

EFPA EIP Syllabus

European Investment Practitioner



European Financial Planning Association

EUROPEAN INVESTMENT PRACTITIONER (EIP) – EFPA Level 2 – 10 days classroom equivalent – EQF Level 4

MODULE	TOPIC	DURATION (in days)
Module 1	ECONOMIC ENVIRONMENT	1,0
Module 2	FINANCIAL MARKETS	0,5
Module 3	INVESTMENT PRODUCTS	4,5
Module 4	ASSESSING CLIENT NEEDS	0,5
Module 5	PORTFOLIO CONSTRUCTION AND SELECTION ACCORDING TO CLIENT NEEDS	1,5
Module 6	INVESTMENT PRODUCTS FOR INSURANCE AND RETIREMENT PURPOSES	1,0
Module 7	REGULATION AND ETHICS	1,0
	TOTAL	10,0

EUROPEAN INVESTMENT PRACTITIONER (EIP)

MODULE 1: ECONOMIC ENVIRONMENT (1,0 DAY)		K	A	AP
1.1 Foundations of economy	Basic economic concepts: definition of GDP, CPI, unemployment rate, balance of payment deficit or surplus			

<p>1.2 Real economy and financial economy</p>	<p>Definition of economic policy (fiscal policy and income policy) and monetary policy</p> <p>Main goals and instruments of economic policy and monetary policy (open market operations, standing facilities, minimum reserve requirement)</p> <p>Country's financial balance (public primary and non-primary deficit/surplus, Public Debt - GDP ratio)</p> <p>Sector's financial balance (householders, corporations, public administrations)</p>			
<p>1.3 Relationship between real economy and financial markets</p>	<p>The impact of country's financial position on the outstanding public debt and the need of new issues of government bonds</p> <p>The impact of economic and political dynamics on financial markets (understanding that the main political and economic decisions can cause rational or irrational reactions from financial markets)</p> <p>Relation between economic cycles and financial markets (how different financial assets respond in different economic cycles)</p>			
<p>MODULE 2: FINANCIAL MARKETS (0,5 DAY)</p>		K	A	AP
<p>2.1 Financial system</p>	<p>Components of the financial system: financial assets, markets versus financial institutions (direct and indirect channel of intermediation)</p>			
<p>2.2 Financial markets structure</p>	<p>Structure of financial markets according to traded financial instruments (the money market, the bond market, the equity market and the derivative markets)</p>			

<p>2.3 Trading mechanisms of securities on financial markets</p>	<p>Primary and secondary market</p> <p>Issuing mechanisms (competitive and marginal auction)</p> <p>Types of markets (brokered markets, dealer markets and auction markets)</p> <p>Types of orders</p> <p>National trading venues for each type of investment products</p>			
<p>MODULE 3 INVESTMENT PRODUCTS (4,5 DAYS)</p>		K	A	AP
<p>3.1 Foundation of investments</p>	<p>Time value of money: simple versus compound interest</p> <p>Present and future value of a capital</p>			
<p>3.2 Investment products taxation</p>	<p>Types of taxable income/profits from financial investments</p> <p>Different regimes to declare income/profits from financial investments</p>			

<p>3.3 Money markets instruments</p>	<p>Deposits:</p> <ul style="list-style-type: none"> - How they work (benefits and drawbacks) - Costs for the investor - Return for the investor - Legal warranty - Taxation <p>Repurchase agreement</p> <ul style="list-style-type: none"> - How they work - Costs for the investor - Return for the investor - Taxation <p>Treasury Bills</p> <ul style="list-style-type: none"> - How they are issued - Costs for the investor - Return for the investor - Taxation <p>Money market indexes (Eonia, Euribor)</p>			
<p>3.4 Bonds</p>	<p>Basic features of bonds:</p> <ul style="list-style-type: none"> - The different categories of bonds according to the issuer status (government and corporate bonds, asset backed securities) - The different financial profiles of bonds (zero coupon, fixed-rate bonds and floating-rate bonds) - Quoted price and accrued interest <p>Bond yield:</p> <ul style="list-style-type: none"> - Yield to maturity (definition and assumptions) - Yield to maturity (ex-ante evaluation) versus holding period return (ex-post evaluation) - Gross versus net yield to maturity (tax implications and impact of trading costs) <p>Bond risk:</p> <ul style="list-style-type: none"> - The relationship between yield to maturity and bond's price - Risk factors (interest rate, credit, liquidity, inflation, exchange rate) affecting bond yield to maturity/ price - Credit risk: the basics of rating <p>Taxation</p>			

<p>3.5 Equities</p>	<p>Equity securities characteristics:</p> <ul style="list-style-type: none"> - The main features of equities (residual claim, uncertain financial profile, voting rights) - Different categories of equity securities <p>Elements of equity valuation</p> <ul style="list-style-type: none"> - The concept of intrinsic/fair value versus market price - The fundamental ingredients of an equity valuation model: <ul style="list-style-type: none"> · understanding the company's business · understanding the company's operating characteristics · understanding the company's financial statements and financial characteristics - Market-based valuation by means of price multiple: <ul style="list-style-type: none"> · definition and interpretation of price to earnings ratio · definition and interpretation of price to book value · definition and interpretation of dividend yield <p>Return from equity investing:</p> <ul style="list-style-type: none"> - Determinants of expected returns (unknown selling price and dividends) - Determinants of realized Holding Period Return (known selling price and dividends) - Trading costs <p>Equity risk</p> <ul style="list-style-type: none"> - Definition and characteristics of specific or idiosyncratic risk - Definition and characteristics of systematic risk or beta <p>Taxation</p>			
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<p>3.6 Derivatives</p>	<p>The basics of Futures contracts:</p> <ul style="list-style-type: none"> - The position (goals and payoff) of future contract's buyer - The position (goals and payoff) of future contract's seller - The concept of leverage effect in future contracts <p>The basics of options:</p> <ul style="list-style-type: none"> - definition of the option contract (strike price, underling financial asset price, premium) - option style (European versus American) - the position (goals and payoff) of option contract's (call and put) buyer - the position (goals and payoff) of option contract's (call and put) seller - distinction related to underlying asset/activity: equity options (call/put) and interest rate options (cap, floor, collar) - Status of an option: in the money, at the money, out of the money <p>Taxation</p>			
<p>3.7 Foreign currency</p>	<p>Definition of foreign exchange market</p> <p>Possible quotations of exchange rates</p> <p>Foreign exchange cross rates</p> <p>Impact of foreign exchange rate fluctuations on the investment in non-euro denominated products</p>			

<p>3.8 Mutual Funds</p>	<p>Mutual Funds Overview</p> <ul style="list-style-type: none"> - Open-end mutual funds and Closed-end mutual funds - Total NAV (total fund's market value) and NAV on a per-share basis - Costs of investing in mutual funds (management fees, custody fees, purchase and redemption fees, audit and brokerage cost, TER definition and on-going expenses) and how they are charged - Main investment policies of open-end mutual funds (money market funds, equity funds, bond funds, balanced funds, flexible funds, total return funds, absolute return funds, exchange traded funds and fund of funds) - Relevant data in Key Investor Information Document - Benefits for investors of investing in mutual funds (legal entity, economies of scale, diversification, access to asset managers, highly regulated sector, liquidity) <p>Mutual Funds and their investment policy</p> <ul style="list-style-type: none"> - Mutual funds investment options and investment prohibitions/constraints (European and national regulation related to admitted and not admitted investments) <p>Analysis and Selection of Funds</p> <ul style="list-style-type: none"> - Measurement of performance from mutual fund investing: <ul style="list-style-type: none"> · single period return and multiple periods return · arithmetic mean return and geometric mean return · annualization of returns · impact of fees on returns from mutual fund investing · relative or active return or tracking error (benchmark related return analysis) - Risk measurement for mutual fund investing <ul style="list-style-type: none"> · absolute risk (standard deviation of returns) · relative risk or active risk or tracking error volatility - Measurement of risk-adjusted performance from mutual fund investing <ul style="list-style-type: none"> · Sharpe ratio · Information ratio <p>Taxation</p>			
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<p>3.9 Certificates and ETC</p>	<p>Definition of securitized derivatives</p> <p>Parties involved in certificates (seller, buyer, issuer of underlying asset)</p> <p>Main categories of certificates: certificates with total or conditioned principal protection and certificates without principal protection)</p> <p>Exchange Traded Commodities: definition of ETC and differences versus ETF, types of commodities, different strategies used by ETC for commodity investing (physical and future based)</p>			
<p>3.10 Complex products</p>	<p>Understanding the complexity features of investment products (instruments with leverage features, subordination clauses, embedded derivatives, ...)</p> <p>ESMA and national Authority definition of complex products</p>			
<p>MODULE 4 ASSESSING CLIENT NEEDS (0.5 DAYS)</p>		K	A	AP
<p>4.1 Assessing client needs</p>	<p>MiFID and ESMA regulation on “Know your customer rule”</p> <ul style="list-style-type: none"> - Set of information to collect from clients (objective versus subjective information) - The key elements for a good questionnaire - Suitability and appropriateness - Updating the questionnaire given potential changes occurring to clients - Determining client’s risk profile (risk capability and risk tolerance) in order to be able to select the proper investments portfolio 			
<p>MODULE 5 PORTFOLIO CONSTRUCTION AND SELECTION ACCORDING TO CLIENT NEEDS (1.5 DAYS)</p>		K	A	AP

<p>5.1 Analysis of markets return and risk (at single asset class level)</p>	<p>Time series analysis of financial assets:</p> <ul style="list-style-type: none"> - Interpretation of arithmetic and geometric average returns - Interpretation of returns standard deviation as a measure of risk - Comparing return and risk for different holding periods - Past performance versus future performance scenarios (the limits of predictive forecasting) 			
<p>5.2 Diversification benefit and portfolio risk</p>	<p>Time series analysis of the behavior of a couple of asset classes:</p> <ul style="list-style-type: none"> - Interpretation of covariance and correlation - Summary of relevant correlations by mean of correlation matrix - Special cases of correlation values (-1, 0, +1) <p>Portfolio return and risk:</p> <ul style="list-style-type: none"> - Determinants of portfolio return - Determinants of portfolio risk - Interpretation of return and risk for a portfolio of two risky asset classes - The benefit of diversification - The trade-off between return and risk for a portfolio 			
<p>5.3 Principle of portfolio construction</p>	<p>The process of asset allocation in a mean – standard deviation framework:</p> <ul style="list-style-type: none"> - The selection of asset classes - Inputs estimation (returns, risks, correlations/ covariances) - The logic of Mean-Variance Optimization by Markowitz - The set of efficient portfolio – the efficient frontier 			
<p>5.4 Principle of portfolio selection</p>	<p>Selection of portfolio from the efficient frontier</p> <ul style="list-style-type: none"> - Understanding risk tolerance/risk aversion of clients - Different definition of risk aversion (absolute risk aversion and relative risk aversion) 			
<p>5.5 Elements of portfolio performance evaluation</p>	<p>Portfolio performance measurement:</p> <ul style="list-style-type: none"> - Time weighted rate of return (asset manager point of view) - Money weighted rate of return (client-investor point of view) 			

<p>MODULE 6 INVESTMENT PRODUCTS FOR INSURANCE AND RETIREMENT PURPOSES (1.0 DAY)</p>		K	A	AP
<p>6.1 Life insurance products</p>	<p>Types and main features of investment-oriented life insurance products (index linked, unit linked, separate managed life insurance product)</p> <p>Parties of the contract</p> <p>Types of settlement options (fixed amount option, fixed period option and for life option)</p> <p>Taxation of life insurance products</p>			
<p>6.2. Retirement and pension system and products</p>	<p>Three pillar pension system:</p> <ul style="list-style-type: none"> - basic characteristics of the three pillar pension system - parties involved in each pillar and its role on savings for retirement <p>Retirement and pension products:</p> <ul style="list-style-type: none"> - Understand the client position in the first and second pillar system - Types of private/supplementary pensions - Contribution to private pension scheme - Benefits and disbursements from private pension scheme - Deferred compensation <p>Taxation of retirement products</p>			

MODULE 7 REGULATION AND ETHICS (1 DAY)		K	A	AP
7.1 Investment Services Regulation	<p>The list of investment services and ancillary services</p> <p>The regulation of investment services (rules of conduct according to MiFID 1 and 2)</p> <p>Specific rule for investment advice (inducements, independent and non-independent advice)</p> <p>Reporting to clients on service provided</p> <p>ESMA guidelines for the assessment of knowledge and competence</p> <p>Advisors liability.</p>			
7.2 Financial Markets Regulation	<p>The primary legislation on the functioning of secondary markets</p> <p>The market abuse regulation</p> <p>The anti-money laundering regulation</p>			
7.3 Reputational risk and ethics	<p>Sources of reputational risk for investment firms (people misconduct,...)</p> <p>Consequences of reputational risk for investment firms</p>			

