*);
 - (iii) Beta; and,
 - (iv) *Value at Risk (VaR)*.
- (b) *Similarities and differences among the measures;*
- (c) *Strengths and weaknesses of each measure; and,*
- (d) *Calculation of risk in investments using the measures above.*

UNIT 1

MODULE 2: PORTFOLIO MANAGEMENT AND INVESTMENT (cont'd)

SPECIFIC OBJECTIVES

CONTENT

Students should be able to:

6. *discuss the ethical consideration in the financial services industry;*

- (a) *Definition of ethics.*
- (b) *Importance of ethics in the financial services industry:*
 - (i) *It provides a moral code of conduct; and,*
 - (ii) *It increases confidence in the industry among all stakeholders.*
- (c) *Codes of ethics in the financial services industry. For example, acting with integrity, competence and confidentiality.*

7. *describe steps in the portfolio management process;*

Steps in the portfolio management process include:

- (a) *development of a policy statement;*
- (b) *analysis of the macro-economic conditions;*
- (c) *analysis of industries and sectors;*
- (d) *micro-analysis of securities and firms;*
- (e) *development of an investment strategy;*
- (f) *implementation of the plan created; and,*
- (g) *monitoring and updating of the performance of the portfolio.*

8. *describe the basic assumptions behind the Markowitz investment theory;*

Basic assumptions behind the Markowitz Investment Theory.

- (a) *Investors consider each investment alternative as being represented by a probability distribution of expected returns over some holding period.*

UNIT 1

MODULE 2: PORTFOLIO MANAGEMENT AND INVESTMENT (cont'd)

SPECIFIC OBJECTIVES

CONTENT

Students should be able to:

- (b) Investors maximise one-period expected utility and their utility curves demonstrate diminishing marginal utility of wealth.

(c) Investors estimate risk on basis of variability of expected returns.

(d) Investors base decisions solely on expected return and risk.

(e) Investors prefer higher returns to lower risk and lower risk for the same level of return.
- 9. *explain the risk–return efficient frontier of assets;*

Graphical representations of the efficient frontier.
- 10. *explain the capital market theory;*

 - (a) *Capital market theory assumptions.*
 - (b) *Similarities and differences between the Security Market Line (SML) and Capital Market Line (CML).*
 - (c) *How the Security Market Line (SML) is used to evaluate whether securities are properly priced.*
- 11. *evaluate the reasons investors select different portfolios from the set of portfolios;*

Reasons:

 - (a) *Capital Market Line (CML);*
 - (b) *Efficient capital markets;*
 - (c) *Security Market Line (SML); and,*
 - (d) *Capital Asset Pricing Model (CAPM).*
- 12. *analyse critically the three sub hypotheses of efficient market hypothesis (EMH) and their implications;*

Sub hypotheses of the efficient market hypothesis:

 - (a) *strong;*
 - (b) *semi-strong; and,*
 - (c) *weak.*

UNIT 1

MODULE 2: PORTFOLIO MANAGEMENT AND INVESTMENT (cont'd)

SPECIFIC OBJECTIVES

Students should be able to:

CONTENT

Their implications:

- (a) past rates of return have no effect on future rates;
 - (b) an investor cannot benefit over and above the market by trading on new information; and,
 - (c) no arbitrage opportunities exist.
- 13. *analyse critically* evidence in favour of and against the efficient market hypothesis;
 - (a) Examples of evidence in favour of efficient market hypothesis:
 - (i) availability of information to the public;
 - (ii) random-walk behaviour of stock prices;
 - (iii) performance of investment analysts and mutual funds; and,
 - (iv) technical analysis.
 - (b) Examples of evidence against efficient market hypothesis:
 - (i) small firm effects;
 - (ii) market overreaction;
 - (iii) excessive volatility;
 - (iv) January effect; and,
 - (v) mean reversion.
- 14. *establish* the relationship between behavioural finance and efficient market hypothesis;
 - (a) Relationship between behavioural finance and efficient market hypothesis.
 - (b) *The influence of* social sciences such as anthropology, sociology and particularly psychology as compared with classical market theories in understanding the behaviour of security prices in the market.

UNIT 1

MODULE 2: PORTFOLIO MANAGEMENT AND INVESTMENT (cont'd)

SPECIFIC OBJECTIVES

Students should be able to:

15. *evaluate* the critical assumptions underlying capital market theory;

16. *differentiate between* systematic and unsystematic risk;

17. *explain fixed income security*;

18. **perform calculations relevant to portfolio management and investment; and,*

CONTENT

Critical assumptions:

- (a) All investors are efficient investors.
- (b) Investors borrow/lend money at the risk-free rate.
- (c) The time horizon is equal for all investors.
- (d) All assets are infinitely divisible.
- (e) No taxes and transaction costs.
- (f) All investors have the same probability for outcomes.
- (g) No inflation exists.

There is no mispricing within the capital markets.

- (a) The difference between systematic and unsystematic risk.

- (b) *Relationship of these concepts to diversification.*

- (a) *Definition of fixed income security, the time value of money.*

- (b) Classification of fixed income security:
- treasury, corporate, municipal and asset-backed.

- (c) The concept Yield to Maturity (YTM).

- (d) Bond price calculation (*up to 3 years*).

- (a) Holding Period Return.

- (b) Holding Period Yield for an investment.

- (c) Expected return for an investment (individual risky asset).

UNIT 1

MODULE 2: PORTFOLIO MANAGEMENT AND INVESTMENT (cont'd)

SPECIFIC OBJECTIVES

CONTENT

Students should be able to:

- | | | |
|-----|---|---|
| | (d) | Standard Deviation (for portfolio of risky assets versus that of an individual risky asset), variance, standard deviation, expected rate of return for a portfolio of assets, the covariance between rates of return, standard deviation for a portfolio of risky assets versus standard deviation of an individual risky asset; Sharpe ratio; bond prices. |
| 19. | *analyse results derived from calculations relevant to portfolio management and investment. | (a) The relationship between and among values calculated.
(b) Interpretation of results calculated by students.
(c) Interpretation of data that already exist. |

Suggested Teaching and Learning Activities

To facilitate students' attainment of the objectives in this Module, teachers are advised to engage students in the following teaching and learning activities which may be done separately or merged to facilitate sequencing and the completion of the SBA task. Teachers should use cooperative grouping and simulation as often as possible to afford students the opportunity to have authentic and meaningful experiences.

1. *Assign a teaching video or have students select a suitable video that explains one of the more difficult topics in the Module. Provide a worksheet to complement this assignment and have students work in groups to complete the assignment. The assignment will also encourage students to seek other resource materials that will provide new ways to learn various topics in the Module. Students will share their response with the class for feedback and discussion. The revised response may be placed on the class website or wiki page.*
2. *Provide each group of students with a different Case Study detailing some of the key concepts from the Module. The students will be tasked with preparing a SWOT analysis of the Case, identifying the core problem and making suitable recommendations. They will share their work with the class for discussion and feedback.*
3. *Using strategies such as Viewing online videos, Cooperative grouping-four-member teams, and Cooperative Learning- Student Team Achievement Divisions, have students practise calculating different values relevant to the topics. The students will also view a PowerPoint presentation which will identify the calculations of the different values and their significance. Tables with missing figures and/ or formulae will also be displayed, and groups will select a*

UNIT 1

MODULE 2: PORTFOLIO MANAGEMENT AND INVESTMENT (cont'd)

Suggested Teaching and Learning Activities

member to enter the missing sections. Having completed that task, all students will take individual quizzes on the material, at which time they may not help one another. The individual students' quiz scores will be totalled to form team scores and the team with the best performance will be rewarded.

4. *Given the results derived from calculations of relevant portfolio management and investment contexts, have students provide solutions to mitigate the problems identified using relevant theories as a guide.*
5. *Have students work collaboratively to analyse scenarios and create solutions for basic problems encountered in Financial Services.*

UNIT 1

MODULE 2: PORTFOLIO MANAGEMENT AND INVESTMENT (cont'd)

RESOURCES

Barth, J., Gan, J., and Nolle, D.	<i>Global Banking Regulation and Supervision: What are the Issues and What are the Practices.</i> New York: Nova Science Publishers. 2009.
Harangus, D.	<i>Money Laundering in the Offshore Financial Centres.</i> 2013.
Hegarty, J., Gielen, F., Cristina, A., and Barros, H.	<i>Implementation of International Accounting and Auditing Standards: Lessons Learned from the World Bank's Accounting and Auditing ROSC Program.</i> 2004.
IASB Foundation	<i>Convergence between IFRS and US GAAP.</i> 2015.
Mishkin, F., and Eakins, S.	<i>Financial Markets and Institutions.</i> 9th Edition. Pearson. 2018.
Suss, E., Williams, O., and Mendis, C.	<i>Caribbean Offshore Financial Centers: Past, Present, and Possibilities for the Future.</i> 2002.
Zoromé, A.	<i>Concept of Offshore Financial Centers: In Search of an Operational Definition.</i> 2007.

EBOOKS

A case study carried out on portfolio management

https://www.academia.edu/6339013/A_CASE_STUDY_ON_PORTFOLIO_MANAGEMENT

<https://www.imf.org/external/pubs/ft/wp/2007/wp0787.pdf>

Manual on the Implementation of Exchange of Information for TAX Purposes

<https://www.oecd.org/ctp/exchange-of-tax-information/36647823.pdf>

Model Manual on Exchange of Information for Tax Purposes 2021

<https://www.oecd.org/tax/transparency/documents/EOI-manual.pdf>

Model Tax Convention on Income and on Capital 2017 (Full Version) | en | OECD

<https://tinyurl.com/4x6zzxwz>

Money laundering handbook (2019) OECD

<http://www.oecd.org/tax/exchange-of-tax-information/money-laundering-awareness-handbook-for-tax-examiners-and-tax-auditors.pdf>

UNIT 1

MODULE 2: PORTFOLIO MANAGEMENT AND INVESTMENT (cont'd)

WEBSITES

<https://www.csbs.org/CyberSecurity/Documents/CSBS%20Cybersecurity%20101%20Resource%20Guide20FINAL.pdf>

<https://tinyurl.com/4n2j7e2z>

<https://www.imf.org/external/pubs/ft/wp/2007/wp0787.pdf>

<https://www.oecd.org/finance/financial-markets/44362818.pdf>

https://www.oecd.org/legal/OECD_Financial_Regulations_EN.pdf

<https://www.oecd.org/economy/42061463.pdf>

http://www.sice.oas.org/investment/NatLeg/BEL/Offshore_Banking_e.pdf

<http://www.oecd.org/ctp/exchange-of-tax-information/48996146.pdf>

<http://www.bis.org/publ/work244.pdf>

[https://diversion.services.dsd.gov.za/FORMS/download/gaap_info%20\(1\).pdf](https://diversion.services.dsd.gov.za/FORMS/download/gaap_info%20(1).pdf)

www.fasb.org

<https://www.ifrs.org/>

<https://www.worldbank.org/>

UNIT 1

MODULE 3: GOVERNANCE, REGULATIONS AND ETHICS

GENERAL OBJECTIVES

On completion of this Module, students should:

1. understand the functional components within the international financial services industry and their interrelationships;
2. understand key issues in the international financial services industry and their impact on the global economy;
3. *demonstrate* knowledge of best practices in international financial services management;
4. comply with relevant national and international law, legislation, regulations, safety requirements, and professional standards *governing the financial services sector*;
5. *demonstrate* knowledge of the relationship of customer service to international financial services management in real world contexts;
6. *demonstrate* knowledge of international financial services operations in onshore and offshore facilities;
7. develop critical thinking, problem solving, and basic skills *needed in financial services*; and,
8. *know* the ethical considerations involved in financial services and actions to circumvent unethical issues/challenges.

SPECIFIC OBJECTIVES

CONTENT

Students should be able to:

- | | |
|--|--|
| 1. discuss the concept of money laundering with reference to financial institutions; | (a) definition of money laundering; |
| | (b) <i>financial institutions as a conduit of money laundering; and,</i> |
| | (c) <i>money laundering regulation focusing on financial institutions.</i> |
| 2. describe the money laundering process; | Money laundering process: |
| | (a) placement of funds; |
| | (b) layering (to conceal source); and, |
| | (c) integration (untraceable to original source). |

UNIT 1

MODULE 3: GOVERNANCE, REGULATIONS AND ETHICS (cont'd)

SPECIFIC OBJECTIVES

Students should be able to:

3. describe the common offences of money laundering;

4. *explain the role of counter money laundering organizations;*

5. *assess the anti-money laundering transaction monitoring methods used by financial institutions;*

6. *assess the relevance of cyber security in the financial services industry;*

CONTENT

Common offences of money laundering:

- (a) laundering proceeds of the crime;
- (b) failure to report knowledge or suspicion of money laundering; and,
- (c) alerting suspect.

- (a) *Counter money laundering organizations.*

- (b) *Roles:*

- (i) *set standards to reduce money laundering;*
- (ii) *liaise with local regulators; and,*
- (iii) *represent the interest of local regulators on the international stage.*

Monitoring Account to include:

- (a) customer Due Diligence (verifying customer background and source of funds);
- (b) timing of verification;
- (c) requirement to cease transactions;
- (d) simplified Customer Due Diligence;
- (e) enhanced Due Diligence; and,
- (f) *Financial Action Task Force (FATF) and the Caribbean Financial Action Task Force (CFATF).*

- (a) definitions of cybercrime and cyber security;

- (b) effects of cybercrime:

- (i) *financial loss;*
- (ii) *reduced consumer confidence; and,*
- (iii) *data loss.*

UNIT 1

MODULE 3: GOVERNANCE, REGULATIONS AND ETHICS (cont'd)

SPECIFIC OBJECTIVES

CONTENT

Students should be able to:

- (c) *measures used in cyber security.*

For example:

 - (i) *control access;*
 - (ii) *fire wall;*
 - (iii) *cybercrime insurance; and,*
 - (iv) *customer sensitization.*
- 7. explain the steps necessary to maintain cyber security;

 - (a) Identification of cyber security threats, vulnerabilities and risk.
 - (b) Identification of protection from risks.
 - (c) Detecting and monitoring.
 - (d) Responding to cyber-attack.
 - (e) Recovery from data breach.
- 8. explain the importance of regulation in financial services;

The need for regulation:

 - (a) protect consumers;
 - (b) enhance integrity;
 - (c) help to maintain competitive markets; and,
 - (d) promote effective competition in the interests of consumers.
- 9. discuss the role of regulatory agencies in financial services;

 - (a) *Identification of the regulatory bodies or agencies such as the Central Bank, Financial Services Commission, Deposit Insurance Scheme, Bank of International Settlements, Caribbean Financial Action Task Force and the Securities Exchange Commission, Basel Committee on Banking Supervision.*

UNIT 1

MODULE 3: GOVERNANCE, REGULATIONS AND ETHICS (cont'd)

SPECIFIC OBJECTIVES

Students should be able to:

CONTENT

- (b) Role of regulatory bodies or agencies in financial systems regulation.

For example:

- (i) The Central Bank oversees the monitoring of financial services regulations;
- (ii) Financial Action Task Force (FATF) takes steps to prevent money laundering at the international level;
- (iii) Caribbean Financial Action Task Force (CFATF) takes steps to prevent money laundering within the Caribbean;
- (iv) *Financial Services Commission (FSC) supervises and regulates the financial services industry; and,*
- (v) *Bank of international settlements (BIS) supports central banks worldwide by giving advice on monetary and financial stability.*

10. *discuss the types of regulations used in financial markets;*

Types of regulations:

- (a) *capital requirements;*
- (b) *deposit insurance;*
- (c) *disclosure requirements;*
- (d) *prudential supervision (bank examination and chartering);*
- (e) *restrictions on assets and activities;*
- (f) *limits on competition; and,*
- (g) *restrictions on interest rates.*

UNIT 1

MODULE 3: GOVERNANCE, REGULATIONS AND ETHICS (cont'd)

SPECIFIC OBJECTIVES

CONTENT

Students should be able to:

- | | |
|---|--|
| 11. differentiate between approaches to standards development in financial services; | (a) Principles based approach.
(b) Rules based approach. |
| 12. explain the difficulties experienced by regulatory bodies in regulating offshore banks; | (a) Difficulties in developing a comprehensive set of rules or standards.

(b) Differences among regulatory systems globally and regionally.

(c) Degree of conservatism. |
| 13. explain the importance of incorporation and licensing of financial centres; | (a) The concepts of incorporation and licensing of a bank (Both onshore and offshore).

(b) <i>The differences in the process of incorporating and licencing of offshore and onshore banks. For example, Cayman Islands and Turks & Caicos Islands.</i>

(c) The importance of <i>incorporation and licencing</i> in offshore banking. |
| 14. describe capital adequacy as developed by the Bank of International Settlements (BIS); | (a) The concept of capital adequacy.
(b) The principles of capital adequacy within the Caribbean.

- The systems to monitor capital adequacy: Basel Accord – Basel I, II and III). |
| 15. discuss the importance of accounting standards within financial centres; | (a) The importance of accounting standards (<i>IFRS and US GAAP</i>). |

UNIT 1

MODULE 3: GOVERNANCE, REGULATIONS AND ETHICS (cont'd)

SPECIFIC OBJECTIVES

CONTENT

Students should be able to:

- | | | |
|-----|-------|--|
| | (b) | <i>The role of the accounting standards setting bodies International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) in financial centres:</i> |
| | (i) | <i>create and improve financial accounting and reporting standards; and,</i> |
| | (ii) | <i>educate stakeholders on the implementation of the standards.</i> |
| 16. | | <i>discuss the impediments to international accounting standards; and,</i> |
| | (a) | Misunderstandings of the nature of standards. |
| | (b) | Lack of appropriate mechanisms for granting national authority to international standards. |
| | (c) | Inconsistencies between standards and legal framework of the particular sovereign state. |
| | (d) | Non-observability of compliance. |
| | - | Mismatch between accounting, auditing requirements and market demands. |
| 17. | (a) | <i>Definition and distinction of the following terms:</i> |
| | (i) | <i>Income tax and capital gains;</i> |
| | (ii) | <i>Tax evasion and tax avoidance; and,</i> |
| | (iii) | <i>Resident, ordinarily resident and domicile resident.</i> |

UNIT 1

MODULE 3: GOVERNANCE, REGULATIONS AND ETHICS (cont'd)

SPECIFIC OBJECTIVES

Students should be able to:

CONTENT

- (b) *Current income tax environment of offshore financial centres.*

For example:

- (i) *Antigua and Barbados;*
- (ii) *Cayman Islands, Bahamas; and,*
- (iii) *Turks and Caicos.*

- (c) *Comparison of the scope and purpose of the OECD Model Tax Convention and the UN tax Convention.*

- (d) *Access to Banking information and steps to improve this access for tax purposes.*

Steps include:

- (i) *know your customer (KYC);*
- (ii) *examination of local tax requirements;*
- (iii) *examination of policies and practices which hinder local tax authorities to access bank information;*
- (iv) *development of a voluntary compliance strategy enabling full compliance; and,*
- (v) *strongly encourage the importance of access to bank information for tax purposes in bilateral discussions with non-member countries.*

UNIT 1

MODULE 3: GOVERNANCE, REGULATIONS AND ETHICS (cont'd)

Suggested Teaching and Learning Activities

To facilitate students' attainment of the objectives in this Module, teachers are advised to engage students in the following teaching and learning activities which may be done separately or merged to facilitate sequencing and the completion of the SBA task. Teachers should use cooperative grouping and simulation as often as possible to afford students the opportunity to have authentic and meaningful experiences.

1. *Have students view a video that introduces the concepts of governance, regulations and ethics and participate in a class discussion.*
2. *Organise a virtual or face-to-face lecture series with the Central Bank or any other relevant financial institution on the topic of governance, regulations and ethics and its application to financial services. Preceding the lecture series, students will collaborate to create a series of questions pertaining to the content area being addressed. Students should also use the opportunity to pose questions to the presenter and complete the responses to the questions at the end of the lecture. They will then engage in peer review and consolidation of the information.*
3. *Have students work in groups to read newspaper articles and cases related to areas of governance, customer due diligence, regulations and ethics in financial services. More than one group should discuss similar articles and cases. Group members will answer the questions individually, then organize a group response and present to the class.*
4. *Have students work in groups to analyse case studies on issues of money laundering and propose strategies that could be implemented to mitigate or solve the issue.*
5. *Have students work in small groups to interview personnel in the financial services to determine some issues they are experiencing with unethical/illegal practices such as cybercrimes, the impact on the organization and customers as well as the strategies being employed to address the issues. They will share their findings with the class.*
6. *Have students work in pairs to conduct interviews with personnel in regulatory agencies or conduct research to find out the role of regulatory agencies in the financial sector. The main points should be collated to produce a brochure, video, infographic, or any other suitable resource to be shared with the class.*

UNIT 1

MODULE 3: GOVERNANCE, REGULATIONS AND ETHICS (cont'd)

RESOURCES

Barth, J., Gan, J., and Nolle, D.	<i>Global Banking Regulation and Supervision: What are the Issues and What are the Practices.</i> New York: Nova Science Publishers. 2009.
Conference of State Bank Supervisors	<i>Cyber Security: A Resource Guide for Bank Executives.</i> 2014.
Harangus, D.	<i>Money Laundering in the Offshore Financial Centres.</i> 2013.
Hegarty, J., Gielen, F., Cristina, A., and Barros, H.	<i>Implementation of International Accounting and Auditing Standards: Lessons Learned from the World Bank's Accounting and Auditing ROSC Program.</i> 2004.
IASB Foundation	<i>Convergence between IFRS and US GAAP.</i> 2015.
McGuire, P., and Tarashev, N.	<i>Global Monitoring with the BIS International Banking Statistics.</i> 2008.
OECD	<i>Money Laundering Awareness Handbook for Tax Examiners and Tax Auditors.</i> 2009.
Suss, E., Williams, O., and Mendis, C.	<i>Caribbean Offshore Financial Centers: Past, Present, and Possibilities for the Future.</i> 2002.
Zoromé, A	<i>Concept of Offshore Financial Centers: In Search of an Operational Definition.</i> 2007.

WEBSITES

<http://www.oecd.org/tax/exchange-of-tax-information/money-laundering-awareness-handbook-for-tax-examiners-and-tax-auditors.pdf>

<https://www.imf.org/external/pubs/ft/wp/2007/wp0787.pdf>

<https://www.imf.org/external/pubs/ft/wp/2007/wp0787.pdf>

<https://www.oecd.org/finance/financial-markets/44362818.pdf>

https://www.oecd.org/legal/OECD_Financial_Regulations_EN.pdf

<https://www.oecd.org/economy/42061463.pdf>

http://www.sice.oas.org/investment/NatLeg/BEL/Offshore_Banking_e.pdf

<http://www.oecd.org/ctp/exchange-of-tax-information/48996146.pdf>

<http://www.bis.org/publ/work244.pdf>

UNIT 1

MODULE 3: GOVERNANCE, REGULATIONS AND ETHICS (cont'd)

WEBSITES

[https://diversionservices.dsd.gov.za/FORMS/download/gaap_info%20\(1\).pdf](https://diversionservices.dsd.gov.za/FORMS/download/gaap_info%20(1).pdf)

www.fasb.org

<https://www.ifrs.org/>

<https://www.pwc.com/gx/en/banking-capital-markets/publications/assets/pdf/next-chapter-creating-understanding-of-spvs.pdf>

<https://www.imf.org/external/pubs/ft/wp/1999/wp9905.pdf>

♦ UNIT 2: CUSTOMER VALUE, INFORMATION SYSTEM, AND FINANCIAL SERVICES

MODULE 1: THE FINANCIAL SERVICES ENVIRONMENTS

GENERAL OBJECTIVES

On completion of this Module, students should:

1. develop an awareness of the different products and services offered by financial centres;
2. understand the functional components within the international financial services industry and their interrelationships;
3. understand key issues in the international financial services industry and their impact on the global economy;
4. *demonstrate* knowledge of best practices in international financial services management;
5. *demonstrate* knowledge of international financial services operations in onshore and offshore facilities; and,
6. understand the role financial institutions play in an economy that is considered to be fuelled by banking.

SPECIFIC OBJECTIVES

Students should be able to:

1. explain terms related to *onshore* and *offshore* financial services;

CONTENT

Terms related to financial services:

Offshore banking, offshore financial centres; financial markets; primary, secondary, money market, debt, equity, exchange and over-the-counter, foreign exchange, Eurocurrency; direct and indirect finance; financial intermediaries or institutions.

Examples of financial institutions:

- (a) commercial banks;
- (b) investment banks;
- (c) building societies;
- (d) credit unions;
- (e) insurance companies; and,
- (f) unit investment trusts.

See Glossary.

UNIT 2

MODULE 1: THE FINANCIAL SERVICES ENVIRONMENTS (cont'd)

SPECIFIC OBJECTIVES

Students should be able to:

2. describe the main features of savings and investment products and services *offered* by financial centres;
3. *explain the concept of private banking and the types of products and services offered within these financial services environment;*

CONTENT

The main features of products and services offered by financial centres:

- (a) savings and investments accounts (instant access accounts, restricted access accounts, regular income accounts, lump sum investments);
- (b) currency accounts; and,
- (c) insurance products and services.

- (a) *Definition and explanation of 'private banking'.*

The products and services offered to private banking customers:

- (i) *wealth and investment;*
- (ii) *portfolio management;*
- (iii) *financial derivatives;*
- (iv) *offshore mortgages; and,*
- (v) *back to back loans.*

- (b) *The types of customers that utilise private banking:*

- (i) *geographically mobile;*
- (ii) *wealthy; and,*
- (iii) *complex financial instrument holders.*

UNIT 2

MODULE 1: THE FINANCIAL SERVICES ENVIRONMENTS (cont'd)

SPECIFIC OBJECTIVES

CONTENT

Students should be able to:

- | | |
|---|--|
| 4. <i>assess the role and impact of financial institutions in an economy that is considered to be fuelled by banking;</i> | <ul style="list-style-type: none">(a) <i>Role of financial institutions:</i><ul style="list-style-type: none">(i) <i>offer credit;</i>(ii) <i>directing the payment systems; and,</i>(iii) <i>maintaining the financial market for example, offering investment products.</i>(b) <i>Impact of financial institutions on the economy.</i> |
| 5. <i>explain the advantages and disadvantages of financial derivatives;</i> | <ul style="list-style-type: none">(a) <i>Explanation of terms and concepts such as: financial derivatives, forwards, futures and swaps.</i>(b) <i>The disadvantages associated with trading derivatives.</i><ul style="list-style-type: none">(i) <i>counterparty risk;</i>(ii) <i>requires expertise; and,</i>(iii) <i>value of underlying asset.</i>(c) <i>The advantages of using financial derivatives for hedging against risk.</i><ul style="list-style-type: none">(i) <i>improved market efficiency;</i>(ii) <i>limits downside risks; and,</i>(iii) <i>increases market liquidity.</i>(d) <i>The difference between Over the Counter (OTC) and organised exchange.</i> |
| 6. <i>discuss the purpose, activities, benefits and disadvantages of captive insurance;</i> | <ul style="list-style-type: none">(a) <i>Definition and purpose of captive insurance.</i> |

UNIT 2

MODULE 1: THE FINANCIAL SERVICES ENVIRONMENTS (cont'd)

SPECIFIC OBJECTIVES

Students should be able to:

CONTENT

7. explain the importance of trusts in financial services;
- (b) *Types of captive insurance companies:*
 - (i) *Pure;*
 - (ii) *Group;*
 - (iii) *Agency; and,*
 - (iv) *Special purposes.*
 - (c) *Benefits of captive insurance:*
 - (i) *broader coverage;*
 - (ii) *stability in pricing and availability;*
 - (iii) *improved cash flow; and increased control over the program;*
 - (iv) *access to reinsurance;*
 - (v) *coverage is unavailable in the traditional insurance markets; and,*
 - (vi) *ability to customise.*
 - (d) *Disadvantages of captive insurance:*
 - (i) *capital requirements;*
 - (ii) *requires additional management; and,*
 - (iii) *quality of service affected.*
- (a) *Definition and importance of trusts.*
 - (b) The legal process in the creation of trusts.
 - (c) The main parties involved in setting up and administering trusts.
 - (d) The role of trustees.

UNIT 2

MODULE 1: THE FINANCIAL SERVICES ENVIRONMENTS (cont'd)

SPECIFIC OBJECTIVES

Students should be able to:

8. discuss the importance, benefits and risks of Special Purpose Vehicles (SPV)/ Special Purpose Entries in the financial services environment;

CONTENT

- (e) The purposes of trusts in offshore banking: Privacy, Spendthrift protection, Wills and estate planning, Charities, Unit trusts, Pension plans, Asset protection, *Tax planning*, *Tax evasion*, and *Money laundering*.
- (f) *Types of trusts:*
 - (i) Revocable;
 - (ii) Irrevocable;
 - (iii) Special Needs; and,
 - (iv) Totten.
- (g) The case of Saunders versus Vantier regarding trust agreements.
- (a) *Definition of Special Purpose Vehicles (SPV).*
- (b) *Importance (Uses) of SPV:*
 - (i) *Risk sharing;*
 - (ii) *Securitization;*
 - (iii) *Asset transfer; and,*
 - (iv) *Property sale.*
- (c) *Benefits Special Purpose Vehicles:*
 - (i) *Isolated financial risk;*
 - (ii) *Direct ownership of a specific asset;*
 - (iii) Tax savings if the Vehicle is created in a tax haven; and,
 - (iv) *Easy to create and set up the Vehicle.*

UNIT 2

MODULE 1: THE FINANCIAL SERVICES ENVIRONMENTS (cont'd)

SPECIFIC OBJECTIVES

CONTENT

Students should be able to:

- | | | |
|-----|---|---|
| | (d) | <i>Risks:</i> |
| | (i) | <i>Lower access to capital at the vehicle level;</i> |
| | (ii) | <i>Regulatory changes could cause serious problems for companies using these vehicles; and,</i> |
| | (iii) | <i>General scepticism surrounding SPVs are sometimes negative.</i> |
| 9. | explain the relationship between cyber security and financial centres; and, | (a) Meaning of cyber security. |
| | | (b) Financial centres-institutions that monitor online transactions. |
| | | (c) Cyber risks: |
| | | (i) cyber war; |
| | | (ii) cybercrime; and, |
| | | (iii) cyber terror. |
| 10. | assess the impact of a malware attack on financial data. | (a) Types of malware: |
| | | (i) Viruses; |
| | | (ii) Worms; |
| | | (iii) Spyware; and, |
| | | (iv) Trojans. |
| | | (b) Attack vectors such as: |
| | | (i) Phishing; |
| | | (ii) Drive by; and, |
| | | (iii) Social engineering. |
| | | (c) Impact of a malware attack on financial data. |

UNIT 2

MODULE 1: THE FINANCIAL SERVICES ENVIRONMENTS (cont'd)

Suggested Teaching and Learning Activities

To facilitate students' attainment of the objectives in this Module, teachers are advised to engage students in the following teaching and learning activities which may be done separately or merged to facilitate sequencing and the completion of the SBA task. Teachers should use cooperative grouping and simulation as often as possible to afford students the opportunity to have authentic and meaningful experiences.

1. Arrange for an interactive presentation in which the students will be exposed to financial products and services and *are* required to discuss the different aspects. *Have students work in small groups and* discuss the different aspects as they relate to an institution of their choice. They should then make presentations to the class on the respective aspects on which they have focused.
2. *Have students view a video or* Power Point presentation *about* financial products and services. Pose questions to the class to allow the students to explain the various types of services, and the similarities and differences among them. When the students have completed that task, divide them into teams of four, with a mix of gender and performance levels. Issue each team a list of five questions based on the presentation *or video*, to be discussed among themselves and arrive at the answers within twenty minutes. Have all students take a quiz on the material individually, at which time they may not help one another. Total these quiz points to form team scores and the teams with the highest scores should be rewarded.
3. *Have students work in groups to research assigned areas* in the field of financial services. They will use any suitable medium to *creatively* present the information to the class. These presentations should form the base for a class discussion. Resources created to support the presentations may be displayed or placed on the class website or wiki.
4. Invite Guest Speakers from local financial institutions or arrange a virtual or face-to-face field trip for students to *learn about the everyday operation of the financial services discipline and their importance*. Prior to the session, provide the students with a worksheet with prospective questions on the topic, accompanied by a marking scheme as a guide regarding the types of answers they should give. At the end of the interaction, divide the students into groups of *four* so that they can collaborate and arrive at the answers to the questions.
5. Encourage students to conduct interviews (*face-to-face or with the aid of ICT tools*), with persons within the field of financial services, prepare a brochure on different types of customers utilising the services of private banking, and make an oral presentation to the class.
6. After discussions and research on different products and services offered in financial centres, engage students in creating a journal and writing a poem representing an investor's soliloquy on the importance of any one of the products or services. The pieces may be placed on the class website or blog.
7. *Have students complete "online/interactive or printed puzzles such as crosswords, sliding or jigsaw", as well as complete quizzes such as "fill in the blanks" and "matching terms with explanations" to help stimulate students' interest in topics about the financial services environment.*

UNIT 2

MODULE 1: THE FINANCIAL SERVICES ENVIRONMENTS (cont'd)

RESOURCES

Chartered Banker	<i>Certificate in Offshore Banking Practice</i> . 2017.
Mishkin, F.	<i>The Economics of Money, Banking and Financial Markets</i> 13 th Edition. Pearson 2022.
Price Water House and Cooper	<i>Next Chapter: Creating an Understanding of Special Purpose Vehicles</i> . 2011.
Ritter, L. S., Silber, W. L. and, Udell, G. F.	<i>Principles of Money Banking & Financial Markets</i> . 12 TH Edition. Pearson. 2009.

WEBSITES:

<https://www.imf.org/external/bopage/pdf/98-1-20.pdf>

<https://www.pwc.com/gx/en/banking-capital-markets/publications/assets/pdf/next-chapter-creating-understanding-of-spvs.pdf>

<https://www.imf.org/external/pubs/ft/wp/1999/wp9905.pdf>

<https://www.worldoffshorebanks.com/>

<https://www.ofcmeter.org/>

IMF Committee on Balance of Payments Statistics:
<https://www.imf.org/external/bopage/bopindex.htm>

UNIT 2

MODULE 2: COMPLIANCE LEGISLATION AND STATUTES

GENERAL OBJECTIVES

On completion of this Module, students should:

1. develop an understanding of the importance of regulatory compliance in financial services;
2. develop an awareness of governance systems in the international and Caribbean financial environments;
3. develop an understanding of Information and Communication Technologies (ICTs) and their impact on financial services;
4. comply with relevant national and international law, legislation, regulations, safety requirements, and professional standards;
5. be aware of the ethical considerations involved in financial services and actions to circumvent unethical issues or challenges; and,
6. *demonstrate* knowledge of international offshore financial services operations in international financial centres.

SPECIFIC OBJECTIVES

Students should be able to:

1. discuss the concept of compliance in financial services;

CONTENT

Compliance as it relates to financial services.

- (a) Definition of compliance.
- (b) Levels of compliance:
 - (i) Level 1 compliance – compliance with external rules imposed upon an organisation as a whole; and,
 - (ii) Level 2 compliance – compliance with internal systems of control that are imposed to achieve compliance with the externally imposed rules.
- (c) The advantages of compliance, *for example*:
 - (i) *reduce organizational risk;*
 - (ii) *build trust, and;*
 - (iii) *increase general efficiency in corporate governance.*

UNIT 2

MODULE 2: COMPLIANCE LEGISLATION AND STATUTES (cont'd)

SPECIFIC OBJECTIVES

CONTENT

Students should be able to:

- | | |
|---|---|
| 2. describe the key functions of a compliance department in financial institutions; | (a) The key functions of a compliance department: <ul style="list-style-type: none">(i) identification of risk;(ii) designing and implementing controls;(iii) monitor and report on effectiveness of controls; and,(iv) protection of investors and consumers. |
| 3. discuss the generally accepted core values of financial services regulation; | (b) The duty, objective and responsibility of a compliance officer.

Generally accepted core values: <ul style="list-style-type: none">(a) ensuring that markets are fair, efficient and transparent;(b) reduction of unsystematic risks; and,(c) reduction of financial crime. |
| 4. explain the concept of legislation in the context of financial services; | Legislation in the context of financial services: <ul style="list-style-type: none">(a) primary legislation; and,(b) secondary legislation. |
| 5. describe the functions of a <i>financial services</i> regulator; | Functions of a <i>financial services</i> regulator: <ul style="list-style-type: none">(a) authorise financial services business;(b) determine business rules;(c) supervise compliance with rules;(d) conduct investigations; and,(e) enforce rules. |

UNIT 2

MODULE 2: COMPLIANCE LEGISLATION AND STATUTES (cont'd)

SPECIFIC OBJECTIVES

Students should be able to:

6. *discuss* the concept of risk and risk management;

CONTENT

Risk and risk management:

- (a) Definition of *risk and risk* management.
- (b) Types of risks:
 - (i) market;
 - (ii) liquidity;
 - (iii) credit;
 - (iv) operational; and,
 - (v) legal.
- (c) Principles of Risk Management:
 - (i) value added;
 - (ii) integrated process;
 - (iii) integrated decision making;
 - (iv) systematic application;
 - (v) suitability;
 - (vi) inclusivity; and,
 - (vii) adaptability.
- (d) Examples of tools of Risk Management:
 - (i) Organisational strategy;
 - (ii) risk reviews;
 - (iii) mitigation and management (SWOT analysis); and,
 - (iv) Porter's Five Forces Model.

UNIT 2

MODULE 2: COMPLIANCE LEGISLATION AND STATUTES (cont'd)

SPECIFIC OBJECTIVES

Students should be able to:

CONTENT

- (e) Risk management and ethics:
 - (i) *Risk acceptance;*
 - (ii) *Risk mitigation; and,*
 - (iii) *Risk avoidance.*
- (f) Steps in achieving a strategic view of regulatory risk and compliance:
 - (i) identifying and prioritising regulatory risks; and,
 - (ii) identifying and assessing the impact of changes for new regulations.
- (g) Assessing processes in place to manage current regulatory risks:
 - (i) assessing oversight over the regulatory risks framework;
 - (ii) assessing the reporting framework; and,
 - (iii) identifying gaps, duplications and inefficiencies.
- (h) Controls.
 - (i) *Risk avoidance;*
 - (ii) *Risk prevention;*
 - (iii) *Risk reduction; and,*
 - (iv) *Risk reporting.*

UNIT 2

MODULE 2: COMPLIANCE LEGISLATION AND STATUTES (cont'd)

SPECIFIC OBJECTIVES

CONTENT

Students should be able to:

7. *discuss the factors that underpin good corporate governance;*
- (a) *Definition of corporate governance.*
 - (b) *The different types of Corporate Governance.*
For example:
 - (i) *Anglo-US;*
 - (ii) *German;*
 - (iii) *Japanese; and,*
 - (iv) *UK Corporate Governance Code.*
 - (c) *The factors that determine good corporate governance.*
 - (i) *Capital market efficiency.*
 - (ii) *Legal Tradition.*
 - (iii) *Reliability of Accounting Standards.*
 - (iv) *Enforcement of Regulations.*
 - (v) *Societal and Cultural Values.*
8. *discuss the process of offshore bank licensing;*
- (a) *Definition of banking license.*
 - (b) *The types of offshore banking license:*
 - (i) *general banking license; and,*
 - (ii) *restricted banking license.*
 - (c) *The process of licensing requirements for an offshore bank.*
 - (i) *Application procedure:*
Applicants for banking business licences commonly inform the Central Bank of their intentions and ask for consultation as early as possible, to obtain its preliminary views before filing an application.

UNIT 2

MODULE 2: COMPLIANCE LEGISLATION AND STATUTES (cont'd)

SPECIFIC OBJECTIVES

Students should be able to:

CONTENT

- (ii) *Meeting Statutory requirements.*
 - (iii) *Suitability of board of directors.*
 - (iv) *Capital:*
The jurisdiction determines the minimum capital requirement.
 - (v) *Business plan:*
All applications for a banking business licence must be supported by a business plan.
 - (vi) *Fit and proper persons*
Directors, Chief Executives, and Managers of the prospective bank or the prospective, must satisfy the Central Bank that they are 'fit and proper' persons for involvement in the provision of banking services.
 - (vii) *Submission:*
An application for a banking licence must be submitted to the Central Bank.
- (d) *Importance of bank license jurisdictions.*
- 9. *examine capital adequacy within the Caribbean;*
 - (a) *Definition of capital adequacy.*
 - (b) *Purpose of Basel record:*
 - (i) *Basel 1;*
 - (ii) *Basel 2; and,*
 - (iii) *Basel 3.*

UNIT 2

MODULE 2: COMPLIANCE LEGISLATION AND STATUTES (cont'd)

SPECIFIC OBJECTIVES

Students should be able to:

CONTENT

- | | | |
|-----|-------|--|
| | (c) | <i>Benefits of maintaining sufficient capital.</i> |
| | (i) | <i>Promotes stability and efficiency of financial systems.</i> |
| | (ii) | <i>Protects depositors from unforeseen contingencies and Limits credit creation.</i> |
| | (d) | <i>Challenges of maintaining capital adequacy requirements within the Caribbean environment.</i> |
| | (i) | <i>limits credit creation;</i> |
| | (ii) | <i>raises the cost of banking operations; and,</i> |
| | (iii) | <i>creates internal inefficiencies.</i> |
| 10. | | analyse critically the factors that influence ICT innovation in microfinance; |
| | (a) | Financial infrastructure. |
| | (b) | Transparency and information. |
| | (c) | Technical support services. |
| | (d) | Business association and networks.
Financial infrastructure. |
| | (e) | <i>Blockchain technology and Cryptocurrencies.</i> |
| | (i) | <i>Uses of Blockchain technology and Cryptocurrencies.</i> |
| | (ii) | <i>Basic applications in microfinance.</i> |
| | (iii) | <i>Advantages and disadvantages of the use of cryptocurrencies.</i> |
| 11. | | discuss technologies and Management Information Systems for delivery of financial services; |
| | (a) | Examples of Management Information Systems: |
| | (i) | Back office management information systems; |
| | (ii) | Mobile Computing; |
| | (iii) | Branch Office Franchise Model; |

UNIT 2

MODULE 2: COMPLIANCE LEGISLATION AND STATUTES (cont'd)

SPECIFIC OBJECTIVES

CONTENT

Students should be able to:

- (iv) Card Services and ATM;
 - (v) Internet banking;
 - (vi) Mobile money;
 - (vii) Data and financial services;
 - (viii) Digital description in financial services; and,
 - (ix) Crypto currencies/ digital currencies (E-money).
 - (b) Examples of Technologies:
 - (i) Card technologies; and,
 - (ii) Document and currency reader.
 - (c) Customer service equipment.
12. *explain the significance of the Foreign Account Tax Compliance Act (FATCA);*
- (a) Foreign Account Tax Compliance Act (FATCA):
 - (i) tax-efficient structure;
 - (ii) investment products;
 - (iii) offer complementary services targeted at specific groups; and,
 - (iv) offer complementary services targeted at specific groups.
 - (b) Significance of the Foreign Account Tax Compliance Act (FATCA).
13. *discuss the concept of a Ponzi scheme and its legal implications;*
- (a) Definition of *Ponzi scheme*.
 - (b) The structure of Ponzi schemes.
 - (c) Ponzi enforcement, Ponzi schemes vs. illegal pyramid schemes.

UNIT 2

MODULE 2: COMPLIANCE LEGISLATION AND STATUTES (cont'd)

SPECIFIC OBJECTIVES

Students should be able to:

CONTENT

- (d) How Ponzi schemes are identified:
- (i) high investment returns with little or no risk;
 - (ii) overly consistent returns;
 - (iii) unregistered investments;
 - (iv) unlicensed sellers;
 - (v) secretive and complex strategies; and,
 - (vi) issues with paper work.
- (e) Securities Exchange Commission (SEC) lawsuits:
- Insider trading cases: financial professionals, hedge fund managers, attorneys, and accounting fraud.
- (f) Regulating Ponzi schemes. (Study cases related to different Caribbean territories).
- (g) Legal implications of Ponzi Schemes.
14. analyse inadequacies in the regulation of financial centres with respect to supranational institutions;
- Examples of inadequacies of offshore banking regulations:
- (i) Too big to fail; and,
 - (ii) Bank secrecy.
- The term offshore has become synonymous with illegal activity so legitimate customers are tainted.
15. discuss the importance of protecting Intellectual Property in the financial services industry; and,
- (a) *Explanation of the concepts of:*
- (i) *Intellectual Property;*
 - (ii) *Statutory Intellectual Property;*
 - (iii) *Copyrights; and,*
 - (iv) *Trademarks.*

UNIT 2

MODULE 2: COMPLIANCE LEGISLATION AND STATUTES (cont'd)

SPECIFIC OBJECTIVES

CONTENT

Students should be able to:

- | | | |
|-----|-------|---|
| | (b) | <i>Ways of protecting Intellectual Property:</i> |
| | (i) | <i>Patent;</i> |
| | (ii) | <i>Trademarks;</i> |
| | (iii) | <i>Copyright; and,</i> |
| | (iv) | <i>Trade secrets.</i> |
| | (c) | <i>Advantages of protecting Intellectual Property.</i> |
| 16. | | <i>analyse critically the evolution of offshore banking globally.</i> |
| | (a) | <i>The evolution of offshore banking.</i> |
| | (b) | <i>Current and emerging trends in offshore banking in different jurisdictions regionally and internationally.</i> |
| | (c) | <i>Factors which will influence further development of offshore banking.</i> |

Suggested Teaching and Learning Activities

To facilitate students' attainment of the objectives in this Module, teachers are advised to engage students in the following teaching and learning activities which may be done separately or merged to facilitate sequencing and the completion of the SBA task. Teachers should use cooperative grouping and simulation as often as possible to afford students the opportunity to have authentic and meaningful experiences.

1. *Have students view a video that introduces the concept of regulatory compliance and document information to be shared in a discussion.*
2. *Organise a face-to-face or virtual lecture series with representatives from the Central Bank or any other relevant financial institution on the topic of compliance and its application to financial services. Preceding the lecture series, have the class collaborate to develop a questionnaire pertaining to the content to be explored. Students should complete the questionnaire at the end of the lecture. They should also use the opportunity to pose questions to the Lecturer.*
3. *Have students engage in virtual tours or field trips to experience relevant areas of regulatory compliance. Students may be divided into groups assigned to observe specific activities during the tour or field trip. Subsequent to the activity, each group will present their information to the class.*

UNIT 2

MODULE 2: COMPLIANCE LEGISLATION AND STATUTES (cont'd)

Suggested Teaching and Learning Activities

4. Have students work in groups to develop a script to be used to perform the roles of persons such as regulators, customers, and financial service providers to demonstrate their understanding of the functions of each person and position. When the assignment is completed, students will use *the agreed checklist and rubric to engage in intergroup grading* to assess whether all aspects were appropriately addressed by the groups. *They will provide feedback to their peers.*
5. *Have students work in teams to debate the moots:* Financial regulators are essential to the continuity of financial services; Foreign Account Tax Compliance is essential to offshore banking.
6. *Have students analyse selected international and Caribbean cases and prepare a SWOT analysis of the case, identify the core issue, select alternatives, and prepare recommendations to be shared with the class.*
7. Arrange for Guest Lecturers from the financial services industry to visit the school *or facilitate a virtual presentation. Have students collaborate to prepare questions pertaining to the topics to be addressed.* These may be discussed to some extent so that students may have an idea of the major focus. After the lecture, the students will be required to answer the questions. The answers are to be marked, and then discussed with the class so that misunderstandings can be cleared up. *This learning activity is especially important to the teaching of cryptocurrency and blockchain related topics.*
8. *Have students work in teams and engage in a debate on the Moot: Ponzi Schemes should be legalised.*
9. *Have students work in groups to use online sources to aid the preparation and presentation on a selected topic from the Module. For example, the benefits of compliance to financial institutions. They should use relevant ICT tools to enhance their presentation and post the resources created on their class website or wiki.*

UNIT 2

MODULE 2: COMPLIANCE LEGISLATION AND STATUTES (cont'd)

RESOURCES

- Mills, A. and Haines, P. Essential Strategies for Financial Services Compliance (2nd Edition). John Wiley and Sons. 2015.
- Mishkin, F., and Eakins, S. *Financial Markets and Institutions. 9th Edition. Pearson. 2018.*
- Weygandt, J., Kimmel, P., and *Accounting Principles. 13th Edition. New York: John Wiley and*
Keiso, D. *Sons. 2018.*

EBOOKS:

- Deloitte. The Road Ahead: An in-depth analysis of the Final FATCA Regulations.
https://www2.deloitte.com/content/dam/Deloitte/se/Documents/financial-services/FATCA_In-depth_Analysis_us_tax_130422.pdf
- Integrated Risk and Compliance Management for Banks and Financial Services Organizations: Benefits of a Holistic Approach. <https://www.metricstream.com/whitepapers/financial-services.htm>
- The New Banking Act-Eastern Caribbean Central Bank – <https://www.eccb-centralbank.org/p/the-new-banking-act>

WEBSITES:

- http://www.sice.oas.org/investment/NatLeg/BEL/Offshore_Banking_e.pdf
- <https://www.int-comp.org/careers/your-career-in-compliance/career-in-compliance/>
- <https://home.kpmg/us/en/home/industries/financial-services.html>
- <https://premieroffshore.com/best-offshore-banking-license-jurisdictions/>
- <https://blockgeeks.com/guides/what-is-blockchain-technology/>
- <https://www.computerworld.com/article/3191077/what-is-blockchain-the-complete-guide.html>
- <https://tinyurl.com/yt5nvkaa>
- <https://www.investopedia.com/terms/c/cryptocurrency.asp>
- <https://cointelegraph.com/bitcoin-for-beginners/what-are-cryptocurrencies>
- <https://markets.businessinsider.com/cryptocurrencies>

UNIT 2

MODULE 3: FINANCIAL REPORTING

GENERAL OBJECTIVES

On completion of this Module, students should:

1. have a working knowledge of best practices in international financial services management;
2. be aware of information technology systems which are used to comply with the requirements of the international financial services industry and to support decisions;
3. *understand financial reporting methodologies;*
4. demonstrate an appreciation for the principles applied to financial reporting; and,
5. know the appropriate tools and techniques for financial reporting.

SPECIFIC OBJECTIVES

CONTENT

Students should be able to:

- | | |
|---|---|
| <ol style="list-style-type: none">1. describe the elements of the financial reports;2. state the rules governing accounting records, inspections and audits; | <p>Elements of the financial reports:</p> <ol style="list-style-type: none">(a) general purpose financial statements;(b) notes;(c) audit certificates; and,(d) management discussion and analysis. <p>Rules governing accounting records, inspections and audits:</p> <ol style="list-style-type: none">(a) Minimum requirements of the internal audit charter as explained by Bank for International Standards (BIS).(b) Key features of the internal and external audit functions:<ol style="list-style-type: none">(i) independence and objectivity;(ii) professional competence and due professional care;(iii) professional ethics; and,(iv) <i>confidentiality</i>.(c) Audits from regulatory agencies. |
|---|---|

UNIT 2

MODULE 3: FINANCIAL REPORTING (cont'd)

SPECIFIC OBJECTIVES

Students should be able to:

3. assess the importance of financial reports as it relates to providing useful information for decision-making;

CONTENT

- (a) The conceptual framework for financial reporting.
 - (i) Objectives: useful in investment and credit decisions; useful in assessing future cash flows; firms' resources; claims to resources.
 - (ii) Qualitative characteristics: for example, relevance; reliability; faithful representation; comparability; consistency; verifiability.
 - (iii) Elements: assets; liabilities; equity; revenues; expenses; gains and losses.
 - (iv) Assumptions: economic entity; going concern; monetary unit; and periodicity.
 - (v) Principles: historical cost; revenue recognition; matching; and full disclosure.
 - (vi) Constraints: cost benefit; materiality; industry practice; and conservatism.
- (b) The components of the balance sheet, income statement, other comprehensive income, cash flow statement and notes to the financial statements.
- (c) The significance of the Management Discussion and Analysis (MD&A) section.
- (d) Components of a simplified bank's balance sheet: reserves, capital, bonds, discount loans.
- (e) Components of a bank's balance sheet.

UNIT 2

MODULE 3: FINANCIAL REPORTING (cont'd)

SPECIFIC OBJECTIVES

CONTENT

Students should be able to:

- | | |
|---|--|
| 4. explain all the Generally Accepted Accounting Principles (GAAP) inclusive of GAAP accounting concepts; | (a) The Principle of Conservatism.
(b) The Objectivity Principle.
(c) The Time Period Concept.
(d) The Revenue Recognition Convention.
(e) The Matching Principle.
(f) The Cost Principle.
(g) The Consistency Principle.
(h) The Materiality Principle.
(i) The Full Disclosure Principle. |
| 5. *prepare financial statements; | Preparation of financial statements (simplified bank balance sheets and income statements) according to the IAS 30. |
| 6. *calculate common size balance sheet and income statements; | Common size statements.

(Use formulae (see page 73-77) to calculate-manually or electronically). |
| 7. discuss the importance of ratio analysis; | (a) Ratio analysis.

(b) The importance of ratio analysis:

(i) Benefits of ratio analysis: eliminates the issue of size - compare large companies to small companies; simple to calculate.

(ii) The limitations of ratio analysis: the historical data; variation of standards used to prepare financial statements. |

UNIT 2

MODULE 3: FINANCIAL REPORTING (cont'd)

SPECIFIC OBJECTIVES

Students should be able to:

8. **calculate ratios;*

CONTENT

(a) Calculate Ratios:

- (i) *Liquidity: (current ratio, quick ratio), receivables turnover.*
- (ii) *Profitability: return on asset, gross profit margin, return on equity, earnings per share, price earnings, operating profit margin, net profit margin, payout.*
- (iii) *Activity: inventory turnover, fixed asset turnover, total asset turnover, average collection period, average payment period.*
- (iv) *Debt: debt ratio, debt to equity, times interest earned ratio, fixed payment coverage ratio.*
- (v) *Capital adequacy.*

(Use formulae to calculate (see page 73-77) manually or electronically).

9. *interpret financial ratios;*

Interpretation and comparison of financial ratios using trend and peer/industry analysis.

10. *examine the cost of capital and financial policy; and,*

- (a) *Definition of concepts.*
- (b) *Purposes of cost of capital.*
 - (i) *evaluation of investments; and,*
 - (ii) *assessment of risks.*
- (c) *Sources of capital.*
 - *Debt and Equity.*
- (d) *Relationship between financial policy and cost of capital.*
 - (i) *Allocation of resources; and,*
 - (ii) *Selection of best investments.*

UNIT 2

MODULE 3: FINANCIAL REPORTING (cont'd)

SPECIFIC OBJECTIVES

CONTENT

Students should be able to:

- | | |
|--|---|
| 11. <i>explain the purpose of accounting software in financial accounting.</i> | (a) <i>Definition of accounting software.</i> |
| | (b) <i>Purposes of accounting software.</i> |
| | (c) <i>Advantages and disadvantages of accounting software.</i> |

Suggested Teaching and Learning Activities

To facilitate students' attainment of the objectives in this Module, teachers are advised to engage students in the following teaching and learning activities which may be done separately or merged to facilitate sequencing and the completion of the SBA task. Teachers should use cooperative grouping and simulation as often as possible to afford students the opportunity to have authentic and meaningful experiences.

1. *Have students use online resources or relevant texts to research specific concepts then engage in cooperative grouping to prepare and deliver a debate or discussion based on the topic "The Importance of Financial Statements in the Financial Services Industry".*
2. *After exploration of different aspects of financial reporting, engage students in cooperative grouping. Provide them with worksheets on which there are tasks related to a simplified financial report. The students should then collaborate to provide answers to questions and prepare simplified financial reports. It is advisable that this activity be repeated during the period that this Module is taught, so that each aspect can be adequately addressed. Opportunities should be provided for students to share their findings in class.*
3. *Have students work in pairs to use various accounting software in the preparation of financial statements and calculation of ratios.*
4. *Have students engage in research and create and post information on each Specific Objective in the Module on their class website or wiki page.*

UNIT 2

MODULE 3: FINANCIAL REPORTING (cont'd)

RESOURCES

International Accounting Standards Board	<i>International Financial Reporting Standards for Small and Medium-sized Entities</i> . 2015.
Mishkin, F., and Eakins, S.	<i>Financial Markets and Institutions</i> . 9th Edition. Pearson. 2018.
Scott, P.	<i>Introduction to Accounting</i> . U.K: Oxford University Press. 2018.
Weygandt, J., Kimmel, P., and Keiso, D.	<i>Accounting Principles</i> . 13th Edition. New York: John Wiley and Sons. 2018.
Weygandt, J., Kimmel, P., and Keiso, D.	<i>Principles of Financial Accounting</i> . New York: John Wiley and Sons Inc. 2015.

WEBSITES:

Conceptual framework for financial reporting:

<https://www.ifrs.org/-/media/project/conceptual-framework/fact-sheet-project-summary-and-feedback-statement/conceptual-framework-project-summary.pdf>

<https://www.icapb2b.gr/portal/web/b2b/home>

◆ OUTLINE OF ASSESSMENT

Each Unit of the syllabus will be assessed separately. The same scheme of assessment will be applied to each Module in each Unit. Grades will be awarded independently for each Unit. Candidates' performance on each Unit will be reported as an overall grade and a grade on each Module of the Unit. The assessment will comprise two components, one external and one internal (School-Based Assessment).

EXTERNAL ASSESSMENT

(80 per cent)

Paper 01
(1 hour 15 minutes)

This paper consists of forty-five (45) multiple-choice items. There are fifteen (15) items on each Module and will assess each of the skills, Knowledge and Understanding, Interpretation and Application and Analysis and Evaluation.

(30 per cent)

Paper 02
(2 hours 30 minutes)

This paper comprises two sections, Section A and Section B. Section A consists of **three compulsory short answer questions**, one from each Module in the Unit. Section B consists of **three compulsory essays**, one from each Module in the Unit. Each section will assess the skills as defined in the syllabus.

(50 per cent)

Paper 032
(1 hour 30 minutes)

*This paper is the Alternative to the School-based Assessment. It comprises **three compulsory questions** testing knowledge and skills in all Modules in the Unit. Questions will require students to answer in the form of short paragraphs or extended essays. Each question will be marked out of 20.*

(20 per cent)

Use of Calculators

Candidates are allowed to use silent, non-programmable calculators to complete the papers.

SCHOOL-BASED ASSESSMENT

(20 per cent)

Paper 031

This is a research paper consisting of approximately **1,500** words, exclusive of appendices. The research paper must address an issue relevant to their society, and be based on **any** topic covered in any one, two or all three Modules of the Unit being assessed. The School-Based Assessment for each Unit requires that the project, which candidates undertake, must demonstrate the candidate's skills in research, presentation, analysis, and evaluation of **qualitative and or quantitative data** as appropriate to the field of financial services. (See pages 2 and 3 for skills and abilities to be assessed).

Candidates must complete the School-Based Assessment for the first Unit for which they register. Candidates may opt to carry forward their School-Based Assessment mark to the second Unit. Such

candidates are not required to complete the School-Based Assessment component for the second Unit.

Candidates who, in the same year, register for both Units of CAPE® Financial Services Studies may opt to:

- (a) submit a separate School-Based Assessment assignment for each Unit; or,
- (b) submit a single School-Based Assessment assignment from either Unit 01 or Unit 02, to be considered for both.

Candidates who opt for (b) must indicate from which Unit the School-Based Assessment assignment was selected.

If a candidate is repeating a Unit, the moderated School-Based Assessment score obtained for that Unit may be used for both Units taken at the same time.

Paper 032

Private candidates are required to write Paper 032, an Alternative to the School-Based Assessment (Paper 031). This paper is examined externally. Details are on page 71.

◆ GUIDELINES TO TEACHERS FOR THE CONDUCT OF SCHOOL-BASED ASSESSMENT

School-Based Assessment is an integral part of student assessment in the course covered by this syllabus. It proposes to assist students with acquiring specific knowledge, skills and attitudes that are critical to the subject. The activities for the School-Based Assessment are linked to the specific Modules of the syllabus and should form part of the learning activities enabling the student to achieve the related objectives. It should be based on an investigation into a real setting. *Students are encouraged to work in groups to complete the SBA.*

During the course of study of this subject, students obtain marks for the competence they develop and demonstrate when undertaking their School-Based Assessment assignments. These marks contribute to the final marks and grades that are awarded to students for their performance in the examination.

The guidelines provided in this syllabus for selecting appropriate tasks are expected to assist teachers and students with the selection of assignments that are valid for the purpose of School-Based Assessment. These guidelines should assist teachers with awarding marks according to the degree of achievement of the candidates in the School-Based Assessment component of the course. In order to ensure that the scores awarded by teachers are aligned with **CXC®** standards, the Council undertakes the moderation of School-Based Assessment assignments marked by each teacher.

School-Based Assessment provides an opportunity to individualise a part of the curriculum to meet the needs of students. It facilitates feedback to the students at various stages of the experience. This helps to build the self-confidence of the students as they proceed with their studies. School-Based Assessment further facilitates the development of essential research skills that allow the student to function more effectively in his or her chosen vocation. School-Based Assessment, therefore, makes a significant and unique contribution to the development of relevant skills in the students. It also provides an instrument for testing them and rewarding them for their achievements.

RATIONALE FOR SCHOOL-BASED ASSESSMENT IN FINANCIAL SERVICES STUDIES

The School-Based Assessment component of the **CAPE®** Financial Services Studies Syllabus is a single guided research consisting of objectives from one or more of the Modules in the syllabus. The task is intended to develop in the candidate an interest in self-directed investigation and the collection of data in a scientific manner. The execution of the SBA assignment should lead to a sense of accomplishment while facilitating the development of the basic skills of research. Teachers should regard School-Based Assessment as an integral part of teaching the syllabus and not as a separate entity.

The School-Based Assessment should:

1. provide the candidate with an opportunity to investigate an area of special interest within the prescribed syllabus;
2. develop the candidate's ability to conduct an enquiry and present, analyse and evaluate the findings; and,
3. provide an opportunity for the teacher to be involved in the evaluation process.

SBA REQUIREMENTS

Every candidate who enters for the **CAPE®** Financial Services Studies examination must submit a research paper. Students may work individually or in groups to carry out the research. The paper should not exceed **1,500** words in length and should include charts, graphs, tables and pictures which are appropriate for the topic and the discipline being studied. *Group size should not exceed 3 persons.*

The teacher will be required to approve the topic to be investigated, guide the candidate during the process of investigation, mark the completed work according to the guidelines provided by **CXC®** and submit the marks to **CXC®** by **31 May** of the year of the examination.

CXC® will indicate through the e-SBA system found on the Council's website www.cxc.org, the specific guidelines and requirements for moderation, submission, and other matters relevant for each examination period. Total marks awarded for the School-Based Assessment research is 60. Teachers must maintain strict adherence to the guidelines for the project. The reliability of the marks awarded is a significant factor in School-Based Assessment and has far-reaching implications for the students' final grade. Candidates who do not fulfil the requirements for the School-Based Assessment will be reported as "ungraded".

SOURCES OF DATA AND INFORMATION

The sources of data listed below can be used by candidates in their research activities.

1. The business section of local newspapers.
2. Statistical reports such as national income statistics, balance of payments statistics, surveys results, household budgetary surveys, annual economic reports of Central Banks, Ministries of Finance and Planning Units, questionnaires and interviews.
3. Annual reports of firms in the region.
4. The economic information available on the Internet.
5. Budget speeches of Ministers of Finance.
6. Reviews of estimates of income and expenditure from Ministries of Finance.

MODERATION OF SCHOOL-BASED ASSESSMENT

School-Based Assessment Record Sheets are available online via the **CXC**®'s website www.cxc.org.

All School-Based Assessment Record of marks must be submitted online using the SBA data capture module of the Online Registration System (ORS). Assignments will be requested by **CXC**® for moderation purposes. These assignments will be reassessed by **CXC**® Examiners who moderate the School-Based Assessment. Teachers' marks may be adjusted as a result of moderation. The Examiners' comments will be sent to schools. All samples must be *submitted* by the stipulated deadlines.

Copies of the students' assignments must be retained by the school until three months after publication by **CXC**® of the examination results.

ASSESSMENT DETAILS

Total marks awarded for the School-Based Assessment research paper is 60. Teachers must maintain strict adherence to the guidelines stated in the criteria for marking the research paper. The reliability of the marks awarded is a significant factor in School-Based Assessment and has far-reaching implications for the students' final grade. Candidates who do not fulfil the requirements for the School-Based Assessment will be reported as "ungraded".

Skills to be assessed: Unit 1 and Unit 2

Students will be assessed on their ability to:

1. clearly define a problem and research objectives;
2. conduct a comprehensive theoretical review;
3. develop a relevant research design based on the issues to be studied;
4. conduct research using appropriate methods;
5. present clear accurate data in a variety of forms;
6. apply appropriate techniques to analyse data;
7. discuss findings and draw reasoned conclusions;
8. produce a well-written report; and,
9. present the report in an appropriate format.

MANAGING THE RESEARCH ACTIVITIES

The research is worth 20 per cent of the student's total mark. Teachers should ensure that sufficient time is allowed for teaching the skills contained in the syllabus, explaining the requirements of the School-Based Assessment, discussing the assessment criteria and monitoring and evaluating the research activities.

Planning

It is important to start planning for the research activities early. A schedule for completing sections of the report should be constructed by teachers and students working cooperatively together. Dates for

the following activities should be set:

1. identification of the issue and submission of research topic;
2. description of research project;
3. completion of information collection;
4. submission of first draft; and,
5. completion of research report.

Length of the report

The length of the report should be NOT MORE THAN 1500 words, not including bibliography, appropriate quotations, sources, charts, graphs, tables, references and appendices. Wherever a student exceeds the maximum length for the project in any Unit by more than 10 per cent, the teacher must impose a penalty of 10 per cent of the score that the student achieves on this assignment. On the report, the teacher should clearly indicate the student's original score – that is, the score before the deduction is made – the marks which are to be deducted, and the final score that the student receives after the deduction has been made. Only the final score is to be indicated on the record sheets which are submitted to **CXC®**.

Guidance

The teacher must:

1. *guide students in the selection of* appropriate topics in the syllabus that are suitable for research;
2. approve students' research proposals;
3. advise students about the final date for completion and submission of the research paper;
4. ensure that themes relevant to the project are adequately covered;
5. advise students of the nature of the task, the scope and depth required to fulfil it and the availability of resource materials;
6. monitor students' progress by advising them of the quality of their work and recommending ways to improve the quality of the research paper;
7. collect and mark students' research papers;
8. keep records of students' marks and submit these, together with their work, as requested by **CXC®**; and,
9. ensure that the guidelines are closely followed and the criteria are adequately met.

NB. It is the responsibility of the teachers to ensure that the research paper is the students' work as plagiarism and other forms of cheating will be penalised.

Authenticity

Teachers should ensure that each research report is the work of the student. This can be achieved by viewing and monitoring the report throughout its development. This guards against plagiarism **and** ensures that the work is the intellectual property of candidates. Authenticity can also be checked by having students:

1. discuss aspects of the report;
2. explain primary and secondary sources needed, and summarise findings; and,
3. complete aspects of the research under the supervision of the class teacher during class time.

The structure of the project should be as follows:

1. SECTION ONE

INTRODUCTION (20 marks)

- | | | |
|-----|---|-----------|
| (a) | (i) Background | |
| | (ii) Definition of the Research Problem | (5 marks) |
| (b) | Aims and Objectives of <i>the</i> Study | (5 marks) |
| (c) | Literature Review | (8 marks) |
| (d) | Communication of information | (2 marks) |

2. SECTION TWO

RESEARCH DESIGN (13 marks)

- | | | |
|-----|--|-----------|
| (a) | The Research Design/Plan | (4 marks) |
| (b) | The Financial Services Perspective | (3 marks) |
| (c) | The Sample to be Studied (individuals or institutions) | (3 marks) |
| (d) | Data Collection Instruments/Techniques | (3 marks) |

3. SECTION THREE

PRESENTATION AND ANALYSIS OF DATA (15 marks)

- | | | |
|-----|------------------------------|-----------|
| (a) | Presentation of findings | (5 marks) |
| (b) | Analysis of findings | (8 marks) |
| (c) | Communication of information | (2 marks) |

4. SECTION FOUR

DISCUSSION OF FINDINGS AND CONCLUSION (12 marks)

- | | | |
|-----|---------------------------------------|-----------|
| (a) | Discussion of Findings and Conclusion | (7 marks) |
| (b) | Bibliography | (3 marks) |
| (c) | Communication of information | (2 marks) |

CRITERIA FOR MARKING THE SCHOOL-BASED ASSESSMENT RESEARCH REPORT

SECTION ONE

20 marks

Introduction

(5 marks)

- (a) Background
- (b) Definition of Research Problem

(Statements on the background to the problem, and an explanation of the problem or issue being investigated)

4 - 5

- Problem is clearly defined and coherent
- Problem is defined but lacks coherence and clarity
- Problem is defined but is unclear

2 - 3

1

Aims and Objectives of Study

(5 marks)

(Purpose or reason for conducting the research and the value of the research)

- Purpose and value of research are clearly and concisely stated
- Purpose and value of research are somewhat clearly stated
- Purpose and value of research are unclear

4 - 5

2 - 3

1

Literature Review

(8 marks)

(A comprehensive review of the literature and previous research related to the area of investigation inclusive of different financial services perspectives and using different relevant sources)

- Review is comprehensive and well organised, covers relevant sources and important findings are noted
- Review is fairly adequate, covers some relevant sources and is fairly well organised
- Review is somewhat limited, covers some relevant sources but is not well organised
- Review is limited and not well organised

7 - 8

5 - 6

3 - 4

1 - 2

Communication of Information

(2 marks)

- Information is communicated in a logical way using correct grammar
- Information is communicated in a fairly satisfactory way but with several grammatical errors

2

1

SECTION TWO

13 marks

Research Design

(4 marks)

(A plan outlining how the information will be collected, the methods of data collection and how data will be analysed)

- Design is relevant, well organised and recognises relevant variables 4
- Design is somewhat relevant, fairly well organised, but there is limited reference to relevant variables 2 - 3
- Design is poorly organised, not recognising relevant variables 1

Financial Services Perspective

(3 marks)

(A description of the financial services theory underlying the research design)

- Financial services perspective is *relevant and clearly/fully described* in the discussion of *the* research design 3
- Financial services perspective is fairly relevant and adequately *described* in *the* discussion of the research design 2
- Financial services perspective is limited or not *clearly* relevant to the discussion of the research design 1

Selection of sample, group or cases to be studied

(3 marks)

(A statement providing details of the sample, group or cases selected and the rationale for selection)

- Sample/Selection Procedure is appropriate and reasons for choice of techniques are valid 3
- Sample/Selection Procedure is fairly appropriate and reasons for choice of techniques are mostly valid 2
- Sample/Selection Procedure is not appropriate and techniques are of limited relevance 1

Data Collection Tools /Research Techniques

(3 marks)

(A description of the instruments/techniques used to collect data)

- Instruments/techniques are comprehensive, well sequenced and address relevant variables 3
- Instruments/techniques are satisfactory, fairly well sequenced and address most of the relevant variables 2
- Instruments/techniques are poorly constructed and sequenced and address few of the relevant variables 1

SECTION THREE

15 marks

Presentation of Data

(5 marks)

(A presentation of comprehensive, clear and accurate data using forms that are appropriate)

- Data are comprehensive, clear and accurate, and forms are appropriate and relevant to the research problem 4 - 5
- Data are fairly clear and accurate, and forms are mostly appropriate and relevant to the research problem 2 - 3
- Data are poorly presented with several inaccuracies, and forms are mostly inappropriate and not relevant to the research problem 1

Analysis of Data

(8 marks)

(An explanation of the results that were obtained, why they were yielded and identification of trends, patterns and anomalies)

- Analyses are comprehensive, clear and relevant to issues, with excellent use of techniques 7 - 8
- Analyses are fairly comprehensive, clear and relevant to issues, with good use of techniques 5 - 6
- Analyses are satisfactory and show some relevance to issues, with moderate use of techniques 3 - 4
- Analyses show little relevance to issues, with very limited use of techniques 1 - 2

Communication of Information

(2 marks)

- Information is communicated in a logical way using correct grammar 2
- Information is communicated in a fairly satisfactory way but with several grammatical errors 1

SECTION FOUR

12 marks

Discussion of Findings and Conclusion

(7 marks)

(A logical and coherent discussion of the findings and their implications. The discussion should relate to the purpose of the investigation and the underlying financial services perspective.)

- Discussion is well developed, related to purpose and findings of study and clearly applied to the underlying financial services perspective 6 - 7
- Discussion is fairly well developed, bears some relationship to the purpose and findings of the study and is applied to the underlying financial services perspective 4 - 5
- Discussion is limited, bears some relationship to the purpose and findings of the study but is not clearly applied to the underlying financial services perspective 2 - 3
- Discussion shows little relationship to purpose and findings of study and is poorly/not applied to the financial services perspective 1

Bibliography

(3 marks)

(A well-organised bibliography in appropriate style and format including all relevant details)

- Bibliography is well organised, in appropriate format and includes all relevant details 3
- Bibliography is fairly well organised, in appropriate format and includes some relevant details 2
- Bibliography is poorly organised, format is not appropriate and includes few relevant details 1

Communication of Information

(2 marks)

- Information is communicated in a logical way using correct grammar 2
- Information is communicated in a fairly satisfactory way but with several grammatical errors 1

TOTAL

60

◆ REGULATIONS FOR PRIVATE CANDIDATES

Private candidates will be required to write Papers 01, 02 and 032. Paper 032 takes the form of a written examination which is taken at the end of the academic year, and tests similar skills and abilities as required in Paper 031, *the School-Based Assessment*. Paper 032 will consist of three questions and will require candidates to demonstrate:

1. Understanding of basic concepts and theories in Financial Services.
2. Familiarity with Caribbean financial issues.
3. Knowledge of the design of a research project, including sample selection/other methods of selection of subjects, data collection and analysis of data.

UNIT 1 and UNIT 2

PAPER 032

Paper 032 (1 hour 30 minutes – 20 per cent of Total Assessment)

1. Composition of Paper

- (a) This paper consists of three *compulsory* questions testing all Modules in the Unit.
- (b) Candidates are required to answer all questions.

2. Syllabus Coverage

Questions will test knowledge and skills of all Modules in the Unit.

3. Question Type

- (a) Questions in this paper will test knowledge of Financial Services concepts contained in the syllabus and research skills relevant to Financial Services.
- (b) Questions will require candidates to answer in the form of short paragraphs or extended essays.

4. Mark Allocation

- (a) Each question will be marked out of **20**.
- (b) This paper is worth 60 marks and contributes **20** per cent of the total marks for the Unit.

◆ REGULATIONS FOR RESIT CANDIDATES

Resit candidates must complete Paper 01 and Paper 02 of the examination for the year for which they reregister.

CAPE® candidates may reuse any moderated SBA score within a two-year period. In order to assist candidates in making decisions about whether or not to reuse a moderated SBA score, the Council will continue to indicate on the preliminary results if a candidate's moderated SBA score is less than 50 per cent in a particular Unit. Candidates reusing SBA scores should register as "Resit candidates" and must provide the previous candidate number when registering.

Resit candidates must be entered through a school, approved educational institution or the local Registrar's office.

◆ ASSESSMENT GRID

The Assessment Grid for each Unit showing marks assigned to each paper and to each Module, and the percentage contribution of each paper to the total scores.

Papers	Module 1	Module 2	Module 3	Total	(%)
External Assessment					
Paper 01 Multiple-choice questions	30	30	30	90	(30)
Paper 02 Essay/Extended Response	50	50	50	150	(50)
Paper 031 School-Based Assessment OR Paper 032 <i>The Alternative to the School-Based Assessment</i>	20	20	20	60	(20)
Total	100	100	100	300	(100)

RELATIONSHIP BETWEEN SKILLS AND ABILITIES TO BE ASSESSED AND COMPONENTS

The table shows the skills and abilities to be assessed and the approximate weightings allocated to each. Each is represented as a percentage of a component and as a percentage of the qualification to be earned.

Component A01%

Component	K&U	I&A	A&E	Total	(%)
Paper 01 Multiple-choice	42	24	24	90	30
Paper 02 Essay/Extended Response	48	60	42	150	50
Paper 031 School-Based Assessment OR Paper 032 <i>Alternative to School-Based Assessment</i>		36	24	60	20
Total	90	120	90	300	100
% Weighting	30	40	30	100	

◆ FINANCIAL SERVICES FORMULAE

RATIOS

FORMULAE

LIQUIDITY

Net Working Capital

current assets – current liabilities

Current

$$\frac{\text{current assets}}{\text{current liabilities}}$$

Quick (acid test)

$$\text{current assets} - \frac{\text{inventory}}{\text{current liabilities}}$$

Receivables turnover

$$\frac{\text{Net credit sales}}{\text{average net receivables}}$$

Free cash flow

*cash flow from operations –
capital expenditures – cash dividends*

ACTIVITY

Inventory turnover

$$\frac{\text{cost of goods sold}}{\text{inventory}}$$

Average collection period

$$\frac{\text{accounts receivable}}{\text{average sales per day}}$$

Average payment period

$$\frac{\text{accounts payable}}{\text{average purchases per day}}$$

Fixed asset turnover

$$\frac{\text{sales}}{\text{net fixed assets}}$$

Total asset turnover

$$\frac{\text{sales}}{\text{total assets}}$$

DEBT

Degree of indebtedness:

Debt ratio

$$\frac{\text{total liabilities}}{\text{total sales}}$$

Debt-equity ratio

$$\frac{\text{long-term debt}}{\text{stockholders' equity}}$$

Ability to service debts:

Times interest earned ratio

$$\frac{\text{earnings before interest and taxes}}{\text{interest}}$$

RATIOS

FORMULAE

SOLVENCY RATIOS

Interest coverage ratio

$$\text{Interest Coverage Ratio} = \frac{\text{EBIT}}{\text{Interest Expenses}}$$

where EBIT = Earnings Before Interest and Taxes

Debt-to-Assets Ratio

$$\frac{\text{Debt}}{\text{Assets}}$$

Fixed-payment coverage ratio

$$\frac{\text{earnings before interest and taxes} + \text{lease payments/ interest} + \text{lease payments} + \{(\text{principal} + \text{preference dividend}) \times [1/(1 - T)]\}}{\text{Interest Expenses}}$$

Shareholder Equity Ratio (SER)

$$\text{SER} = \frac{\text{TSE}}{\text{Total Assets}}$$

where SER = Shareholder Equity Ratio and TSE = Total Shareholder Equity

Debt to Equity Ratio

$$\frac{\text{Debt Outstanding}}{\text{Equity}}$$

PROFITABILITY

Gross profit margin

$$\frac{\text{gross profits}}{\text{sales}}$$

Operating profit margin

$$\frac{\text{operating profits}}{\text{sales}}$$

Net profit margin

$$\frac{\text{net profit after sales}}{\text{sales}}$$

Return on assets (ROA)

$$\frac{\text{net profits after taxes}}{\text{total assets}}$$

Return on Equity (ROE)

$$\frac{\text{net profits after taxes}}{\text{stockholders' equity}}$$

Earnings per share (EPS)

$$\frac{\text{earnings available for common stockholders}}{\text{number of shares of common stock outstanding}}$$

Price earnings (P/E)

$$\frac{\text{market price per share of common stock/}}{\text{earnings per share}}$$

RATIOS

Payout

$$\frac{\text{cash dividends}}{\text{net income}}$$

Holding Period Return

$$HPR = \frac{(P_1 - P_0)}{P_0} + \frac{D}{P_0}$$

where P_1 is end of period price,

P_0 is beginning price

D is dividend received

$HPR = \text{Capital Gains} + \text{Dividend Yield}$

Expected Return (Single asset)

$$E(r) = \sum_{i=1}^n P_i r_i$$

where P_i is probability in state i ,

n is number of states

and r_i is return in state i

Variance

$$\sigma^2 = \sum_{i=1}^n [r_i - E(r)]^2 P_i$$

where P_i is probability in state i ,

n is number of states

and r_i is return in state i

Standard deviation

Square root of the variance

Portfolio return

$$E(r_p) = \sum_{i=1}^n w_i E(r_i)$$

where w_i is weight of asset i

and $E(r_i)$ is expected return of asset i

$$* E(r_c) = yE(r_p) + (1 - y)r_f$$

for a complete portfolio y is the percentage of portfolio invested in risky assets

and $(1 - y)$ is the percentage of portfolio invested in risk – free asset

r_f is the risk – free rate of return

Variance of a portfolio

$$\sigma_p^2 = w_x^2 \sigma_x^2 + w_y^2 \sigma_y^2 + 2w_x w_y \text{Cov}(r_x, r_y)$$

where w_x is weight of asset x in the portfolio,

w_y is the weight on asset y in the portfolio

RATIOS

Standard deviation of a portfolio

Correlation

Covariance

CML

CAPM

FORMULAE

Square root of the variance

**When a risky asset is combined with a risk-free asset, the portfolio standard deviation equals the risky asset's standard deviation multiplied by the portfolio proportion invested in the risky asset.*

$$\text{Correlation} = \rho = \frac{\text{Cov}(x, y)}{\sigma_x \sigma_y}$$

where $\text{Cov}(x, y)$ = covariance between X and Y

σ_x = standard deviation of x

σ_y = standard deviation of y

$$\text{Cov}(r_x, r_y) = \sum_{i=1}^n P_i [r_{xi} - E(r_{xi})][r_{yi} - E(r_{yi})]$$

where P_i is the probability in state i,

r_{xi} is the return on asset x in state i

and r_{yi} is the return on asset y in state i

$$E(r_p) = r_f + \sigma_p \left(\frac{E(r_m) - r_f}{\sigma_m} \right)$$

where $E(r_p)$ is the expected portfolio return

r_f is the risk-free rate of return,

σ_p is the portfolio standard deviation,

$E(r_m)$ is the expected market return

and σ_m market standard deviation

$$E(r_a) = r_f + \beta_a (E(r_m) - r_f)$$

where $E(r_a)$ is the required return of asset,

r_f is the risk-free rate of return,

β_a is the asset's Beta (systematic risk),

r_m is the expected market return

and $(r_m - r_f)$ is the market premium

$$0 = NPV = \sum_{t=1}^T \frac{C_t}{(1 + IRR)^t} - C_0$$

RATIOS

IRR

ROI

FORMULAE

IRR = Internal Rate of Return

t = The number of time periods

$$R_p = r_f + \left(\frac{R_T - r_f}{\sigma_T} \right) \sigma_p$$

where:

- R_p = Expected return on the portfolio
- R_f = Risk-free rate
- R_T = Expected return on the market
- σ_T = Standard deviation of market return
- σ_p = Standard deviation of portfolio return

OR

ROI

$$= \frac{\text{current value of investment} - \text{initial investment}}{\text{initial investment}}$$

$$NPV = \sum_{t=0}^n \frac{C_t}{(1+i)^t} - C_0$$

Where:

- C_t is the cashflow for time period t
- C_0 is the initial investment or total investment costs
- i is the discount rate or return that could be earned from alternative investments
- t is the number of time periods

NPV

$$\frac{E(r_p) - r_f}{\sigma_p}$$

Sharpe Ratio

where $E(r_p)$ is the return on the portfolio
 r_f is the risk – free rate of return
and σ_p is the portfolio standard deviation

◆ GLOSSARY OF FINANCIAL SERVICES TERMS

<u>WORDS/TERMS</u>	<u>DEFINITIONS/MEANINGS</u>
Accounting Record	Key sources of data to verify financial statements. For example, bank statements, invoices, and bank vouchers.
Arbitrage Pricing Theory	The APT is an equilibrium model developed by Ross. The primary assumption of the APT is that security returns are generated by a linear factor model. The APT is based on a no-arbitrage condition. That is, an investor should not be able to build a zero-risk, zero-investment portfolio that has positive returns.
Assets	An asset is an item of economic value that is expected to yield a benefit to the owning entity in future periods.
Asset Protection	This is the type of planning intended to protect one's assets from creditors' claims. Individuals and business entities use these asset protection techniques to limit creditors' access to certain valuable assets while operating within the boundaries or debtor-creditor law.
Asset Transformation	This is the process of creating a new asset from liabilities with different characteristics by converting small denomination, immediately available and relatively risk-free bank deposits into loans.
Asymmetric Information	This is where one person is less informed than another in the market.
Audit	This is an examination and verification of a company's financial and accounting records and supporting documents by a professional such as a certified public accountant.
Balance Sheet	This is a financial statement that summarises a company's assets, liabilities and shareholders' equity at a specific point in time.
Bank for International Settlements	The mission of the BIS is to serve central banks in their pursuit of monetary and financial stability, to foster international cooperation in those areas and to act as a bank for central banks.
Banking Secrecy	Legislation that prevents banks from sharing personal and account information about their customers. This rule does not apply to customer credit information. Bank secrecy may be over-ruled if money laundering is suspected.
Behavioural Finance	A field in finance that uses behavioural and cognitive psychology to explain market participants' behaviour.
Beta – (value)	A measure of systematic risk between the particular security vis-a-vis the market portfolio. It measures a stock's volatility or the degree to which its price fluctuates in relation to the overall market.

WORDS/TERMS**DEFINITIONS/MEANINGS**

Blockchain Technology	<i>A decentralised, distributed digital ledger that records transactions securely and transparently. Essentially a modern example of a computer network, blockchain technology is considered to be tamper-proof and resistant to fraud due to its decentralized structure, which makes it difficult for any single entity to manipulate the ledger. For example, Blockchain technology is used by some banks to verify and record transactions, and by some supply chain companies to track goods from production to delivery. The Bitcoin and Ethereum blockchains are the most popular.</i>
Bonds (Coupon)	An investment bond on which interest is given to the bondholder in the form of coupon payments Bonds sold at par, discount and premium.
Bonds (Discount)	An investment bond that is sold below face value, no interest is paid to the bondholder. At maturity the face value of the bond is paid to the bondholder.
Capital	This represents the residual value of a company or the total wealth of the owner.
Capital Adequacy	The legal minimum amount of reserves of capital that a bank must hold. A measure of the adequacy of an entity's capital resources in relation to its current liabilities and also in relation to the risks associated with its assets. An appropriate level of capital adequacy ensures that the entity has sufficient capital to support its activities and that its net worth is sufficient to absorb adverse changes in the value of its assets without becoming insolvent.
Capital Asset Pricing Model (CAPM)	A model that describes the relationship between risk and expected return and is used in portfolio theory. Graphically it is a line used in the capital asset pricing model to illustrate the rates of return for efficient portfolios depending on the risk-free rate of return and the level of risk (standard deviation) for a particular portfolio.
Capital Gains Tax	Tax levied on the disposal of an investment or asset.
Capital Market	It is a market where long-term funding may be obtained. For example, stock markets.
Capital Market Line (CML)	(A value that can be calculated). It specifies the efficient set of portfolios an investor can attain by combining a risk-free asset and the risky market portfolio M. The CML states that the expected return on any efficient portfolio is equal to the riskless rate plus a risk premium, and thus describes a linear relationship between expected return and risk.
Caribbean Financial Action Task Force (FATF)	The Caribbean Financial Action Task Force (CFATF) is an organisation of states and territories of the Caribbean basin which have agreed to implement common counter-measures against money laundering.
Cash Flow Statement	This typically reports a company's cash sources and uses for the period into three categories: cash flow from operating activities, cash flow from investing activities, cash flow from financing activities.

WORDS/TERMS	DEFINITIONS/MEANINGS
Charities	These are non-profit organisations which provide various social goods and services.
Comprehensive Income	This is a financial report detailing the change in a company's net assets during a specific period of time. A statement of comprehensive income differs from a typical income statement which details profits and losses but will make changes in net assets due to transfer of equity holdings, change of ownership or other factors.
Compliance	The term compliance describes conformity with established rules and practices.
Contract	This is a legally binding agreement between two or more parties, and enforceable by law.
Correlation	Reflects strengths of the association between two variables. The value ranges from positive one (+1) to negative one (– 1). A correlation of 1 means that they move together exactly, while a correlation of minus 1 means that they move in exactly the opposite direction from each other.
Covariance	Measures the relationship between random variables. It represents the degree to which returns on two risky assets move together.
Credit Derivative	A security, which consists of privately, held negotiable bilateral contracts that allow users to manage their exposure to credit risk. It derives its intrinsic value from some other assets. For example, commodities.
Cyber Attack	An illegal attempt to undermine the security and confidentiality of a computer network.
Cyber Crime	Crime in which a computer is the object of the crime (hacking, phishing, spamming) or is used as a tool to commit an offense. It is conducted by individuals working alone, or in organised groups, intent on extracting money, data or causing disruption, cybercrime can take many forms, including the acquisition of credit/debit card data and intellectual property, and impairing the operations of a website or service.
Cyber Security	Measures taken to protect a computer, systems, networks and data in cyberspace against cyber-attacks.
Cyber terror	An organisation, working independently of a nation state, conducting terrorist activities through the medium of cyberspace.
Cyber war	A nation state conducting sabotage and espionage against another nation in order to cause disruption or to extract data.

WORDS/TERMS**DEFINITIONS/MEANINGS**

Cryptocurrency	<i>A digital or virtual currency that uses cryptography for security and operates independently of a central bank. Cryptocurrencies are often viewed as a decentralized alternative to traditional currencies, and their value can be highly volatile due to speculation and market demand. They can also be use like passwords, to allow personal access to applications or programmes stored on the servers (also known as nodes). For example, Bitcoin is a popular cryptocurrency that can be used to make online purchases or as a speculative investment.</i>
Data Breach	A data breach is an incident in which sensitive, protected or confidential data has potentially been viewed, stolen or used by an individual unauthorised to do so.
Discount Loans	This is a loan that does not require the payment of interest or any of the charges; rather a discount loan deducts the interest and or other charges from the face amount of the loan when it is given out.
Domicile	Country in which an individual considers his/ her place of residence.
Double Tax Agreement	The agreement that an entity or individual should not pay two separate taxes on the same investment for the same purpose and during the same time period. This occurs because the income from the investment is subject to two different tax authorities.
Drive-by	(Attack vectors/medium available to cyber criminals). Opportunistic attacks against specific weaknesses within a system.
Due Diligence (Customer, enhanced)	Customer due diligence (CDD) requirement that banks obtain information to verify the customer's identity and source of funds. Applying a risk-based approach to customer due diligence (CDD) will identify situations which can present a higher risk of money laundering or terrorist financing (EDD).
Economic Conditions	These can be considered as the economic characteristics that describe the state of an economy which can either be contractionary or expansionary. There are indicators that are used to define the state of the economy or economic conditions, examples include unemployment rate, GDP growth rates, and inflation rates.
E-commerce	<i>Refers to the buying and selling of goods and services over the internet. E-commerce has grown significantly in recent years due to the convenience it offers to customers, who can shop from anywhere at any time, and to businesses, which can reach a wider audience without the need for physical stores. For example, Amazon.com is an e-commerce platform where customers can purchase a wide variety of products online.</i>

WORDS/TERMS	DEFINITIONS/MEANINGS
Efficiency	Deals with the extent to which resources are utilised optimally.
Efficient Frontier	The efficient frontier is the set of efficient portfolios out of the full set of potential portfolios. On a graph, the efficient frontier constitutes the boundary line of the set of potential portfolios.
Efficient Market	An efficient market is a well-functioning financial market in which prices reflect all relevant information. If a financial market is efficient, then the best estimate of the true value of a security is given by its current market price.
Efficient Market Hypothesis (EMH)	The efficient market theory implies the following: Resources are effectively allocated in the market, technical analysis and fundamental analysis are worthless and portfolio selection is worthwhile, but market timing is not.
Equity	Represents funds contributed by the owners, plus retained earnings or minus the accumulated losses.
Financial Action Task Force (FATF)	Sets standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. The FATF is therefore a “policy-making body” which works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas.
Financial Accounting Standards Board (FASB)	This is a designated organisation in the private sector that establishes standards of financial accounting that govern the preparation of financial reports by nongovernmental entities. Those standards are officially recognised as authoritative by the Securities and Exchange Commission (SEC).
Financial Centre	Areas where there is a concentration of financial institutions or markets, that offers a highly developed commercial and communications infrastructure where a great number of domestic and international trading transactions are conducted.
Financial derivatives	These are financial instruments that are linked to a specific financial instrument or indicator or commodity, and through which specific financial risks can be traded in financial markets in their own right.
Financial Environment	This is the state of the financial markets and which may be characterised by stable or volatile conditions.
Financial Intermediaries	This is typically an institution that facilitates the channelling of funds between lenders and borrowers indirectly. For example, commercial banks, credit unions, and savings associations.
Financial Market	This is a market that facilitates exchange of financial assets.

WORDS/TERMS	DEFINITIONS/MEANINGS
Financial Report	This is the process of producing statements that disclose an organisation's financial status to internal or external users. For example, management, investors and government.
Financial System	This consists of financial markets and institutions both locally and abroad.
Finance (Direct)	Funds channelled directly from surplus units to deficit units. This is facilitated by financial markets.
Finance (Indirect)	Funds channelled from surplus units to deficit units through financial intermediaries.
Fixed Income Security	Generates a constant cash flow over the life of the assets. For example, treasury, corporate, municipal, and asset-backed.
Foreign Account Tax Compliance Act (FATCA)	The Foreign Account Tax Compliance Act (FATCA) is intended to detect and deter the evasion of US tax by US persons who hide money outside the US. FATCA creates greater transparency by strengthening information reporting and compliance by providing rules around the processes of documenting, reporting and withholding on a payee. These rules not only impact the financial services sector, but also affect many entities outside of the traditional financial services sector with operations both in and outside of the United States.
Foreign Exchange	This is the exchange of one currency for another or the conversion of one currency into another currency. Foreign exchange also refers to the global market where currencies are traded virtually around the clock.
Forward contracts	These are private agreements between two parties and are not as rigid in their stated terms and conditions. Because forward contracts are private agreements, there is always a chance that a party may default on its side of the agreement.
Future contracts	These are standardised instruments traded on an exchange, it is an instrument agreed now that give the holder the right AND obligation to buy or sell a commodity in the future at an agreed price.
GAAP	Generally Accepted Accounting Principles – are a common set of accounting principles, standards and procedures that companies use to compile their financial statements. These principles are usually created by a private sector organisation and given legal merit by the government.
Hedge	A hedge is an investment to reduce the risk of adverse price movements in an asset. Normally a hedge consists of taking an offsetting position in a related security such as a futures contract.

WORDS/TERMS	DEFINITIONS/MEANINGS
Holding Period	The time that has elapsed between date of purchase of a asset and date of sale of asset.
Holding Period Return	The return received from holding a security or portfolio or securities over a period of time.
Holding Period Yield	The rate of return received from holding a security or investment over of time.
Income Statement	This is a financial statement that measures a company's financial performance over a specific accounting period. Financial performance is assessed by giving a summary of how the business incurs its revenues and expenses through both operating and non-operating activities.
Income Tax	This is a tax imposed on income earned by companies and individuals.
Incorporation	This is the process of legally declaring a corporate entity as separate from its owners.
Inspection	These are special audits conducted by regulatory agencies to determine level of compliance.
Insurance	This is a hedge against potential future risks. Different products are created to address different needs.
Integration	The final stage in the money laundering process, at this point the illegal funds are effectively concealed.
International Accounting Standards Board (IASB)	This is the independent standard-setting body of the International Financial Reporting Standards (IFRS) Foundation.
International Financial Reporting Standards (IFRS)	International Financial Reporting Standards (IFRS) are a set of international accounting standards (IAS) that provide guidance and rules stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board.
International Monetary Fund (IMF)	A global organisation working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.
International Organisation of Securities Commission (IOSCO)	The international body that brings together the world's securities regulators and is recognised as the global standard setter for the securities sector. IOSCO develops, implements and promotes adherence to internationally recognised standards for securities regulation. It works intensively with the G20 and the Financial Stability Board (FSB) on the global regulatory reform agenda.

WORDS/TERMS	DEFINITIONS/MEANINGS
Investment	Purchase of an asset that is expected to appreciate in value in the future.
Investment Choice	It deals with the selection of particular assets from among alternative options.
Investor	Person or entity that provides capital to an endeavour with the expectation of receiving profit (income, rent, and the appreciating value of the investment).
Layering	This is the second stage of money laundering at this point the tracks of the illegal funds are difficult to uncover. An example would be using illegal funds to purchase monetary instruments and then selling these instruments recovering the legal funds.
Lending Products	This deals with the choices of products that are available for customers. For example, commercial loans, line of credit, overdraft facilities, term loans, and mortgages.
Licensing	This deals with granting of legal permission to operate or conduct various financial activities.
Liquidity	A measure of the extent to which a person or organisation has cash to meet immediate and short-term financial obligations, or assets that can be quickly converted to do this. In contrast, solvency refers to an enterprise's capacity to meet its long-term financial commitments.
Liquidity Intermediation	The process of converting illiquid or less liquid assets into cash or near cash assets.
Markowitz Portfolio Theory	Theory that establishes how risk-averse investors can construct a portfolio (or portfolios) to maximise expected return given a particular degree of market risk.
M-Commerce	<i>This refers to the buying and selling of goods and services using mobile devices like smartphones and tablets. M-commerce has become increasingly popular due to the widespread use of mobile devices, allowing customers to easily make purchases on the go, and enabling businesses to provide a seamless and convenient shopping experience. For example, the MyDigicel mobile app allows customers to purchase mobile prepaid or post-paid mobile plans using their mobile devices, making it an example of m-commerce.</i>
MITM	(strategy/methodology) 'Man in the middle attack' where a middleman impersonates each endpoint and is thus able to manipulate both victims.
Money Laundering	Creating a fictitious origin or source of funds to conceal the illegal sourcing of funds.

WORDS/TERMS	DEFINITIONS/MEANINGS
Money Creation (Money Expansion)	This is the practice of depository institutions to expand their monetary base by converting deposits into loans.
Net Settlement Payment	A payment settlement system between banks where a large number of transactions are accumulated and offset against each other, with only the net differential being transferred between banks.
Nominal Interest Rate	This is the quoted rate on loan and deposit agreements which is different from real interest. This reflects only the dollar amount promised as payments. It does not reflect the purchasing power of those payments.
Notes (currency)	The physical cash used in financial transactions.
Notes (financial statements)	This refers to additional information provided in a company's financial statements. For example, income statements and balance sheets.
Organization for Economic Co-operation and Development (OECD)	International organisation helping governments tackle the economic, social and governance challenges of a globalised economy.
OECD Model Tax Convention	It is an agreement which serves as a guideline to bilateral and or transnational co-operations for involving double taxation issues, to aid in the negotiation of bilateral treaties.
Offshore Banking	This is where the depositor is located outside of the country that the bank is domiciled. It provides various legal and financial advantages for the depositors.
Onshore Banking	This is where the depositor and the bank are located in the same country.
Ordinarily Resident	Established if there is a regular habitual mode of life in a particular place, the continuity of which has persisted apart from temporary or occasional absences. The only provisos are that the residence must be voluntary and adopted for "a settled purpose". (UK Government).
Organized Exchanges (physical exchange)	Trades securities via a broker registered on an exchange. This takes place in a face-to-face setting, in some central location. For example, New York Stock Exchange (NYSE), GASCI.
Over-the-Counter Exchange (OTC)	A market trades securities directly between investors. The transactions are usually done with the buyers and sellers being in different locations. For example, National Association of Securities Dealers Automated Quotation Systems (NASDAQ), BMEX.
Pharming	(attack vectors/ medium available to cyber criminals). An attack to redirect a website's traffic to a different, fake website, where the individuals' information is then compromised. See 'social engineering' below.

WORDS/TERMS	DEFINITIONS/MEANINGS
Phishing	(attack vectors/ medium available to cyber criminals). An attempt to acquire users' information by masquerading as a legitimate entity. Examples include spoof emails and websites. See 'social engineering' below.
Placement of Funds	This is the movement of cash from its illegal source into banking system.
Policy Statement	Formal document outlining the ways in which an organisation intends to conduct its affairs and act in specific circumstances.
Portfolio	An investment which is made up of a group of individual assets (or securities) held in combination.
Portfolio Management	This is the art and science of making decisions about investment mix and policy, matching investments to objectives, asset allocation for individuals and institutions and balancing risk against performance.
Proceeds of Crime	Funds or money received from illegal activities.
Profitability	This is the ability of a business to earn a profit. A profit is what remains of the revenue a business generates after it pays all expenses directly related to the generation of the revenue.
Rate of Inflation	It refers to the general increase in prices. It is measured using the Consumer Price Index (CPI).
Rate of Return	Increase / decrease in value of an investment over a specified period of time.
Ratio Analysis	It is a quantitative analysis of information contained in a company's financial statements. It is based on line items in financial statements such as the balance sheet, income statement and cash flow statement. It is used to evaluate various aspects of a company's operating and financial performance such as its efficiency (asset management), liquidity, profitability and solvency.
Real Interest Rate	Reflects the purchasing power of promised payments. It is usually derived from adjusting the nominal interest to gauge for inflation.
Regulation	It is a principal rule or law designed to control or govern conduct in business transactions.
Reserves	These are amounts that are retained in the business and not distributed to the owners.
Resident (domicile)	Lawful permanent resident in a territory.

WORDS/TERMS	DEFINITIONS/MEANINGS
Risk (Systematic and Unsystematic)	Risk is a measure of the uncertainty of the rate of return. Systematic risk is market risk and cannot be eliminated through diversification. Unsystematic risk is specific to the firm or industry and can be eliminated through diversification.
Risk Aversed	Unwillingness to take on risk. An investor who is risk averse will always choose the investment with the lowest risk.
Risk-Free Rate	The rate of return provided by government securities on an investment with zero risk. The securities are not subject to default risk.
Risk Loving (tolerant)	An attribute of an investor that is always willing to take on more risk for higher rewards.
Risk Neutral	Given two risky assets A and B. Given an initial investment of \$100 asset A will provide a return of \$120 with a probability of 80% and asset B will provide a return of \$200 with a probability of 50%. A risk neutral investor would be indifferent between risky assets A and B.
Risk Management	Risk management is the process of identification, analysis and either acceptance or mitigation of uncertainty in investment decision-making.
Risk Premium	The difference between the expected market return on an investment and the risk-free rate.
Risk Sharing	This is the process of creating and selling assets with risk characteristics that matches the needs of investors.
Securities	This is a claim on the issuer's assets and or future income.
Sharpe Ratio	A measure for calculating the risk-adjusted return.
SML	(A value that can be calculated). The security market line is the representation of the capital asset pricing model. It displays the expected rate of return of an individual security as a function of systematic, non-diversifiable risk (its beta). Also referred to as the "characteristic line".
Social engineering	Exploiting the weakness of the individual by making them click malicious links, or by physically gaining access to a computer through deception. Pharming and phishing are examples of social engineering.
Solvency	Refers to an enterprise's capacity to meet its long-term financial commitments. In contrast, liquidity refers to an enterpriser's ability to pay short-term obligations.

WORDS/TERMS	DEFINITIONS/MEANINGS
Special Purposes Vehicle (SPV)	This is also referred to as a bankruptcy remote entity whose operations are limited to the acquisition and financing of specific assets. The Special Purposes Vehicle is usually a subsidiary company with an asset or liability structure and legal status that makes its obligations secure even if the parent company goes bankrupt.
Spendthrift Protection	This is an arrangement whereby one person sets aside property for the benefit of another, in which, either because of the direction of a settlor (one who creates a trust), or because of statute, the beneficiary is unable to transfer his or her right to future payments of income or capital, and his or her creditors are unable to subject the beneficiary's interest to the payment of his or her debts.
Spread options	A type of investment option that derives its value from the difference between the prices of two or more assets.
Stand-Alone Risk	(Individual risky asset). A stand-alone risk (associated with a single asset). It is usually measured using statistical tools such as standard deviation.
Standard Deviation	Square of the variance. Measures how far each value in the data set is away from the mean. Standard deviation retains the unit of measure of the data set.
Swaps (Total return, credit default)	This is a financial transaction that involves the exchange of one sequence of cash flows for another.
Tax Avoidance	The legal use of the tax regime in a particular territory to reduce tax obligations.
Tax Evasion	The illegal use of the tax regime in a particular territory to reduce tax obligations.
Tax Planning	An exercise undertaken to minimise tax liability through the best use of all available allowances, deductions, exclusions, and exemptions to reduce income and or capital gains.
Tax Regulation	This deals with the imposition and collection of all taxes within a particular jurisdiction.
Transaction Cost	This is a fee charged by a financial intermediary such as a bank, broker, or underwriter.
Trust	Any estate or property entrusted to a trustee for safe-keeping and administration on behalf of a third party.
Trustee	Any person or firm that administers property on behalf of a third party.

WORDS/TERMS	DEFINITIONS/MEANINGS
United Nations (UN) Tax Convention	The United Nations Model Double Taxation Convention between Developed and Developing Countries (the United Nations Model Convention) forms part of the continuing international efforts aimed at eliminating double taxation.
Value at Risk (VaR)	A statistical technique used to measure and quantify the level of financial risk within a company over a specific timeframe. VaR is measured using three variables: the amount of potential loss, the probability of that amount of loss, and the timeframe.
Variance	It measures the dispersion between an expected outcome and the actual outcome. The statistical measure is utilised to quantify stand-alone risk.
Wealth Management	An investment advisory service that involves wealth management, tax planning, retirement planning, estate planning, accounting or tax services, financial and investment advice. The goal of wealth management is to sustain and grow long-term wealth.
Wire Transfer	A method of electronic funds transfer from one person or entity to another. A wire transfer can be made from one bank account to another bank account or through a transfer of cash at a cash office.
Yield to Maturity (YTM)	The rate of return anticipated on a bond if held until the end of its lifetime/maturity date.

◆ GLOSSARY OF TERMS USED IN THE FINANCIAL SERVICES STUDIES EXAMINATION

<u>WORD</u>	<u>DEFINITION/MEANING</u>	<u>COGNITIVE LEVEL</u>
Analyse	Examine methodically and in detail, the elements of a process, a situation or a theory, and then draw (a) conclusion(s).	Analysis
Apply	Employ knowledge/skill to produce something new.	Application
Apply	Use knowledge and/or principles, approaches or theories to solve problems.	Application
Arrange	Put in specific or logical order.	Comprehension
Assess	Present reasons for the importance of particular structures, relationships or processes. Compare the advantages and disadvantages or the merits and demerits of a particular structure, relationship or process.	Evaluation
Classify	Put into groups according to given criteria and observable characteristics.	Comprehension
Comment	State opinion or view with supporting reasons.	Comprehension
Compare and contrast	State, describe and elaborate on the similarities and differences. An explanation of the significance of each similarity and difference stated may be required for comparisons which are other than structural.	Application
Construct/ Compose/ Create	Combine knowledge, principles and elements to produce something new. For example, to build a model.	Application Synthesis
Deduce	Make a logical connection between two or more pieces of information; use data to arrive at a conclusion.	
Define	Provide a precise statement giving the nature or the scope or the meaning of a term; or use the term in one or more sentences so that the meaning is clear and precise.	Recall
Demonstrate	Show (how a process is carried out in steps/ stages).	Application
Describe	Provide a detailed account, including significant characteristics or elements of an issue or situation.	Recall

<u>WORD</u>	<u>DEFINITION/MEANING</u>	<u>COGNITIVE LEVEL</u>
Design	Plan and present with appropriate practical detail.	Application
Develop	Combine knowledge, principles and elements to produce something new. For example, to build a model.	Application
Differentiate/ distinguish (between/ among)	State or explain briefly those differences between or among items or situations which can be used to define them or place them into separate categories.	Analysis
Discuss	Write an extended answer defining key concepts, stating what is, exploring related concepts and issues, present reasoned arguments for and against, using detailed examples but not necessarily drawing a conclusion.	Synthesis
Evaluate	Weigh evidence and make judgements based on given criteria. The use of logical supporting reasons for a particular point of view is more important than the view held; usually both sides of an argument should be considered.	Evaluation
Explain	Provide statements on what happened, how it happened and why it happened. Provide elaboration of particular terms, concepts, and approaches.	Comprehension
Give	State/Provide factual information in concise terms.	Recall
Identify	Name or point out specific components or features. Point out, indicate without explanation or recognise and select.	Recall
Interpret	Explain the meaning of given qualitative and quantitative data. This may include predictions.	Analysis
Investigate	Use appropriate procedures to observe, research, record data and draw logical conclusions.	Evaluation
Justify	Explain the correctness of/ give reasons for the selection of.	Evaluation
Label	Add names to identify structures or parts indicated by pointers.	Recall
List	Itemise without detail such as explanation or description.	Recall
Name	Give only the name of.	Recall
Outline	Give main points only. Basic steps or features. Provide in skeletal form.	Comprehension Synthesis
Plan	Prepare to conduct an activity by showing a series of systematic steps which, when followed, will lead to a solution.	Synthesis

<u>WORD</u>	<u>DEFINITION/MEANING</u>	<u>COGNITIVE LEVEL</u>
Select	Choose from a list.	Recall
Show	Demonstrate (how a process is carried out in steps/stages).	Application
State	Give/Provide factual information in concise terms.	Recall

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FINANCIAL SERVICES STUDIES

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Specimen Papers, Mark Schemes and Keys:

Unit 1 Paper 01
Unit 1 Paper 02
Unit 2 Paper 01
Unit 2 Paper 02

SPECIMEN 2022



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FINANCIAL SERVICES STUDIES

UNIT 1 – Paper 01

1 hour 30 minutes

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This test consists of 45 items. You will have 1 hour and 30 minutes to answer them.
2. In addition to this test booklet, you should have an answer sheet.
3. Do not be concerned that the answer sheet provides spaces for more answers than there are items in this test.
4. Each item in this test has four suggested answers lettered (A), (B), (C), (D). Read each item you are about to answer and decide which choice is best.
5. On your answer sheet, find the number which corresponds to your item and shade the space having the same letter as the answer you have chosen. Look at the sample item below.

Sample Item

Which of the following financial statement items will increase when securities are sold from a portfolio?

- (A) Assets
- (B) Income
- (C) Liabilities
- (D) Expenditure

Sample Answer



The best answer to this item is “Assets” so answer space (A) has been shaded.

6. If you want to change your answer, erase it completely before you fill in your new choice.
7. When you are told to begin, turn the page and work as quickly and as carefully as you can. If you cannot answer an item, go on to the next one. You may return to that item later.
8. You may do any rough work in this booklet.
9. Figures are not necessarily drawn to scale.
10. The use of silent, non-programmable calculators is allowed.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

1. A financial market in which only short-term debt instruments with maturity of less than one year traded is known as
 - (A) a stock market
 - (B) a capital market
 - (C) a money market
 - (D) an equity market
2. A financial market in which longer-term debt (with maturity of one year or greater) and equity instruments are traded is referred to as
 - (A) a capital market
 - (B) a money market
 - (C) an equity market
 - (D) a commodities market
3. Which of the following are capital market instruments?
 - I. Bonds
 - II. Stocks
 - III. Mortgages
 - (A) I and II only
 - (B) I and III only
 - (C) II and III only
 - (D) I, II, and III
4. Which of the following are money market instruments?
 - I. Negotiable bank certificate of deposit
 - II. Banker's acceptance
 - III. Repurchase agreement
 - (A) I and II only
 - (B) I and III only
 - (C) II and III only
 - (D) I, II and III
5. When securities are bought, they are referred to as
 - (A) assets
 - (B) liabilities
 - (C) receivables
 - (D) expenditures
6. A primary market is a financial market in which
 - (A) only short-term debt instruments are traded
 - (B) securities that have been previously issued can be resold
 - (C) only long-term debt instruments and equity instruments are traded
 - (D) new securities are issued and sold directly to investors
7. A certificate of deposit (CD) is BEST described as a short-term debt instrument that is
 - (A) issued to finance federal government
 - (B) used in conducting international trade
 - (C) sold by a bank to depositors at a fixed interest rate
 - (D) issued by large, well-known corporations to private investors
8. Which of the following statements BEST describes a commercial paper?
 - (A) A money market instrument used in conducting international trade
 - (B) A short-term debt instrument issued to finance federal government
 - (C) A short-term debt instrument issued by large, well-established corporations
 - (D) A long-term debt instrument sold by a bank to depositors at a fixed interest rate

GO ON TO THE NEXT PAGE

9. A short-term debt instrument issued by firms as part of a transaction, and which is guaranteed by a bank is known as a
- (A) commercial paper
 - (B) banker's acceptance
 - (C) certificate of deposit
 - (D) repurchase agreement
10. In order to finance fiscal deficits, the Ministry of Finance would issue
- (A) put options
 - (B) equity securities
 - (C) futures contracts
 - (D) government bonds
11. Bonds denominated in a currency other than that of the country in which they are sold are called
- (A) eurobonds
 - (B) foreign bonds
 - (C) corporate bonds
 - (D) government bonds
12. Financial intermediaries are important in financial markets because they
- I. help to reduce the exposure of investors to risk through risk sharing
 - II. prevent situations involving adverse selection and moral hazards
 - III. allow investors to take advantage of economies of scale due to their size
- (A) I and II only
 - (B) I and III only
 - (C) II and III only
 - (D) I, II and III
13. Which of the following are investment intermediaries?
- I. Hedge funds
 - II. Mutual funds
 - III. National insurance schemes
- (A) I and II only
 - (B) I and III only
 - (C) II and III only
 - (D) I, II and III
14. Which of the following are contractual savings institutions?
- I. Credit unions
 - II. Life insurance companies
 - III. National insurance schemes
- (A) I and II only
 - (B) I and III only
 - (C) II and III only
 - (D) I, II and III
15. A company that helps a corporation underwrite securities by purchasing them at a predetermined price and reselling in the market is known as
- (A) a mutual fund
 - (B) a finance company
 - (C) an investment bank
 - (D) a money market mutual fund
16. If Sandra is a risk-averse investor, then she will
- (A) accept any investment that is a fair game
 - (B) only care about the rate of return on her investment
 - (C) be willing to accept lower returns on investments with higher risks
 - (D) only accept risky investments offering premiums over the risk-free rate

GO ON TO THE NEXT PAGE

17. Which of the following statements on markets is INCORRECT?

- (A) Strong-form efficient markets include privately held information.
- (B) Publicly available information is not included in weak-form efficient markets.
- (C) Semi-strong form market efficiency only uses information provided by the company to the general public.
- (D) Semi-strong form market efficiency requires all information on past prices to be included into the price.

18. Mr Wellington purchased a share of stock for \$25. One year later he received \$1 as dividend and sold the share for \$34. What was Mr Wellington's holding period return?

- (A) 32%
- (B) 40%
- (C) 49%
- (D) 55%

19. If the return on common stock investment is on average 25% and the return on Government Treasury bills (T-bills) in Country A is 5% over the same period, what is the risk premium earned?

- (A) 5%
- (B) 13%
- (C) 20%
- (D) 23%

Items 20–23 refer to the following table on stock return.

Year	Return		
	Stock A	Stock B	Stock C
1	20%	14%	5%
2	15%	16%	-8%
3	14%	9%	11%

20. What is the variance of returns for Stock B?

- (A) 0.0021
- (B) 0.0025
- (C) 0.00413
- (D) 0.00574

21. What is the standard deviation of returns for Stock C?

- (A) 0.0112
- (B) 0.0215
- (C) 0.00943
- (D) 0.09712

22. What is the average return for Stock A?

- (A) 12.0%
- (B) 14.0%
- (C) 15.5%
- (D) 16.3%

23. What is the average return of a portfolio that has 40% invested in Stock A, 35% invested in Stock B and the remainder invested in Stock C?

- (A) 7.45%
- (B) 8.8%
- (C) 11.6%
- (D) 12.5%

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24. Martin has invested in multiple regional and global companies in the last 3 years. He earned 5%, 7%, and 9% respectively on his portfolio. What is the standard deviation of the returns on Martin's portfolio?
- (A) 0.020
(B) 0.050
(C) 0.070
(D) 1.634
25. A businessman invests 35% of his wealth in a risky asset with an expected rate of return of 0.25 with a variance of 0.012 and 65% in a T-bill that pays 5%.
- The businessman's corresponding portfolio's expected return and standard deviation are
- (A) 0.120; 0.038
(B) 0.0456; 0.111
(C) 0.0645; 0.3546
(D) 0.087; 0.124
26. The average return for a portfolio over 4 years was 25%, and the standard deviation was 18.5%. If the 90-day T-bill return was 7 % for this period, what was the Sharpe?
- (A) 0.52
(B) 0.64
(C) 0.84
(D) 0.97
27. Wilmore purchases a bond with its current yield being greater than the coupon rate. The bond's current price is expected to
- (A) exceed the face value at maturity
(B) decline over the maturity of the bond
(C) increase over the maturity of the bond
(D) be less than the face value at maturity
28. If a bond is priced at \$1000 with five years to maturity and a 10% coupon with semiannual payments, then the value of each payment of interest equals
- (A) \$40
(B) \$50
(C) \$75
(D) \$100
29. The beta for the common stock of Forever Inc. and Alowoa Inc. is 0.90 and 1.80 respectively. If the expected return on the market is 10% and the risk-free rate is 6%, according to the capital-asset pricing model (CAPM), the required return on common stock for the two companies should be
- (A) 3.6%; 7.2
(B) 9.0%; 18.0
(C) 9.6%; 13.2
(D) 14.0%; 13.0
30. Which of the following risks is fully diversifiable?
- (A) Total risk
(B) Portfolio risk
(C) Systematic risk
(D) Unsystematic risk

GO ON TO THE NEXT PAGE

31. Which of the stages in the money laundering process is/are associated with the concealment of funds?
- (A) Layering
 - (B) Placement
 - (C) Integration
 - (D) Both layering and integration
32. Which of the following organization's main objective is concerned with the prevention of money laundering?
- (A) IMF
 - (B) WTO
 - (C) FATF
 - (D) IBRD
33. Which of the following can be considered acts of due diligence against money laundering?
- (A) Issuing stop orders
 - (B) One-off monitoring
 - (C) Background information requests
 - (D) Issuing account update reminders to customers
34. Which of the following are reasons why the regulation of offshore banks is important?
- I. Protecting consumers
 - II. Enhancing integrity
 - III. Helping to maintain competitive markets
- (A) I and II only
 - (B) I and III only
 - (C) II and III only
 - (D) I, II and III
35. Which of the following are possible reasons for the existence of more than one regulatory accounting body in a particular jurisdiction?
- I. Differences in currency conversion
 - II. Difficulties in developing a comprehensive set of rules
 - III. Differences among regulatory systems globally and regionally
- (A) I and II only
 - (B) I and III only
 - (C) II and III only
 - (D) I, II and III
36. Which of the following is NOT a required step in maintaining cyber security?
- (A) Follow protocol.
 - (B) Protect from risks.
 - (C) Detect and monitor.
 - (D) Identify cyber security threats.
37. Which of the following institutions has developed capital adequacy standards that are used in the global financial system?
- (A) World Bank
 - (B) International Monetary Fund (IMF)
 - (C) Bank for International Settlements (BIS)
 - (D) Organization for Economic Co-operation and Development (OECD)

GO ON TO THE NEXT PAGE

38. Which of the following affects the adoption of the International Accounting Standards as a country's national Generally Accepted Accounting Principles (GAAP)?
- I. Misunderstanding the nature of standards
 - II. Lack of appropriate mechanisms for granting national authority to international standards
 - III. Inconsistencies between standards and the legal framework of sovereign states
- (A) I and II only
(B) I and III only
(C) II and III only
(D) I, II and III
39. The first Basel Concordat was developed because of the
- (A) contagion of banks
(B) capital adequacy of banks
(C) off balance sheet activities of banks
(D) division of responsibilities among national supervisory authorities
40. The Basel Accord is concerned with which of the following risks?
- I. Capital risk
 - II. Random risk
 - III. Operational risk
- (A) I only
(B) II only
(C) I and III only
(D) II and III only
41. A conceptual framework for financial reporting is a set of
- (A) financial reporting standards
 - (B) regulations for all accounting standards
 - (C) standards that regulate the changes in cash flow
 - (D) principles which guide the financial reporting process
42. The standards and rules that are recognized as an overall guide for financial reporting are called
- I. Generally Accepted Accounting Principles (GAAP)
 - II. International Financial Reporting Standards (IFRS)
 - III. Generally Adopted Accounting Principles (GAAP)
- (A) I only
(B) II only
(C) I and II only
(D) II and III only
43. Which of the following accounting concepts states that expenses incurred in obtaining revenue during a period should be related to the revenues recognized during the period?
- (A) Going-concern
 - (B) Full disclosure
 - (C) The matching principle
 - (D) Conservatism convention

GO ON TO THE NEXT PAGE

44. A computer fraud and abuse technique that steals personal information is known as a cyber
- (A) war
 - (B) attack
 - (C) security
 - (D) defense
45. The name of the organization responsible for the setting of global accounting standards is the
- (A) World Trade Organization
 - (B) Financial Accounting Standards Council
 - (C) International Accounting Standards Board
 - (D) International Organization of Securities Commissions

END OF TEST

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SUBJECT FINANCIAL SERVICES STUDIES – UNIT 1 – Paper 01

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C A R I B B E A N A D V A N C E D P R O F I C I E N C Y E X A M I N A T I O N
F I N A N C I A L S E R V I C E S S T U D I E S
U N I T 1
S P E C I M E N P A P E R 01
K E Y

Item #	Key	Objective
1	C	1.1.2.9.
2	A	1.1.2.9.
3	D	1.1.2.8.
4	D	1.1.2.8.
5	A	1.1.2.7.
6	D	1.1.2.9.
7	C	1.1.2.8.
8	C	1.1.2.8.
9	B	1.1.2.8.
10	D	1.1.2.8.
11	A	1.1.2.8.
12	D	1.1.2.7.
13	A	1.1.2.10.
14	A	1.1.2.10.
15	C	1.1.2.10.
16	D	1.2.2.3.
17	B	1.2.2.12.
18	B	1.2.2.18.
19	C	1.2.2.4.
20	C	1.2.2.18.
21	D	1.2.2.18.
22	D	1.2.2.18.
23	C	1.2.2.18.
24	A	1.2.2.18.
25	A	1.2.2.18.
26	D	1.2.2.18.
27	D	1.2.2.17.
28	B	1.2.2.17.
29	C	1.2.2.11.
30	D	1.2.2.16.
31	A	1.3.2.2.
32	C	1.3.2.5.
33	C	1.3.2.5.
34	D	1.3.2.8.
35	C	1.3.2.8.
36	A	1.3.2.7.
37	C	1.3.2.9.

Item #	Key	Objective
38	C	1.3.2.15.
39	B	1.3.2.14.
40	A	1.3.2.14.
41	D	1.3.2.15.
42	C	1.3.2.15.
43	C	1.3.2.11.
44	B	1.3.2.6.
45	C	1.3.2.15.

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SUBJECT FINANCIAL SERVICES STUDIES – UNIT 1 – Paper 02

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NAME OF SCHOOL/CENTRE

CANDIDATE'S FULL NAME (FIRST, MIDDLE, LAST)

DATE OF BIRTH

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FINANCIAL SERVICES STUDIES

UNIT 1 – Paper 02

2 hours 30 minutes

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. The examination paper consists of TWO sections.
2. Answer ALL questions from the TWO sections.
3. Write your answers in the spaces provided in this booklet.
4. Do NOT write in the margins.
5. If you need to rewrite any answer and there is not enough space to do so on the original page, you must use the extra lined page(s) provided at the back of this booklet. **Remember to draw a line through your original answer.**
6. **If you use the extra page(s) you MUST write the question number clearly in the box provided at the top of the extra page(s) and, where relevant, include the question part beside the answer.**

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Section I

Answer ALL questions in this section.

Write your answers in the spaces provided in this booklet.

1. (a) List THREE theories that explain the term ‘structure of interest rates’.

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[3 marks]

- (b) Identify TWO rationales behind the efficient market hypothesis.

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[2 marks]

- (c) Outline THREE factors which explain the demand for assets.

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[6 marks]

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- (d) Compare the primary uses of funds held by commercial banks with that of funds held by credit unions.

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[4 marks]

Total 15 marks

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2. (a) State FIVE assumptions underlying the use of the efficient market hypothesis (EMH).

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[5 marks]

- (b) Briefly outline the THREE forms of the EMH.

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[6 marks]

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- Assuming that the above assertion holds true, explain whether it affirms or refutes the efficient market hypothesis.

[illegible]

3. (a) List FIVE generally accepted accounting principles.

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[5 marks]

- (b) Briefly explain THREE of the generally accepted accounting principles listed in (a).

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[6 marks]

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- (c) Outline the importance of a conceptual framework in the preparation and presentation of financial statements.

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[4 marks]

Total 15 marks

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Section II

Answer ALL questions in this section.

Write your answers in the spaces provided in this booklet.

4. Tourists, business visitors and sport competitors to Rio de Janeiro have a deep attraction and vast interest in the luxurious and charming real estate properties advertised and showcased by real estate agents. Enrique had gone to Rio to race in a mountain bike event held by the Central American and Caribbean Games and became fascinated by the lovely terrain and properties around. He had just acquired a large inheritance and wanted to purchase some of the properties he saw in Rio.

- (a) Identify the FOUR factors which would influence Enrique's demand for the properties.

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[4 marks]

- (b) Briefly explain, using appropriate graphical illustrations, how EACH factor would influence the demand for the properties that Enrique is interested in possessing.

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Total 20 marks

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5. Sandra Moler is an investment manager at Assets Worldwide. She has been touted by her peers as a leader in her field and an extremely talented asset manager. Moler's supervisor, Alwick Herd, has recently joined Assets Worldwide. Herd's former post was lecturing finance at Westeros University. Moler is excited to work with Herd and hopes to learn about different financial theories from her new boss. Herd also has an impressive track record in academia; all his published work can be found in *Finca*, the number one finance journal in the world. This is Herd's first week with Worldwide and he is told that on the last Monday of every month, Moler is asked to speak with the board of directors to report on the company's success or failure in its portfolio management efforts. The week before Moler's presentation to the board, she submits her report to Herd.

Performance Report of Assets Worldwide

Class	Return	Beta
Asset 1	22%	1.0
Asset 2	55%	1.2
Asset 3	-8%	0.8
Treasury 30 day	2%	
Portfolio Performance	18.5%	

Asset Worldwide has managed to outperform all other asset managers in the country, with its portfolio gaining an 18.5% increase in returns for the month ended. The general market sentiment has not been in favour of other asset management firms. Hence, Assets Worldwide's team has been strategic with respect to its asset selection in order to maintain positive returns in the portfolio overall.

Having read the report, Herd is extremely confused and calls Moler to his office immediately. Herd explains to Moler that the portfolio return is incorrect, and the performance report lacks pertinent information that the board needs to make an appropriate evaluation of the team's performance. Moler is also confused by Herd's concerns, as she has always given similar reports and her previous supervisor had never complained. Moler explains to Herd that she calculated an arithmetic average of the returns of all assets included in the portfolio. Herd, understanding that Moler did not receive adequate supervision, begins to explain to Moler the corrections that need to be made to her report.

GO ON TO THE NEXT PAGE

- (a) Briefly explain TWO additional items of information that would add value to Moler's report.

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[4 marks]

- (b) According to Mr Herd, Moler's calculation of portfolio returns was incorrect. Outline the correct process to be followed in calculating portfolio returns.

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[6 marks]

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- Give a brief overview of CAPM and explain THREE ways in which this model might be appropriate for Moler's report.

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Total 20 marks

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6. Natasha Honest is a teller at Stone Bank in Jamaica. She is married to Peter Honest the chief executive officer (CEO) of Executives Club Management. Peter has been doing business with Stone Bank for over 18 years. Recently, Peter's business has not been doing so well. In fact, he has lost ten of his biggest clients to Strength Investments. Natasha, being a supportive wife, recommends her husband's company to Stone Bank's A class clients. Peter is delighted and has signed two clients so far. One of these clients, Winston Church, listed his occupation as entrepreneur. Peter likes to engage with his clients so he decides to take Church for lunch to discuss further exactly what his entrepreneurial activities involve.

At lunch, Church tells Peter, *I have a big lew coming this Thursday and I'm hoping you can turn it into a bigger lew*". Peter is intrigued and asks Church to explain. Church says to Peter *"Listen Honest I'm what the kids call a new age entrepreneur, I dabble in any and everything...and I mean everything. My big lew is 50 million worth"*.

Peter needs this investment and does not bother to ask Church what he means by "new age entrepreneur". He settles with the fact that if he is a Stone Investment A class client, Church cannot be doing anything illegal. Peter accepts the 50 million and invests in a market-based portfolio. He directs the return on the portfolio to Church's account at Stone Investments. Two weeks later, Peter receives a call from the Financial Services Commission (FSC), requesting a meeting. Shortly after the meeting with the FSC, Peter calls Natasha and informs her that Church had been arrested for drug trafficking.

- (a) Mr Church was involved in money laundering. Explain the THREE stages of money laundering, citing evidence from the case for EACH stage.

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[12 marks]

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- (b) With reference to your response in (a), outline TWO offences of money laundering that Mr Church committed.

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[4 marks]

- (c) Explain TWO strategies that Mr Honest could have employed to protect himself from being a victim of money laundering.

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[4 marks]

Total 20 marks

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SUBJECT FINANCIAL SERVICES STUDIES – UNIT 1 – Paper 02

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FINANCIAL SERVICES STUDIES

UNIT 1 - PAPER 02

KEYS AND MARK SCHEME

MAY/JUNE 2022

SPECIMEN PAPER

FINANCIAL SERVICES STUDIES

UNIT 1 - PAPER 02

KEYS AND MARK SCHEME

Question 1.**Specific Objectives: 1.1.2.10., 1.1.2.12., 1.1.2.13., 1.1.2.14.****(a) Structure of interest rate theories:**

- Expectation Theory
- Segmented Markets Theory
- Liquidity Premium Theory

1 mark for each up to a maximum of 3 marks**(b) Rationales behind the efficient market hypothesis:**

In an efficient market:

- all unexploited profit opportunities will be eliminated
- everyone in a financial market must be well informed/no asymmetric information
- not everyone in a financial market must have rational expectations
- there are no transactional costs

1 mark for each up to a maximum of 2 marks**(c) Factors which explain the demand for assets:**

- Wealth - resources owned by individuals
- Expected return - the returns associated with a particular asset vis-à-vis an alternative asset
- Risk - the degree of uncertainty associated with one asset relative to an alternative asset
- Liquidity - the ease and speed with which an asset can be converted into cash relative to an alternative asset
- Inflation - the growth in prices positively affects the value of assets
- Interest rate - changes in interest rates influence the demand for an asset

**1 mark for each point and 1 mark for each description
up to a maximum of 6 marks**

FINANCIAL SERVICES STUDIES

UNIT 1 - PAPER 02

KEYS AND MARK SCHEME

Question 1. (continued)

(d) Similarities and differences in the way commercial banks and credit unions use funds:

Similarities:

- Commercial banks: Business and consumer loans
- Credit unions: Consumer loans and personal loans to individuals, especially members.

Difference:

- Commercial banks can lend funds to businesses while credit unions cannot issue commercial loans unless it is registered as a proprietorship/sole trader.

1 mark for each point

1 mark for the explanation for a maximum of 4 marks

Total 15 marks

FINANCIAL SERVICES STUDIES

UNIT 1 - PAPER 02

KEYS AND MARK SCHEME

Question 2.Specific Objectives: 1.2.2.12., 1.2.2.13.**(a) Assumptions of the Efficient Market Hypothesis:**

Supporting Views
Random walk behaviour of Stock Prices: Future changes in stock prices should for all practical purposes be unpredictable. Technical Analysis: Past information cannot be used as a predictor of future stock prices. January Effect: Stocks prices are usually abnormally high in January. Excessive Volatility (Market Overreaction): Fluctuations in stock prices may be greater than are warranted by fluctuations in their fundamentals. Investors are expected to behave rationally: Investors make decisions based on risk and past price action.

1 mark for each up to a maximum of 5 marks

(b) Outline of the three forms of the efficient market hypothesis:

- **Weak-form (1)** - The weak-form of the efficient market hypothesis holds that information on the past movements of stock prices and volumes cannot be used to predict future stock prices **(1)**.
- **Semi-strong form (1)** - This form of the hypothesis holds that the analysis of any publicly available information is pointless because all such information is already reflected in stock prices **(1)**.
- **Strong form (1)** - The efficient market hypothesis holds that even investors with privileged information cannot use that information to develop profitable investing strategies. Not surprisingly, there is little support for this hypothesis **(1)**.

1 mark for naming the form of the EMH and

1 mark for the explanation up to a maximum of 6 marks

FINANCIAL SERVICES STUDIES

UNIT 1 - PAPER 02

KEYS AND MARK SCHEME

Question 2. (continued)**(c) Explanation on validity of the statement:**

- Yes. If this assertion is true, it refutes the semi-strong form of EMT. **(1)**
- If the semi-strong form of EMT is true, you should not be able to use publicly available information such as the dividend yield to earn abnormal rates of return. **(2)**
- All available information would be incorporated in the price **(1)**.

All the main points outlined above, given, 4 marks

Total 15 marks

FINANCIAL SERVICES STUDIES

UNIT 1 - PAPER 02

KEYS AND MARK SCHEME

Question 3.**Specific Objectives: 1.3.2.15.****(a) Generally accepted accounting principles:**

- Principle of prudence
- Principle of sincerity
- Principle of regularity
- Principle of continuity
- Principle of periodicity
- Principle of materiality
- Principle of consistency
- Principle of non-compensation
- Principle of utmost good faith
- Principle of permanence of methods

Any five correct responses**1 mark each for a maximum of 5 marks**

FINANCIAL SERVICES STUDIES

UNIT 1 - PAPER 02

KEYS AND MARK SCHEME

Question 3. (continued)**(b) Explanation of generally accepted accounting principles:**

- **Principle of Regularity:** GAAP-compliant accountants strictly adhere to established rules and regulations.
- **Principle of Consistency:** Consistent standards are applied throughout the financial reporting process.
- **Principle of Sincerity:** GAAP-compliant accountants are committed to accuracy and impartiality.
- **Principle of Permanence of Methods:** Consistent procedures are used in the preparation of all financial reports.
- **Principle of Non-Compensation:** All aspects of an organization's performance, whether positive or negative, are fully reported with no prospect of debt compensation.
- **Principle of Prudence:** Speculation does not influence the reporting of financial data.
- **Principle of Continuity:** Asset valuations assume the organization's operations will continue.
- **Principle of Periodicity:** Reporting of revenues is divided by standard accounting periods, such as fiscal quarters or fiscal years.
- **Principle of Materiality:** Financial reports fully disclose the organization's monetary situation.
- **Principle of Utmost Good Faith:** All involved parties are assumed to be acting honestly.

Any three correct responses

2 marks for each complete response for a maximum of 6 marks

FINANCIAL SERVICES STUDIES

UNIT 1 - PAPER 02

KEYS AND MARK SCHEME

Question 3. (continued)**(c) Importance of a conceptual framework in the preparation and presentation of financial statements:**

- A conceptual framework must consider the theoretical and conceptual issues surrounding financial reporting and form a coherent and consistent foundation that will underpin the development of accounting standards.
- Conceptual frameworks can apply to many disciplines, but when specifically related to financial reporting, a conceptual framework can be seen as a statement of generally accepted accounting principles (GAAP) that form a frame of reference for the evaluation of existing practices and the development of new ones.
- As the purpose of financial reporting is to provide useful information as a basis for economic decision-making, a conceptual framework will form a theoretical basis for determining how transactions should be measured (historical value or current value) and reported, that is, how they are presented or communicated to users.
- The framework is also of value to auditors, and the users of financial statements, and more generally help interested parties to understand the IASB's/ US GAAP approach to the formulation of an accounting standard.

Each importance, clearly outlined

**1 mark for the importance and 1 mark for the explanation
for a maximum of 4 marks**

Total 15 marks

FINANCIAL SERVICES STUDIES

UNIT 1 - PAPER 02

KEYS AND MARK SCHEME

Question 4.**Specific Objectives: 1.1.2.12.**

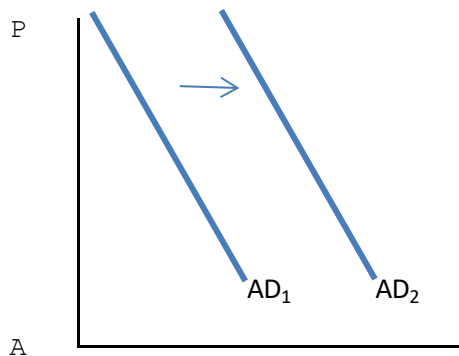
(a) Factors which would influence Enrique's demand for the properties:

- Wealth
- Risk
- Liquidity
- Expected rate of return

1 mark for each correct response up to a maximum of 4 marks

(b) The influence of each factor on the demand for an asset:

Wealth is the total resources owned by an investor (1 mark). The more wealth an investor possesses, the more resources he/she will have available to acquire assets (1 mark). It therefore means that the demand for an asset is likely to increase when there is an increase in wealth (1 mark) shifting the demand curve to the right from AD₁ to AD₂ (1 mark) (Figure 1).



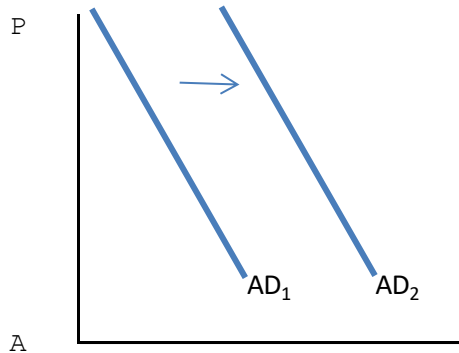
FINANCIAL SERVICES STUDIES

UNIT 1 - PAPER 02

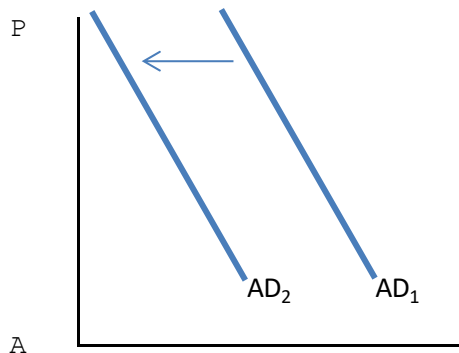
KEYS AND MARK SCHEME

Question 4. (continued)

Expected return - the gains an investor is likely to enjoy from holding an asset relative to other assets (1 mark). When the expected return of an asset improves, it would make the acquisition of the asset more desirable (1 mark). It therefore follows that an increase in an asset's expected return relative to that of an alternative asset, holding everything else unchanged, would raise the quantity demanded on the asset (1 mark). The impact of an improvement in the expected return of an asset may be reflected by an outward shift in the demand curve from AD_1 to AD_2 (1 mark) (Figure 2).



Risk - the degree of uncertainty associated with the expected return of an asset relative to alternative assets affects the demand for the asset (1 mark). Based on the theory of asset demand, if an asset's risk rises relative to that of alternative assets, its quantity demanded will decline (1 mark). This may be reflected by a shift in the demand curve to the left from AD_1 to AD_2 (2 marks) (Figure 3).



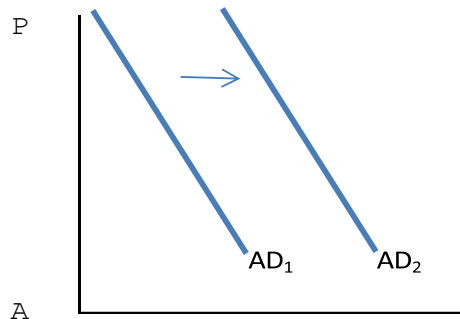
FINANCIAL SERVICES STUDIES

UNIT 1 - PAPER 02

KEYS AND MARK SCHEME

Question 4. (continued)

Liquidity is the ease and speed at which an asset can be converted into cash relative to an alternative asset (1 mark). The more liquid an asset is relative to alternative assets, holding everything else unchanged, the more desirable it is and the greater will be the quantity demanded (1 mark). It follows therefore that when the liquidity of an asset improves, this would result in an increase in the demand for the asset; this is reflected by a shift in the demand curve to the right (2 marks) (Figure 4).



For each factor:

- 1 mark for brief explanation of factor
- 1 mark for identifying the relationship between factor and asset demand
- 1 mark for summarizing the impact of a change in demand caused by change in each factor
- 1 mark for showing the impact graphically

Total 20 marks

FINANCIAL SERVICES STUDIES

UNIT 1 - PAPER 02

KEYS AND MARK SCHEME

Question 5.**Specific Objectives: 1.2.2.11., 1.2.2.18., 1.2.2.19.**

- (a) **Explanation of two additional items of information that would have added value to Moler's report:**

Moler should have stated the standard deviation of asset returns. (1)
Standard deviation is used as a measure of risk and is widely accepted within finance as such a measure. (1)

Additionally, she should have stated the weighting of each asset class. (1) This would add value to the board's analysis of the portfolio's performance. (1)

The above list is not exhaustive.

1 mark for stating measure

1 mark for explanation

- (b) **Explanation on the calculation of portfolio returns:**

The calculated portfolio returns is not an arithmetic mean but rather a weighted mean. (2)

The formula is $R_p = \sum_{j=1} w_j R_j$, where w represents the weight of an asset in the portfolio and R represents the return. The return of the portfolio is dependent on the weight of an asset and its contributing return. (4)

1 mark for each step in the calculation

2 marks for explanation

- (c) **Overview of the capital asset pricing model (CAPM) and how it might be appropriate for Moler's report:**

The capital asset pricing model (CAPM) starts with the idea that individual investment contains two types of risks:

1. *Systematic risk* - these are market risks, that is, general perils of investing that cannot be diversified away. Interest rates, recessions, and wars are examples of systematic risks.
2. *Unsystematic risk* - also known as "specific risk"; this risk relates to individual stocks. In more technical terms, it represents the component of a stock's return that is not correlated with general market moves.

The CAPM describes the relationship between systematic risk and expected return for assets, particularly stocks. It is widely used throughout finance for pricing risky securities and generating expected returns for assets given the risk of those assets and cost of capital.

FINANCIAL SERVICES STUDIES

UNIT 1 - PAPER 02

KEYS AND MARK SCHEME

Question 5. (continued)

Investors expect to be compensated for risk and the time value of money. The risk-free rate in the CAPM formula accounts for the time value of money. The other components of the CAPM formula account for the investor taking on additional risk.

The beta of a potential investment is a measure of how much risk the investment will add to a portfolio that looks like the market. If a stock is riskier than the market, it will have a beta greater than one. If a stock has a beta of less than one, the formula assumes it will reduce the risk of a portfolio.

A stock's beta is then multiplied by the market risk premium, which is the return expected from the market above the risk-free rate. The risk-free rate is then added to the product of the stock's beta and the market risk premium. The result should give an investor the required return or discount rate they can use to find the value of an asset.

The goal of the CAPM formula is to evaluate whether a stock is fairly valued when its risk and the time value of money are compared to its expected return. The theory says that the only reason an investor should earn more, on average, by investing in one stock rather than another is that one stock is riskier.

Reports such as this would have benefitted from a comparison.

Moler has shown actual results. However, if an estimated result could be shown of what investors' minimum expected return is given the level of risk, this would contribute significantly to the assessment of the portfolio's performance.

Moler has shown Beta in her report but has not given an explanation of the significance of Beta. Beta is a measure of systematic risk in the market. Additionally, market risk premium needs to be stated to give investors and the board better information regarding asset class selection.

The capital asset pricing model (CAPM) would allow Moler to review the portfolio's performance by highlighting the risk of each asset class. More risk should be equivalent to more return.

**Overview of CAPM, 4 marks; each reason properly outlined
2 marks each, for a maximum of 10 marks**

Total 20 marks

FINANCIAL SERVICES STUDIES

UNIT 1 - PAPER 02

KEYS AND MARK SCHEME

Question 6.**Specific Objective: 1.3.2.2., 1.3.2.3., 1.3.2.4.****(a) Explanation of the stages of money laundering:**

- Stages of money laundering:
- Placement
- Layering
- Integration

1 mark for each correct stage

(b) Definition and Description of each stage:

Placement refers to the movement of cash from its source. Sometimes sources can be disguised or easily represented. Normally such is followed by placing the laundered amount into circulation via local, regional or international financial institutions, or other business enterprises.

"Peter accepts the 50 million and invests in a market-based portfolio."

Layering is the process of disguising the laundered funds, making it more difficult to detect and uncover a laundering activity. Hence, the stage is meant to deter law enforcement officials and the prevention of a clear paper trail. "Peter directs the return on the portfolio to Church's account at Stone Investments."

Integration is the movement of previously laundered money into the economy through the banking system and thus such monies appear to be normal business earnings, that is, the once laundered funds is now concealed. This stage differs from layering in that, in the integration process, detection and identification of laundered funds is provided through informants. "Peter Honest invests the 50 million in a market portfolio and the returns is invested in Stone Investments."

3 marks each for the description of each stage including the evidence from the case

FINANCIAL SERVICES STUDIES

UNIT 1 - PAPER 02

KEYS AND MARK SCHEME

Question 6. (continued)**(b) Offences of money laundering revealed in the case:**

- Concealing, transferring or dealing with the proceeds of criminal conduct

It is an offence to use, transfer, send or deliver to any person or place, or to dispose of or otherwise deal with any property, for the purpose of concealing or disguising such property, knowing, suspecting or having a reasonable suspicion that the property (in whole or in part, directly or indirectly) is the proceeds of criminal conduct. For this offence, references to concealing or disguising property includes concealing or disguising the nature, source, location, disposition, movement or ownership or any rights with respect to the property. When Peter accepts and invests the funds from Mr Church and directs the returns to Mr Church's account at Stone Investments, he should have suspected that the source of the funds is from criminal conduct.

- Assisting another to conceal the proceeds of criminal conduct

It is an offence for any person to provide assistance to a criminal for the purpose of obtaining, concealing, retaining or investing funds, knowing or suspecting, or having reasonable grounds to suspect that those funds are the proceeds of serious criminal conduct.

- Acquisition, possession or use

It is an offence to acquire, use or possess a property which is the proceeds (whether wholly or partially, directly or indirectly) of criminal conduct, knowing, suspecting or having reasonable grounds to suspect that such a property is the proceeds of criminal conduct.

- Failure to disclose

It is an offence if a person fails to disclose to the authorities or police that another person is engaged in money laundering related to proceeds of criminal activity.

FINANCIAL SERVICES STUDIES

UNIT 1 - PAPER 02

KEYS AND MARK SCHEME

Question 6. (continued)

- Tipping off

It is also an offence for anyone who knows, suspects or has reasonable grounds to suspect that a disclosure has been made, or that the authorities are acting, or are proposing to act, in connection with an investigation into money laundering, to prejudice an investigation by so informing the person who is the subject of a suspicion, or any third party of the disclosure, action or proposed action. Preliminary enquiries of a customer in order to verify his identity or to ascertain the source of funds or the precise nature of the transaction being undertaken will not trigger a tipping off offence before a suspicious transaction report has been submitted in respect of that customer unless the enquirer knows that an investigation is underway or the enquiries are likely to prejudice an investigation.

For any TWO offences correctly described,

1 mark for naming the offence and

1 mark for the explanation, for a total of 4 marks

[4 marks]

FINANCIAL SERVICES STUDIES

UNIT 1 - PAPER 02

KEYS AND MARK SCHEME

Question 6. (continued)

- (c) **Strategies Mr Honest could have employed to protect himself from money laundering:**

Make sure his AML programme reflects his business - the firm should have put together an AML policy and procedural framework that reflects its day-to-day business activities.

Make sure the flow makes sense - too often, there is misalignment within a financial crime risk management framework. The risk assessment should drive the policy, the policy drives the procedures, the procedures need to reflect actual business as usual, and the subsequent controls should monitor that the entire process is aligned and working.

Have a clear technology plan - with the data sets that require scrutiny becoming larger and larger, it is almost impossible to have an effective financial crime risk mitigation strategy without technology components, whether within client identification, client and transaction monitoring or managing the outputs from all these processes in one clear view. The regulators are clear that they expect a clear technology plan. Even if Mr Honest chooses not to use technology for certain activities, he needs to be able to articulate why he believes a manual process is better.

Understand your tools - when using third party PEP and sanctions list, Mr Honest should make sure he understands where the data come from and how they are maintained. When using analytics to monitor behaviour, trends and transactions, he should make sure he can explain the underlying rationale for the algorithms deployed.

Be sure to conduct risk-based due diligence - this includes all customers, associates, consultants and third parties. The higher the risk, the higher the level of due diligence is required. Regulations are emerging that require firms to provide more and more detail about what they do in this respect and why they believe that what they do is appropriate. Over time there will be increasing clarity about what constitutes standard and enhanced due diligence, so firms need to review their current practices against new emerging regulations.

Make sure his training is focused - everyone in a firm should be able to explain how the firm and its products and services are most at risk from financial crime. In the same vein, everyone should be clear on how to respond to unusual activity to determine whether this unusual activity gives rise to concern or possibly suspicion.

FINANCIAL SERVICES STUDIES

UNIT 1 - PAPER 02

KEYS AND MARK SCHEME

Question 6. (continued)

Do regular reviews - regulations require regular internal control reviews and reassessments. These should be hardcoded into the firm's financial crime compliance programme with a frequency that reflects the risks the business is exposed to because of the types of clients it deals with, the products and services it sells and the jurisdictions it operates within. They should be essential, non-moveable processes in a firm's AML compliance program.

Ensure the financial crime team is adequately resourced - the risk assessment and associated risk mitigants will drive the decision about required resources. In the absence of sufficient resources, a firm cannot revisit the risk assessment. A financial crime team needs adequately competent staff and an efficient toolkit to manage financial crime risk. Not having that is a big red flag to any regulator.

For each strategy, 1 mark each for naming the strategy and 1 mark for the explanation, for a maximum of 4 marks.

Total 20 marks

SPECIMEN 2022



TEST CODE **02272010**

CARIBBEAN EXAMINATIONS COUNCIL
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FINANCIAL SERVICES STUDIES

UNIT 2 – Paper 01

1 hour 30 minutes

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This test consists of 45 items. You will have 1 hour and 30 minutes to answer them.
2. In addition to this test booklet, you should have an answer sheet.
3. Do not be concerned that the answer sheet provides spaces for more answers than there are items in this test.
4. Each item in this test has four suggested answers lettered (A), (B), (C), (D). Read each item you are about to answer and decide which choice is best.
5. On your answer sheet, find the number which corresponds to your item and shade the space having the same letter as the answer you have chosen. Look at the sample item below.

Sample Item

Which of the following ratios is one of the measures that indicate a firm's ability to generate a profit?

Sample Answer

- (A) Price earnings
- (B) Free cash flow
- (C) Receivables turnover
- (D) Fixed-payment coverage



The best answer to this item is “Price earnings”, so (A) has been shaded.

6. If you want to change your answer, erase it completely before you fill in your new choice.
7. When you are told to begin, turn the page and work as quickly and as carefully as you can. If you cannot answer an item, go on to the next one. You may return to that item later.
8. You may do any rough work in this booklet.
9. Figures are not necessarily drawn to scale.
10. The use of silent, non-programmable calculators is allowed.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

1. Which of the following is NOT considered a financial institution?
 - (A) Trade union
 - (B) Credit union
 - (C) Insurance company
 - (D) Investment company
2. Which of the following products are NOT offered by financial institutions?
 - (A) Loans
 - (B) Savings
 - (C) Goodwill
 - (D) Mortgages
3. Which of the following statements about banks is INCORRECT?
 - (A) Banks play a critical role in the economy.
 - (B) Banks indirectly issue money in the form of deposits.
 - (C) Banks provide loans and other services, similar to other financial institutions.
 - (D) Banks provide a low-risk environment for investment and other forms of business.
4. Which of the following types of customers will most likely utilize private banking services?
 - I. Geographically mobile
 - II. Ultra-high net worth individuals
 - III. Wealthy / High-net-worth individuals
 - IV. Complex financial instrument holders
 - (A) I and IV only
 - (B) I, II and III only
 - (C) I, III and IV only
 - (D) I, II, III and IV
5. A securities trader earns a profit when he
 - (A) buys and sells an asset at the bid price
 - (B) charges a commission on the sale of an asset
 - (C) buys an asset at the bid price and sells at the offer price
 - (D) buys an asset at the offer price and sells at the bid price
6. Which of the following types of financial institutions is MOST likely to purchase mortgage-backed securities?
 - (A) A credit union
 - (B) A commercial bank
 - (C) An investment bank
 - (D) A savings and loan association
7. The economist of an insurance company would
 - (A) forecast interest rates
 - (B) have limited use for statistical analysis
 - (C) interact with the institution's corporate customers to sell policies
 - (D) be unconcerned about the costs and benefits of internal investment projects
8. Which of the following features is NOT associated with a commercial bank loan?
 - (A) Covenants
 - (B) Guarantees
 - (C) Convertibility
 - (D) Collateral requirements

GO ON TO THE NEXT PAGE

9. Which of the following is NOT a derivative?
- (A) Treasury bond futures
 - (B) Common stocks
 - (C) Options
 - (D) Swaps
10. Which of the following is a derivative financial asset?
- (A) A mortgage
 - (B) A treasury bill
 - (C) A futures contract
 - (D) A commercial paper
11. Which of the following investors would buy or sell futures contracts to reduce exposure to the risk of future price movements in the underlying asset?
- (A) Callers
 - (B) Hedgers
 - (C) Speculators
 - (D) Arbitrageurs
12. What will arbitrageurs do if the price of a futures contract is higher than the price of the underlying security during the delivery period?
- (A) Buy the futures, simultaneously sell the underlying asset and pocket the price difference
 - (B) Sell the futures, simultaneously buy the underlying asset and pocket the price difference
 - (C) Sell the futures, simultaneously sell the underlying asset and pocket the price difference
 - (D) Buy the futures, simultaneously buy the underlying asset, and pocket the price difference
13. A standardized agreement for the delivery of a specific underlying commodity or security at a fixed date and an agreed-upon price is commonly referred to as
- (A) a swap
 - (B) an option
 - (C) a futures contract
 - (D) a forward contract
14. Bill received an email requesting that he updates his payment information at ADCO Telecommunications. Bill clicked on the link and later recognized two unauthorized transactions on his credit card account.
- Which of the following acts was Bill a victim of?
- (A) Drive by
 - (B) Phishing
 - (C) Pharming
 - (D) Social engineering
15. On which of the following is forward contracts traded?
- (A) Stock Exchange
 - (B) Board of Trade
 - (C) Over-the-counter
 - (D) Mercantile Exchange
16. Other than the compliance officer, which of the following personnel also has/have responsibility for compliance?
- I. Director
 - II. Accounts clerk
 - III. Chief executive officer
- (A) I only
 - (B) I and II only
 - (C) I and III only
 - (D) I, II and III

GO ON TO THE NEXT PAGE

17. Which of the following are examples of processes and or procedures that need to be reviewed by the compliance officer?

- I. Daily accounting entries of securities transactions
- II. Reconciliation activities of the back office
- III. Proper segregation of clients' funds

- (A) I and II only
- (B) I and III only
- (C) II and III only
- (D) I, II and III

18. Which of the following is NOT a principle of corporate governance?

- (A) External auditors' accountability and remuneration
- (B) Risk management and internal control
- (C) Rights of shareholders
- (D) Board responsibility

19. Which of the following units may be established by a financial institution for the purpose of monitoring and controlling risks?

- I. Compliance department
- II. Credit department
- III. Internal audit
- IV. Audit committee

- (A) I, II and III only
- (B) I, II, and IV only
- (C) I, III, and IV only
- (D) II, III and IV only

20. Which of the following can still occur in an organization despite having a properly implemented compliance programme?

- (A) Reluctance to reduce the number of rules required
- (B) Failure to delegate responsibilities and authorities
- (C) Failure to identify and manage activities of interests
- (D) The inability to attract new clients with good standing

Item 21 refers to the following statement.

Flower County's treasurer used the Flower County investment pool's resources to invest in a significant number of derivative securities. Subsequently, interest rates increased and the rates on the derivative securities declined, resulting in a \$1.7 billion loss to the Flower County Investment Pool.

21. Which of the following risks is exemplified in the statement above?

- (A) Credit
- (B) Market
- (C) Political
- (D) Liquidity

22. First International Holdings (FIH) is a multibillion dollar corporation in the Ester Islands with three business segments: banking, insurance and real estate. FIH sets up its own offshore insurance company as recommended by its board of directors.
- Which of the following best describes FIH as an insurance company?
- (A) A large corporation with specific assets and risks
 - (B) A mutual fund that reduces overall insurance costs
 - (C) A captive reducing insurance risk specific to its industry
 - (D) A financial institution following the guidelines of the board
23. The corporate governance model that promotes the role of banks in assisting with management decisions is identified as
- (A) German
 - (B) Japanese
 - (C) Caribbean
 - (D) Anglo-American
24. Samantha Whey started a financial advisory firm and created a logo for her company. Samantha wants to protect her brand. Which of the following would provide the protection Samantha needs?
- (A) A patent
 - (B) A trademark
 - (C) A copyright
 - (D) A trade secret
25. Which of the following features identify Ponzi schemes?
- I. Unlicensed sellers
 - II. Overly inconsistent returns
 - III. Huge, registered investments
 - IV. High investment returns with little or no risk
- (A) I and IV only
 - (B) I, II and III only
 - (C) I, III and IV only
 - (D) I, II, III and IV
26. It is necessary for an authorized person to make periodic evaluation of the compliance function. The MOST important focus of this evaluation is to
- (A) determine the trend and focus of customer complaints
 - (B) review the effectiveness of current compliance function
 - (C) assess the adequacy of resources available to investigators
 - (D) update the existing policies and procedures on regulation change
27. Which of the following steps is NOT taken to create an effective internal controls system in an organization?
- (A) Establishing an appropriate organization structure
 - (B) Ensuring the effectiveness of the accounting control
 - (C) Segregating duties so that there are checks and balances
 - (D) Combining the authorization and approval processes to avoid delays

GO ON TO THE NEXT PAGE

28. Which of the following are benefits of compliance?
- I. Competent and professional conduct of accountants
 - II. Avoidance of company failure incurring losses, fines and penalties
 - III. Clear process, standards and procedures that are applied to everyone
- (A) I and II only
(B) I and III only
(C) II and III only
(D) I, II and III
29. Market intermediaries should be required to comply with which of the following mandates?
- (A) Adherence to company standards for internal organization and operational conduct
(B) Submission of monthly reports to the board of directors
(C) Preparation of compliance report for regulatory authority
(D) Provision of guidance, supervision and weekly training of staff
30. Which of the following are consequences of non-compliance in financial services?
- I. Low staff morale
 - II. Breakdown in corporate governance
 - III. Loss of good standing and reputation in the market
- (A) I and II only
(B) I and III only
(C) II and III only
(D) I, II and III
31. Which of the following is a type of financial statement?
- (A) Cash flow statement
(B) Federal income tax return
(C) Current and capital statement
(D) Assets and liabilities statement
32. The primary objective of financial reporting is to provide information about a firm's
- (A) cash flows
(B) financing and investing activities
(C) financial performance and position
(D) economic resources and obligations
33. The two primary decision-specific qualities that make accounting information useful are
- (A) relevance and reliability
(B) predictive value and feedback
(C) cost effectiveness and materiality
(D) verifiability and representational faithfulness
34. Relevance requires that information possess which of the following qualities?
- (A) Neutral, feedback, reliable
(B) Predictive, feedback, timely
(C) Comparable, predictive, neutral
(D) Reliable, predictive, comparable
35. The qualitative characteristic that means there is agreement between a measure and a real-world phenomenon is
- (A) Neutrality
(B) Materiality
(C) Verifiability
(D) Representational faithfulness

GO ON TO THE NEXT PAGE

Item 36 refers to the following table.

Key Financials	Current Financial Year	Previous Financial Year
Cash	6 950	6 330
Accounts Receivables	18 567	19 330
Sales	129 000	103 000

36. Alco Corp sent the financials listed in the table above to its board of directors. Which of the following statements BEST describes Alco Corp's finances?
- (A) There is a general decline in all financials by more than 20%
- (B) Sales has increased by 25%, but cashflow remains constant
- (C) Financially, Alco has improved as cashflow has increased by 9.8%
- (D) Accounts receivables has declined, thus financial needs to increase
37. The underlying assumption that presumes a company will continue indefinitely is referred to as
- (A) periodicity
- (B) monetary unit
- (C) going concern
- (D) economic entity
38. In general, revenue is recognized when the earnings process is virtually complete and
- (A) cash is collected
- (B) production is completed
- (C) a purchase order is received
- (D) collection of the sales price is reasonably assured
39. The primary objective of the matching principle is to
- (A) provide full disclosure
- (B) record expenses when due
- (C) provide timely information to external decision-makers
- (D) recognize expenses in the same period as the related revenue
40. The underlying assumption that suggests that the life of a company can be divided into artificial time periods is
- (A) periodicity
- (B) monetary unit
- (C) going concern
- (D) economic entity
41. Wilder Inc. Bank has current assets equal to \$7.5 million. The company's current ratio is 1.2. What is the firm's level of current liabilities (in millions)?
- (A) \$2.40
- (B) \$2.91
- (C) \$3.60
- (D) \$6.25
42. Examining the ratios of a particular firm over a period of five years is an example of
- (A) benchmarking
- (B) trend analysis
- (C) Du Pont analysis
- (D) industry analysis

GO ON TO THE NEXT PAGE

43. Which of the following would improve the current ratio?
- (A) Increasing wages paid to employees
 - (B) Selling common stock to purchase fixed assets
 - (C) Selling fixed assets to reduce accounts payable
 - (D) Borrowing short-term to finance additional fixed assets
44. McIntosh & Co.'s current ratio has been exhibiting an increasing trend over the past five years but its acid test ratio showed a steady decline over the same period. This could be a signal that the firm is
- (A) depleting inventories
 - (B) carrying excess inventories
 - (C) purchasing too many investment products
 - (D) experiencing problems in collecting receivables
45. Which of the following would be the BEST option when assessing the profitability of a company?
- (A) Calculate ROE.
 - (B) Review the trend of ROE.
 - (C) Review the trend of working capital.
 - (D) Compare the company's P/E to that of the industry's P/E.

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

***DO NOT
WRITE ON
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CANDIDATE'S RECEIPT

INSTRUCTIONS TO CANDIDATE

1. Fill in all the information requested clearly in capital letters.

TEST CODE

0	2	2	7	2	0	1	0
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SUBJECT FINANCIAL SERVICES STUDIES – UNIT 2 – Paper 01

PROFICIENCY ADVANCED

REGISTRATION NUMBER

--	--	--	--	--	--	--	--	--	--

FULL NAME _____
(BLOCK LETTERS)

SIGNATURE _____

DATE _____

2. Ensure that this slip is detached by the Supervisor or Invigilator and given to you when you hand in this booklet.
3. Keep it in a safe place until you have received your results.

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C A R I B B E A N E X A M I N A T I O N S C O U N C I L
C A R I B B E A N A D V A N C E D P R O F I C I E N C Y E X A M I N A T I O N
F I N A N C I A L S E R V I C E S S T U D I E S
U N I T 2
S P E C I M E N P A P E R 01
K E Y

Item #	Key	Objective
1	A	2.1.2.1.
2	C	2.1.2.2.
3	B	2.1.2.4.
4	D	2.1.2.4.
5	C	2.1.2.3.
6	C	2.1.2.3.
7	A	2.1.2.4.
8	C	2.1.2.3.
9	B	2.1.2.5.
10	C	2.1.2.5.
11	B	2.1.2.5.
12	B	2.1.2.5.
13	D	2.1.2.5.
14	B	2.1.2.10.
15	C	2.1.2.5.
16	D	2.2.2.2.
17	D	2.2.2.7.
18	B	2.2.2.7.
19	C	2.2.2.6.
20	D	2.2.2.6.
21	B	2.2.2.6.
22	C	2.2.2.6.
23	A	2.2.2.7.
24	B	2.2.2.15.
25	A	2.2.2.13.
26	B	2.2.2.2.
27	D	2.2.2.2.
28	C	2.2.2.1.

Item #	Key	Objective
29	C	2.2.2.2.
30	D	2.2.2.1.
31	A	2.3.2.5.
32	C	2.3.2.3.
33	A	2.3.2.3.
34	A	2.3.2.3.
35	B	2.3.2.3.
36	C	2.3.2.9.
37	C	2.3.2.4.
38	D	2.3.2.4.
39	D	2.3.2.4.
40	A	2.3.2.4.
41	D	2.3.2.8.
42	B	2.3.2.9.
43	C	2.3.2.9.
44	B	2.3.2.9.
45	B	2.3.2.9.

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FILL IN ALL THE INFORMATION REQUESTED CLEARLY IN CAPITAL LETTERS.

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SUBJECT FINANCIAL SERVICES STUDIES – UNIT 2 – Paper 02

PROFICIENCY ADVANCED

REGISTRATION NUMBER

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SCHOOL/CENTRE NUMBER

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NAME OF SCHOOL/CENTRE

CANDIDATE'S FULL NAME (FIRST, MIDDLE, LAST)

DATE OF BIRTH

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FINANCIAL SERVICES STUDIES

UNIT 2 – Paper 02

2 hours 30 minutes

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. The examination paper consists of TWO sections:
2. Answer ALL questions from the TWO sections.
3. Write your answers in the spaces provided in this booklet.
4. Do NOT write in the margins
5. If you need to rewrite any answer and there is not enough space to do so on the original page, you must use the extra lined page(s) provided at the back of this booklet. **Remember to draw a line through your original answer.**
6. **If you use the extra page(s) you MUST write the question number clearly in the box provided at the top of the extra page(s) and, where relevant, include the question part beside the answer.**

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Section I

Answer ALL questions in this section.

Write your answers in the spaces provided in this booklet.

1. (a) List FIVE financial institutions that operate in your country.

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[5 marks]

- (b) Briefly explain the meaning of the following terms/concepts and their usefulness in the financial services sector.

(i) Financial derivative

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(ii) Credit derivative

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(iii) Futures contract

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[6 marks]

- (c) Explain TWO ways in which an over-the-counter (OTC) is different from an organized exchange.

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[4 marks]

Total 15 marks

GO ON TO THE NEXT PAGE

2. (a) Define the term 'legislation'.

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[2 marks]

- (b) Outline, giving ONE example of EACH, ONE main difference between primary and secondary legislation.

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[3 marks]

- (c) Suggest FOUR ways in which a regulator is important to the financial services environment.

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[4 marks]

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Total 15 marks

3. (a) List THREE limitations of ratio analysis.

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[3 marks]

- (b) Explain THREE ways in which financial statement analysis is important to both management and investors (and or creditors).

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[6 marks]

- (c) Suggest THREE ways in which ratio analysis aids in the evaluation of financial statements and the comparison of companies' financial performance or position.

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[6 marks]

Total 15 marks

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SECTION II

Answer ALL questions in this section.

Write your answers in the spaces provided in this booklet.

4. Sandy Millsboro has recently received \$2,000,000 USD from a lawsuit settlement. She is considering depositing the funds in a regular commercial bank in her country, but her best friend who is an investment banker at VBS private bank is encouraging her to deposit the funds at his bank. He advised her that all new customers are required to deposit a minimum of \$100,000 USD. She decided to do quick research on VBS private bank and found out the following information.

- VBS private bank is the number 1 offshore private bank in the world.
- VBS has the largest suite of private banking products and services in the world.
- VBS' team of highly trained bankers are always available to provide the best technical expertise for wholesale bonds and derivatives.

- (a) Explain the term 'private banking' and identify from the case, FOUR products or services offered by VBS private bank.

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[6 marks]

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5. Charlie, an Anguillan, has struck it rich in Silicon Valley in the United States of America. His tech firm benefitted from one of the largest IPOs in history; therefore, as a significant shareholder, Charlie now has more wealth than he knows what to do with. A close confidant suggests that Charlie could use his wealth to create a bank in his homeland. Charlie agrees and before meeting with regulators, is also advised by his confidant that he could have his license expedited because Charlie is now the wealthiest person ever from the country. Charlie therefore does not prepare a business plan to take into his preliminary meetings with banking regulators.

- (a) Briefly explain the term ‘banking license’. Apart from a commercial bank, list THREE other types of financial companies that Charlie would have needed a banking license to operate.

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- (c) Outline THREE reasons why Charlie should include a business plan as part of the requirements for his application.

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[6 marks]

Total 20 marks

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6. Source Bank has started its operations with \$25 million in capital. Three hundred million dollars in checkable deposits is received. The bank issues \$15 million in car loans, \$50 million in commercial loans and another \$100 million in mortgages. The following terms are stated on the loans.

- Car loan: 5-year loan, simple interest paid monthly at 0.85% per month.
 - Mortgages: 100 standard 30-year fixed-rate mortgages with a nominal annual rate of 8.25% each for \$1,000,000.
 - Commercial loan: -year loan, simple interest paid monthly at 0.85% per month.
- (a) If required reserves are 10%, show an extract of the bank's balance sheet in the space provided below. Ignore any loan loss reserves.

[6 marks]

- (b) Source Bank's regulators require a capital adequacy ratio of 10%. Calculate the capital adequacy ratio for Source Bank and explain your findings.

[4 marks]

GO ON TO THE NEXT PAGE

- (c) Deutsche Bank has been sanctioned by the US to pay US\$282 million for conducting business with Iranian and Syrian companies.

- (i) What element of the Deutsche bank's balance sheet will be affected? Explain your answer.

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[5 marks]

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- (ii) Will the above issue affect the bank's liquidity or solvency? Discuss.

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[5 marks]

Total 20 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

If you use this extra page, you MUST write the question number clearly in the box provided.

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- 22 -

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If you use this extra page, you MUST write the question number clearly in the box provided.

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CANDIDATE'S RECEIPT

INSTRUCTIONS TO CANDIDATE

1. Fill in all the information requested clearly in capital letters.

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SUBJECT FINANCIAL SERVICES STUDIES – UNIT 2 – Paper 02

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CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

FINANCIAL SERVICES STUDIES

UNIT 2 - PAPER 02

KEYS AND MARK SCHEME

MAY/JUNE 2022

SPECIMEN PAPER

FINANCIAL SERVICES STUDIES

UNIT 2 - PAPER 02

KEYS AND MARK SCHEME

Question 1.**Specific Objectives: 2.1.2.1., 2.1.2.5.,****(a) Financial institutions:**

- Commercial banks
- Investment banks
- Building societies
- Credit unions
- Mortgage companies
- Brokerage firms
- Central banks
- Internet banks
- Insurance companies
- Unit investments trusts
- Thrift institutions
- Non-banking institutions
- Savings and loan associations

1 mark for each up to a maximum of 5 marks

(b) Meaning of terms:

- (i) Financial derivatives are financial instruments that are linked to a specific financial instrument or indicator or commodity, and through which specific financial risks can be traded in financial markets in their own right.
- (ii) a credit derivative consists of privately held negotiable bilateral contracts that allow users to manage their exposure to credit risk. These allow the creditor to effectively transfer some or all of the risks of a debtor defaulting to a third party. This third party accepts the risk in return for payment, known as the premium. Often a credit derivative will be triggered by a qualifying credit event, such as a default, missed interest payment, credit downgrade, or bankruptcy.
- (iii) Future contracts are standardized instrument traded on an exchange. It is an instrument agreed on now that gives the holder the right AND obligation to buy or sell a commodity in the future at an agreed price. A futures contract **allows an investor to speculate on the direction of a security, commodity, or financial instrument**, either long or short, using leverage. Futures are also often used to hedge the price movement of the underlying asset to help prevent losses from unfavorable price changes.

2 marks for each complete response

1 mark each for incomplete response

FINANCIAL SERVICES STUDIES

UNIT 2 - PAPER 02

KEYS AND MARK SCHEME

Question 1. (continued)**(c) Key Differences Between OTC and Organized Exchange**

The difference between OTC and Exchange can be drawn clearly on the following grounds:

1. Exchange implies a trade exchange which can be an organization or institution that hosts a market where stocks of listed companies are traded between the buyers and sellers. On the other hand, OTC expands to over the counter, which refers to a decentralized market wherein buyers look for sellers and vice versa to communicate with each other by way of computer network or phone.
2. In an over-the-counter market, the dealers play the role of market makers, as they quote the price at which the securities and other financial instruments are bought and sold between the participants. Conversely, in case of an exchange, the trading exchange is the market maker, as the prices are determined by the demand and supply forces.
3. The companies which do not follow the guidelines and meet the requirements of the exchange often trade their securities OTC, which are generally small companies. In comparison, big business houses usually go for listing and trading their stocks through an exchange.
4. One of the main differences between these two is that an exchange is physically present, wherein the open outcry method is used. In contrast, OTC has no physical location, everything is phone-based or computer-based.
5. In an exchange, trading is performed during trading hours only. On the contrary, in OTC, trading is performed 24×7.
6. When it comes to transparency, the OTC market is not as transparent as an exchange, where the participants have complete information and knowledge about the securities being traded.
7. In case of an exchange, only standardized products, in terms of quality and quantity, are dealt. Whereas, in case of an OTC the contracts are customized as per the requirement.
8. Due to short-term imbalance between the demand and supply, there is no mechanism in the OTC market to stop acute highs or lows in the security prices. However, in an exchange, these imbalances in prices are managed by exchange halting trading in a particular stock, that lets the additional participants restore market equilibrium.

Any difference outlined, 2 marks each; 1 mark for the difference, 1 mark for the explanation, for a maximum of 4 marks

FINANCIAL SERVICES STUDIES

UNIT 2 - PAPER 02

KEYS AND MARK SCHEME

Question 2.**Specific Objectives: 2.2.2.4., 2.2.2.5.,****(a) Definition of legislation:**

- The process through which statutes are enacted by a legislative body that is established and empowered to do so.

1 mark for each underlined phrase up to a maximum of 2 marks

(b) Difference between primary and secondary legislation:

- Primary legislation is the general term embracing laws passed by the legislative bodies of Acts of Parliament.
- Primary legislation refers to the Law, Act or Ordinance passed by the legislature of a particular jurisdiction.
- In contrast, secondary legislation is subordinate law made by the executive branch within the boundaries laid down by the legislature.
- The powers to make secondary legislature are usually conferred or delegated to Ministry, public bodies or the Crown.
- Secondary legislation is principally made in the form of statutory instruments and regulations and their main purpose is to supplement, administer, support and enforce primary legislation.
- In the context of financial services, secondary legislation is generally legislation that has been drafted by a regulatory body empowered to do so pursuant to the primary law by which it is established.
- Examples of primary legislation are Acts of Parliament and Statutes.
- Examples of secondary legislation are codes, orders, regulations or rules.

1 mark for primary legislation, 1 mark for secondary legislation

1 mark each for examples of both legislations

FINANCIAL SERVICES STUDIES

UNIT 2 - PAPER 02

KEYS AND MARK SCHEME

Question 2. (continued)**(c) Functions of a regulator:**

- They lay down rules or principles that determine who can conduct financial services business.
- They lay down rules by which regulated financial services businesses must conduct their businesses and authorize financial services.
- They supervise compliance with the rules either through desk-based supervision or on-site inspections or a combination of both.
- They conduct investigations into suspected breaches of the rules sometimes in conjunction with the law enforcement bodies.
- They enforce the rules and they cooperate and exchange information with other regulators.

1 mark for each response up to a maximum of 4 marks

(d) Importance of legislation

- Legislation is important because it provides stability to the markets and serves to protect customers, workers and taxpayers from moral hazards that are inherent in certain decisions.
- Legislation is also necessary to ensure that risks inherent in a market economy are understood by stakeholders.
- It provides the backbone on which the broader financial sector rests which enables them to provide the necessary financing for businesses which in turn spurs economic growth and development.
- In addition, all commercial banks and other institutions deemed to be carrying on banking business are required to be licensed under the Banking Act and are regulated. As part of the ongoing supervision, licensed financial institutions are required to submit monthly, quarterly and annual returns. These returns provide essential information to assess the performance of the institutions and the financial system and to inform policy decisions.

1 mark for each for identifying the point;

1 mark for explanation up to a maximum of 6 marks

FINANCIAL SERVICES STUDIES

UNIT 2 - PAPER 02

KEYS AND MARK SCHEME

Question 3.**Specific Objectives: 2.3.2.3., 2.3.2.7.,****(a) Limitations of ratio analysis**

- Historical: All of the information used in ratio analysis is derived from actual historical results. **(1)**
- Inflation may have badly distorted a company's balance sheet. In this case, profits will also be affected. Thus a ratio analysis of one company over time or a comparative analysis of companies of different ages must be interpreted with judgment. **(1)**
- Different account policies may distort comparison (peer or trend or both). **(1)**

1 mark for each up to a maximum of 3 marks

(b) Ways in which financial statement analysis is important to both management and investors (and or creditors).

- Financial analysis is designed to determine the relative strengths and weaknesses of a company. Investors/creditors need this information to estimate both future cash flows from the firm and the riskiness of those cash flows. **(2)**
- Financial managers need the information provided by analysis both to evaluate the firm's past performance and to map future plans. Financial analysis concentrates on financial statement analysis, which highlights the key aspects of a firm's operations. **(2)**
- Financial statement analysis involves a study of the relationships between income statement and balance sheet accounts, how these relationships change over time (trend analysis), and how a particular firm compares with other firms in its industry (benchmarking). Although financial analysis has limitations, when used with care and judgment, it can provide some very useful insights into a company's operations. **(2)**
- Financial statements are used to help predict the firm's future earnings and dividends. From an investor's standpoint, predicting the future is what financial statement analysis is all about. From management's standpoint, financial statement analysis is useful both to help anticipate future conditions and, more important, as a starting point for planning actions that will influence the future course of events. **(2)**

1 mark for each for identifying the point;

1 mark for explanation up to a maximum of 6 marks

FINANCIAL SERVICES STUDIES

UNIT 2 - PAPER 02

KEYS AND MARK SCHEME

Question 3. (continued)

(c) Ways in which ratio analysis aids in the evaluation of financial statements and the comparison of companies' financial performance or position.

- Provide a method of standardization especially within financial services. Most ratios in this area have benchmarks imposed by a regulatory institution. **(2)**
- Provide a profile of the firm's economic characteristics and competitive strategies.
- They can serve as screening devices, indicate areas of potential strength or weakness, and reveal matters that need further investigation. **(2)**
- Differences in firm size may confound cross-sectional and time series analyses. To overcome this problem, common size statements are used. For example, a common size balance sheet expresses each item on the balance sheet as a percentage of total assets.
- A common size income statement expresses each income statement category as a percentage of total sales revenues. **(2)**

2 mark for each: 1 mark for identifying the point;

1 mark for explanation up to a maximum of 6 marks

FINANCIAL SERVICES STUDIES

UNIT 2 - PAPER 02

KEYS AND MARK SCHEME

Question 4.**Specific Objectives: 2.1.2.3., 2.1.2.5.,****(a) Explanation of private banking and the products and services it offers:**

- **Private banking** is used almost synonymously with wealth management. It is the act of taking wealthy people's money, keeping it safe, and making the money grow through investments. The most common type of private banking is discretionary private banking or wealth management where you deposit funds into an account and the bank takes care of the rest.
- **Private banking** consists of personalized financial services and products offered to the high-net-worth individual (HNWI) clients of a retail bank or other financial institution. It includes a wide range of wealth management services, all provided under one roof. Services include investing and portfolio management, tax services, insurance, and trust and estate planning.
- **Private banking** is banking, investment and other financial services provided by banks and financial institutions primarily serving high-net-worth individuals (HNWIs) – defined as those with very high levels of income or sizable assets. Private banking is a more exclusive subset of wealth management, geared toward exceptionally affluent clients. The term "private" refers to customer service rendered on a more personal basis than in mass-market retail banking, usually provided via dedicated bank advisers. At least until recently, it largely consisted of banking services (deposit taking and payments), discretionary asset management, brokerage, limited tax advisory services and some basic concierge-type services, offered by a single designated relationship manager.

Products and services offered by VBS private bank:

- Cash management (checking accounts, overdraft privileges, cash sweeps, and bill-paying services)
- Fund transfers
- Lending services
- Asset management, for example, trust, investment advisory, investment management, and custodial and brokerage services
- Financial planning services including tax and estate planning
- Custody services
- Other services as requested, for example, mail services

2 marks for explanation of private banking;**1 mark each for any 4 products/services****correctly identified for a maximum of 6 marks**

FINANCIAL SERVICES STUDIES

UNIT 2 - PAPER 02

KEYS AND MARK SCHEME

Question 4. (continued)**(b) Risks Associated with Trading/Investing in Derivatives:**

- **Market Risk:-** Market risk refers to the general risk in any investment. Investors make decisions and take positions based on assumptions, technical analysis or other factors that lead them to certain conclusions about how an investment is likely to perform. An important part of investment analysis is determining the probability of an investment being profitable and assessing the risk. Reward ratio of potential losses against potential gains.
- **Counterparty Risk:-** This is also called counterparty credit risk and arises if one of the parties involved in a derivative trade, such as a buyer, seller or dealer, defaults on the contract. This risk is higher in over-the-counter markets which are much less regulated than ordinary trading exchanges. Traders can manage counterparty risks by only using dealers they know and consider trustworthy.
- **Liquidity risk:-** This applies to investors who plan to close a derivative trade prior to maturity. Such investors need to consider if it is difficult to close out the trade or if existing bid-ask spreads are so large as to represent a significant cost.
- **Interconnection Risk:-** This refers to how the interconnection between various derivative instruments and dealers might affect an investor's particular derivative trade. Some analysts express concern over the possibility that problems with just one party in the derivative market, such as a major bank that acts as a dealer, might lead to a chain reaction or snowball effect that threatens the stability of financial markets overall.

1 mark each for identifying the risks

1 mark for explanation up to a maximum of 8 marks

FINANCIAL SERVICES STUDIES

UNIT 2 - PAPER 02

KEYS AND MARK SCHEME

Question 4. (continued)**(c) Benefits of private banking that Sandy can enjoy from VBS Private Bank**

- Dedicated personnel/team - clients are allotted a dedicated relationship manager, or a team of people with a thorough understanding of the asset ownership, risk aversion (or lack thereof), preferences, and long-term financial goals of the client. The relationship manager or team facilitates all the financial needs of the client.
- Exclusive investment opportunities with high investment returns - clients have large investments and can take advantage of exclusive offers or offers which are not available to the wider public, thus giving these clients an advantage in the secondary market with high investment returns.
- Discounted loan rates - clients of private banking often receive benefits such as lower annual percentage rates for mortgages.
- Privacy - high-net-worth individuals are attracted to the culture of privacy in private banking because it offers them the ability to conceal personal information that, if publicly known, might give their business rivals an undue advantage. They may also simply have a desire to keep their personal financial dealings as private as possible.

1 mark each for identifying the benefits;

1 mark for explanation up to a maximum of 6 marks

FINANCIAL SERVICES STUDIES

UNIT 2 - PAPER 02

KEYS AND MARK SCHEME

Question 5.**Specific Objectives: 2.2.2.8.,**

(a) Overview of the term banking license and companies/institutions that need it to operate:

- A banking license is a clearance awarded by regulators or the government **(1)** for the purpose of operating a banking business **(1)** given that the company has met a set of strict government regulations **(1)**.
- A banking license is a legal prerequisite **(1)** for a financial institution that wants to carry on a banking business **(1)**. Under the laws of most jurisdictions, a business is not permitted to carry words like 'bank', 'insurance' or 'national' in its name, unless it holds a corresponding license **(1)**.
- A banking license is a special permit **(1)** to carry out banking operations **(1)**, which certifies the right of a credit institution to carry out the financial transactions specified in it **(1)**.

3 marks for explanation as outlined above

Other types of financial companies/institutions that need a license to operate:

- Retail banks
- Offshore banks
- Merchant banks
- Investment banks

1 mark each for any three selected

FINANCIAL SERVICES STUDIES

UNIT 2 - PAPER 02

KEYS AND MARK SCHEME

Question 5. (continued)**(b) Differences between a general and a restricted banking license**

- **Services provided** - a general bank license allows a bank to engage in all banking activities such as retail banking, cash management, asset management and trading. A restricted banking licence places a range of restrictions on the services a bank can provide. These include merchant only activities, investing in tradable assets on account of clients or proprietary trading, or serving foreign-based customers **(2)**.
 - **Customer base** - typically banks with general operating licences offer services to locally based customers. Banking operations with restricted licences typically can provide services to either locally based or foreign based customers depending on type of institution **(2)**.
 - **Type of institutions** - commercial banks and retail banks are the only example of financial institutions with a general banking licence while investment banks, merchant banks, and offshore banks are examples of those operating on restricted banking licences **(2)**.
 - **Regulatory burden** - institutions with general banking licences tend to serve a broader and more vulnerable customer base than those with restricted banking licences. This means that failure could result in a broader financial catastrophe due to issues such as bank runs. Regulatory burden and oversight are therefore more extensive and detailed for general banking operations **(2)**.
- For any 4 differences, 1 mark for stating the difference, and 1 mark for the explanation for a maximum of 8 marks.**

FINANCIAL SERVICES STUDIES

UNIT 2 - PAPER 02

KEYS AND MARK SCHEME

Question 5. (continued)**(c) Reasons for including a business plan as part of the requirements for a bank license**

- Business plans provide a roadmap for the regulators to judge the success of the bank in the marketplace. This is done through the provision of critical business and financial information such as the credentials and experience of senior operational staff; results from market business surveys and intelligence; and financial projections **(2)** **(NB: the candidate can list just one example)**
- Business plans provide a roadmap for the operators and the owners of the business to judge the success of the bank within the marketplace. This is done through the presentation and analysis of clear inputs into the plan such as business intelligence research and surveys; scenario analysis; and/or financial projections **(2)**. **(NB: the candidate can list just one example)**
- The business plan can greatly assist in Charlie's ability to raise funding in the event that he does not wish to finance the start-up and operational costs alone. This is done through the provision of critical business and financial information such as the credentials and experience of senior operational staff; results from market business surveys and intelligence; and financial projections **(2)** **(NB: the candidate can list just one example)**
- The business plan can be a great reference document in the future after the bank is set up. It will allow executives and directors to assess the bank's success against earlier expectations of the business' performance. **(2)**

**For any 3 reasons, 1 mark for stating the reason,
and 1 mark for the explanation for a total of 6 marks**

FINANCIAL SERVICES STUDIES

UNIT 2 - PAPER 02

KEYS AND MARK SCHEME

Question 6.Specific Objectives: 2.3.2.5., 2.3.2.6., 2.3.2.8., 2.3.2.9.

(a) Extract of bank's balance sheet

	Assets		Liabilities		
	\$ (000,000)		\$ (000,000)		
(1)	Loans	165	Capital	25	(1)
(1)	Required Reserves	30	Deposits	300	(1)
(1)	Excess Reserves	130			
		325		325	Balancing (1)

Award marks as shown above (6 marks)

(b) Capital Adequacy ratio

$$\text{Capital adequacy ratio} = \frac{\text{capital}}{\text{assets}}$$

$$\text{Capital adequacy ratio} = \frac{\$25000000}{\$300000000} \quad \text{Substituting in formula - 1 mark}$$

$$\text{Capital adequacy ratio} = 7.69\% \quad \text{Correct answer only - 1 mark}$$

Source Bank's capital adequacy is below the required amount (1). This suggests that the bank may face solvency risk if its capital adequacy ratio does not improve. (1)

2 marks for computing ratio

2 marks for explaining findings

FINANCIAL SERVICES STUDIES

UNIT 2 - PAPER 02

KEYS AND MARK SCHEME

Question 6. (continued)**(c) (i) Element of bank's balance sheet to be affected**

- Most banks set aside a litigation reserve for any occurrences such as these.
- In such an instance, assets would be affected and reduced by the amount of the fine - \$282 million.
- Some stakeholders may perceive this as a risk. If the company is public, the equity will be affected through a reduction in capital because of sale of the company's stocks.
- There can also be withdrawals of deposits which would also affect the liabilities side (and asset side through required reserves and excess reserves), more specifically deposits.
- Equity can also be affected through retained earnings, if no litigation reserve is in place.

If only one element of the balance sheet is stated as being affected 1 mark.

A brief explanation of how this element is affected should be awarded 4 marks.

For example, if the candidate states that assets will be affected, award 1 mark. The above explanations are not the only possibilities.

(ii) Liquidity/solvency

If the candidate had stated that the sanction will affect assets by reduction in litigation reserves, then liquidity will be affected. The extent depends on how much money or cash is set aside for this reserve.

If liabilities were stated as withdrawals (and also assets through required reserves and excess reserves), then liquidity will be affected (reserves).

If equity or stock sales were stated, then this will affect capital which will affect solvency.

If the candidate does not provide a definition of solvency or liquidity but the general idea of what these are is clearly expressed in the answer, award 2 marks.

1 mark for stating what will be affected; 4 marks for the explanation, for a maximum of 5 marks.



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