

THE CHARTERED INSURANCE INSTITUTE



J12

Securities advice and dealing

**Based on the 2013/2014 syllabus
examined until 31 August 2014**

J12 – Securities advice and dealing

Based on the 2013/2014 syllabus examined until 31 August 2014

Contents

Introduction to Examination Guide	3
J12 Syllabus	7
Specimen Examination	10
Specimen Tax Tables	23
Specimen Examination Answers and Learning Outcomes Covered	28

Published in June 2013 by:

The Chartered Insurance Institute
42-48 High Road, South Woodford, London E18 2JP
Telephone: 020 8989 8464
Fax: 020 8530 3052
Email: customer.serv@cii.co.uk

© The Chartered Insurance Institute 2013

J12 – Securities advice and dealing

Based on the 2013/2014 syllabus examined until 31 August 2014

Introduction

This examination guide has been produced by the Examinations Department at the Chartered Insurance Institute (CII) to assist students in their preparation for the J12 examination. It contains a specimen examination with answer key.

Ideally, students should have completed the majority of their studies before attempting the specimen examination. Students should allow themselves two hours to complete the examination. They should then review their performance to identify areas of weakness on which to concentrate the remainder of their study time.

Although the specimen examination in this guide is typical of a J12 examination, it should be noted that it is not possible to test every single aspect of the syllabus in any one particular examination. To prepare properly for the examination, candidates should make full use of the tuition options available and read as widely as possible to ensure that the whole syllabus has been covered. They should also endeavour to keep as up-to-date as possible with developments in the industry by reading the periodicals listed in the J12 reading list, which is located on the syllabus in this examination guide and on the CII website at www.cii.co.uk.

Background Information

CII examination questions undergo a rigorous writing and editing process before reaching an examination. The questions are written to strict guidelines by practitioners with relevant technical knowledge and experience. Questions are very carefully worded to ensure that all the information required to answer the question is provided in a clear and concise manner. They are then edited by an independent panel of experienced practitioners who have been specifically trained to ensure that questions are technically correct, clear and unambiguous. As a final check, each examination is scrutinised by the Senior Examiner and a CII assessment expert.

Occasionally a question will require amendment after the examination guide is first published. In such an event, the revised question will be published on the CII website:

- 1) Visit www.cii.co.uk/qualifications
- 2) Select the appropriate qualification
- 3) Select your unit on the right hand side of the page

Candidates should also refer here for the latest information on changes to law and practice and when they will be examined.

Syllabus

The J12 syllabus is published on the CII website at www.cii.co.uk. **Candidates should note that the examination is based on the syllabus, rather than on any particular tuition material.** Of course, the CII tuition material will provide the vast majority of the information required to perform well in the examination, but the CII recommends that students consult other reference materials to supplement their studies.

Skill Specification

The examination syllabus categorises J12 learning outcomes into attainment levels. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested.

The syllabus requires that candidates have the ability to apply, understand analyse and assess the subject matter. Each learning outcome begins with one of these cognitive skills:

Understanding - Candidates must be able to link pieces of information together in cause and effect relationships. Typically questions may ask 'Why'. Questions set on an understand learning outcome can test either knowledge or understanding or both.

Application - To answer application questions, the candidate must be able to apply his/her knowledge and/or understanding to a given set of circumstances. Typically questions may ask 'Calculate' – for example, 'Calculate liability to Income Tax'. Questions set on a be able to apply learning outcome can test knowledge and/or understanding as well as application.

Analysis - To answer questions requiring analysis, the candidate must be able to break information down into parts, identify how each piece relates to the whole, associate relevant aspects and determine courses of action. Typically questions will relate to a given set of circumstances or provide data which requires analysis so a conclusion can be drawn.

Assess - To answer questions requiring assessment, the candidate must be able to evaluate and judge information presented and reach a conclusion. Typically questions will relate to a given set of circumstances and behaviours and require the selection of the correct or best assessment.

Examination Information

The method of assessment for the J12 examination is 60 multiple choice questions (MCQs) and 3 case studies, each comprising 5 MCQs. 2 hours are allowed for this examination.

The J12 syllabus provided in this examination guide will be examined from 1 September 2013 until 31 August 2014.

Candidates will be examined on the basis of English law and practice in the tax year 2013/2014 unless otherwise stated. It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

For areas of the syllabus that are focused on taxation, the general rule is that the new tax year and changes arising from the Finance Act will be examined from 1 September each year. Other changes, not related to the Finance Act, will not be examined earlier than 3 months after they come into effect.

J12 examinations test the Financial Conduct Authority and Prudential Regulation Authority rules and regulations.

When preparing for the examination, candidates should ensure that they are aware of what typically constitutes each type of product listed in the syllabus and ascertain whether the products with which they come into contact during the normal course of their work deviate from the norm, since questions in the examination test generic product knowledge.

Extracts from tax tables will be provided at each examination, an example of which can be found in this examination guide. Candidates may find it beneficial to familiarise themselves with this information in advance of the examination. Candidates may **not** take their own tax tables into the examination.

Section A consists of 60 multiple choice questions. A multiple choice question consists of a problem followed by **four** options, labelled A, B, C and D, from which the candidate is asked to choose the correct response. Each question will contain only **one** correct or best response to the problem posed. One mark is awarded for each correct response identified by the candidate. No mark is awarded if the candidate either chooses an incorrect response, chooses more than one response or fails to choose any response. No marks are deducted for candidates choosing an incorrect response.

Section B contains three case studies each followed by five questions. **Four** options follow each question. The options are labelled A, B, C and D. Only **one** of these options will be correct or best. One mark is awarded for each correct response identified by the candidate. No mark is awarded if the candidate either chooses an incorrect response, chooses more than one response or fails to choose any response. No marks are deducted for candidates choosing an incorrect response.

If you bring a calculator into the examination room, it must be a silent battery or solar-powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.

Candidates are permitted to make rough notes. Candidates are not permitted, in any circumstances, to remove any papers relating to the examination from the examination room.

Examination Technique: Multiple Choice Questions

The best approach to multiple choice examinations is to work methodically through the questions.

The questions are worded very carefully to ensure that all the information required is presented in a concise and clear manner. It cannot be emphasised too strongly that understanding the precise meaning of the question is vital. If candidates miss a crucial point when reading the question it could result in choosing the wrong option. Candidates should read carefully through the question and all the options before attempting to answer.

Candidates should pay particular attention to any words in the question which are emphasised in bold type, for example, **maximum**, **minimum**, **main**, **most**, **normally** and **usually**. Negative wording is further emphasised by the use of capital letters, for example **NOT**, **CANNOT**.

Candidates should not spend too much time on any one question. If they cannot make up their mind, they should leave the question and come back to it later.

When all of the questions have been answered, it is prudent to use any remaining time to go through each question again, carefully, to double-check that nothing has been missed. Altering just one incorrect response to a correct response could make the difference between passing and failing.

After the Examination

Rigorous checks are made to ensure the correctness of the results issued. A pre-defined quota of passes to be awarded does not exist. If all candidates achieve a score of at least the pass mark, then all candidates will be awarded a pass grade. Individual feedback on the candidate's examination performance is automatically provided and will indicate the result achieved and, for each syllabus learning outcome, the percentage of questions in the examination that were answered correctly.

Securities advice and dealing

At the end of this unit, candidates should be able to demonstrate an understanding of:

- the features and risks of different securities;
- the structure and features of the securities market;
- relevant factors and considerations for appropriate investment recommendations.

Summary of learning outcomes	Number of questions in the examination*
1. Analyse the characteristics, features, behaviours and risks of securities and equities in the context of the market for these products.	39 standard format
2. Understand the structure, features, and regulatory and trading environment of the securities market.	9 standard format
3. Apply dealing principles and practice relevant to client investment activity.	3 standard format
4. Understand clearing, settlement and custody principles and practice relevant to client investment activity.	4 standard format
5. Assess the factors that influence market behaviour relevant to investment advice.	5 standard format
6. Apply the relevant factors and considerations to decide and implement appropriate investment recommendations.	15 standard format based on information in 3 case studies

*The test specification has an in-built element of flexibility. It is designed to be used as a guide for study and is not a statement of actual number of questions that will appear in every exam. However, the number of questions testing each learning outcome will generally be within the range plus or minus 2 of the number indicated.

Important notes

- Method of assessment: 75 questions: 60 standard format and 15 standard format questions based on case study information. 2 hours are allowed for this examination.
- This syllabus will be examined from 1 September 2013 to 31 August 2014.
- Candidates will be examined on the basis of English law and practice in the tax year 2013/2014 unless otherwise stated.
- It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.
- Candidates should refer to the CII website for the latest information on changes to law and practice and when they will be examined:
 - 1) Visit www.cii.co.uk/qualifications
 - 2) Select the appropriate qualification
 - 3) Select your unit on the right hand side of the page

1. Analyse the characteristics, features, behaviours and risks of securities and equities in the context of the market for these products.

- 1.1. Analyse the characteristics, features, behaviours and risks of securities.
- 1.2. Analyse the characteristics, features, behaviours and risks of equities.
- 1.3. Explain the characteristics, features, behaviours and risks of the main competing asset classes and investment products.

2. Understand the structure, features, and regulatory and trading environment of the securities market.

- 2.1. Describe the key features of the main trading markets.
- 2.2. Describe the role, structure and regulation of the global securities market.

3. Apply dealing principles and practice relevant to client investment activity.

- 3.1. Apply dealing principles and practice.

4. Understand clearing, settlement and custody principles and practice relevant to client investment activity.

- 4.1. Explain the principles and practices of clearing, settlement and custody.

5. Assess the factors that influence market behaviour relevant to investment advice.

- 5.1. Assess the factors that influence investment markets and the movement of individual securities.

6. Apply the relevant factors and considerations to decide and implement appropriate investment recommendations.

- 6.1. Analyse the full range of objective and subjective client information and the different investment options.
- 6.2. Recommend appropriate investment options and/or asset allocations.

Reading list

The following list provides details of various publications which may assist with your studies.

Note: The examination will test the syllabus alone. The reading list is provided for guidance only and is not in itself the subject of the examination. The publications will help candidates keep up-to-date with developments and will provide a wider coverage of syllabus topics.

CII/Personal Finance Society members can borrow most of the additional study materials below from Knowledge Services.

CII study texts can be consulted from within the library. For further information on the lending service, please go to www.cii.co.uk/knowledge.

CII study texts

Securities advice & dealing. London: CII. Study text J12.

Investment principles and risk. London: CII. Study text R02.

Additional reading

Additional reading materials are available through the library or on the Knowledge Services website.

New materials are added frequently – for information about new books and articles in your area of interest, please visit www.cii.co.uk/knowledge or email knowledge@cii.co.uk.

Books (and ebooks)

The Financial Times guide to investing: the definitive companion to investment and the financial markets. Glen Arnold. Harlow [England]: Pearson Education, 2004. Available online via www.cii.co.uk/knowledge (CII/Personal Finance Society members only).

The basics of finance: an introduction to financial markets, business finance, and portfolio management. Frank Fabozzi. London: Wiley, 2010.

Understanding commercial property investment: a guide for financial advisers. 2007 ed. Available online at www.ipf.org.uk.

Financial calculations. Sarah Dingley-Brown. Totnes, Devon: SDB Training, Annual

The theory and practice of investment management. Frank Fabozzi. London: Wiley, 2010.

The complete guide to investing in property. Liz Hodgkinson. 3rd ed. London: Kogan Page, 2008.

Reference materials

Lamont's financial glossary: the definitive plain English money and investment dictionary. Barclay W Lamont. 10th ed. London: Taxbriefs, 2009. Available online via www.cii.co.uk/knowledge (CII/Personal Finance Society members only).

Journals and magazines

Financial Adviser. London: FT Business. Weekly.
Also available online at www.ftadviser.com.

Financial Solutions. London: Personal Finance.

Society. Six issues a year. Available online via www.cii.co.uk/knowledge (CII/Personal Finance Society members only). Financial Times. London: Financial Times. Daily. Also available online at www.ft.com.

Investment Adviser. London: FT Business. Weekly.
Also available online at www.ftadviser.com.

Investors Chronicle. London: FT Business. Weekly.

Investment Week. London: Incisive Media. Weekly.
Also available at www.investmentweek.co.uk.

Money Management. London: FT Business. Monthly.
Money Marketing. London: Centaur Communications. Weekly. Also available online at www.moneymarketing.co.uk.

Further articles and technical bulletins are available at www.cii.co.uk/knowledge (CII and Personal Finance Society members only).

Examination guides

An examination guide, which includes a specimen paper, is available to purchase via www.cii.co.uk.

If you have a current study text enrolment the specimen paper is included, as a mock test, via RevisionMate (www.revisionmate.com). Details on how to access this resource are on the first page of the study text.

Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements.

SECTION A

1. An investment manager wants to purchase an Exchange Traded Fund which tracks the FTSE 100 Index, with the lowest tracking error. The established tracking method that he is **most likely** to adopt is
 - A. full replication.
 - B. optimisation.
 - C. stratified sampling.
 - D. synthetic replication.

2. An investment manager is considering the purchase of zero dividend preference shares in a split-capital investment trust. In respect of the asset coverage figure, he should be aware that it represents the
 - A. amount of current capital available to meet future financial obligations upon wind-up.
 - B. amount of dividend income required to cover income shareholders' annual payments to wind-up.
 - C. level of retained profit from the income shares that can be transferred to the zeros upon redemption.
 - D. trust's overall gearing as a percentage of its net asset value.

3. An investor holds a zero coupon Japanese Government Bond. This indicates that the bond
 - A. has a maturity of one year or less.
 - B. has been classed as inflation-indexed.
 - C. was acquired in the secondary market.
 - D. was issued prior to 1990.

4. What is the **maximum** period to redemption for newly-issued conventional dated gilts?
 - A. 30 years.
 - B. 50 years.
 - C. 75 years.
 - D. 100 years.

5. Bonds X and Y are issued by the same company with the same redemption date. Bond X is a conventional bond and bond Y has the inclusion of a put option. What may be deduced from this?
 - A. The coupon of bond X is likely to be smaller than that of bond Y.
 - B. The yield of bond Y is likely to be higher than that of bond X.
 - C. The price of bond X is likely to be identical to that of bond Y.
 - D. The yield of bond Y is likely to be lower than that of bond X.

6. An investor holds 2 fixed-interest securities. Security X has a modified duration of 4 and security Y has a modified duration of 9. If interest rates were to rise by 1%, which of these securities, if either, is **likely** to see its price change by the larger amount?
 - A. Both securities are likely to see their price rise by the same amount.
 - B. The price of security X is likely to fall more than the price of security Y.
 - C. The price of security Y is likely to fall more than the price of security X.
 - D. Both securities are likely to see their price fall by the same amount.

7. A bond which redeems in exactly 3 years' time for £100 was bought for £98.60. If it has a coupon of 4.1%, what is its simplified gross redemption yield?
 - A. 0.87%
 - B. 3.69%
 - C. 4.57%
 - D. 4.63%

8. An investor holds four corporate bonds which have the same features apart from the following:

Bond	Coupon
W	2.6%
X	2.9%
Y	3.8%
Z	3.2%

Which bond will **normally** have the longer Macaulay duration?

- A. Bond W.
 B. Bond X.
 C. Bond Y.
 D. Bond Z.
9. While holding an index-linked gilt, purchased at issue, deflation has set in. The debt holder should be aware that
- A. the initial coupon of the debt will be lowered.
 B. a level exists below which the redemption value cannot fall.
 C. only the interest received will be affected.
 D. the redemption value could be lower than the nominal value.
10. Norman has acquired some Global Depositary Receipts. He should be aware that
- A. the depositary bank is the beneficial owner of the underlying shares.
 B. the depositary bank is the registered holder for only a nominal proportion of the receipts.
 C. he is not entitled to take up any rights issues.
 D. he will not benefit from any dividend declaration.
11. Four corporate bonds received credit ratings from Moody's at issue as follows:

Bond	Rating
W	B
X	Ba
Y	Baa
Z	A

Based solely on this information, it is reasonable to deduce that

- A. bond W will have the highest coupon level.
 B. bond X will have the highest modified duration.
 C. bond Y will have the longest Macaulay duration.
 D. bond Z will have the lowest purchase price.
12. What **normally** happens to Permanent Interest Bearing Shares as a result of the demutualisation of the issuer?
- A. The coupon decreases.
 B. The coupon increases.
 C. The shares are reclassified as medium term notes.
 D. The shares are reclassified as perpetual subordinated bonds.
13. Companies X and Y have acid test ratios of 1.6 and 0.76 respectively. This means that company X is
- A. less highly-gearred in the short term than company Y.
 B. less likely to make a dividend distribution than company Y.
 C. making more net profit from each unit of sale than company Y.
 D. more likely to cover its current liabilities than company Y.

14. A machine was bought by a company for £12,000 and has a useful life of 7 years, after which its expected resale value is £1,500. The annual depreciation charge, using the straight line method, is
- A. £1,500
 - B. £1,714
 - C. £1,929
 - D. £2,571
15. A tranche of shares was traded several times without the issuer or its representatives being aware of this situation. This indicates that the shares are **likely** to be classed as
- A. B shares.
 - B. bearer shares.
 - C. deferred shares.
 - D. preference shares.
16. Robin exercised a conversion option under his convertible preference shares. What did he receive as a result?
- A. Callable bonds.
 - B. Further preference shares.
 - C. Ordinary shares.
 - D. Puttable bonds.
17. Two investment managers hold shares in the same UK company, but only one is permitted to vote. This is because
- A. the fund managers hold different classes of shares.
 - B. one fund manager brought the shares at issue.
 - C. one fund manager purchased the shares within the last 30 days.
 - D. one fund manager runs a fund that is registered outside the UK.
18. On liquidation of a company there were ordinary creditors, ordinary shareholders, corporate bondholders and redeemable preference shareholders. Who will be given the **lowest** priority ranking if funds are insufficient to satisfy all demands?
- A. Corporate bondholders.
 - B. Ordinary creditors.
 - C. Ordinary shareholders.
 - D. Redeemable preference shareholders.
19. Peter has inherited 1,000 deferred shares in a UK unlisted company. He should be aware that the shares
- A. are treated as preference shares and pay a dividend before other shares.
 - B. have no capital value.
 - C. may pay a dividend only after all other due dividends have been paid.
 - D. will never pay a dividend.
20. When considering including American Depositary Receipts (ADRs) in a portfolio, an investment manager should be aware that ADRs
- A. are only traded on the New York Stock Exchange.
 - B. are those issued outside the US.
 - C. enable non-US companies to attract US investors when they want to raise funds.
 - D. enable US shareholders to participate in all asset classes.

21. As part of her retirement planning strategy, a tranche of American Depositary Receipts (ADRs) are being held for Rachel. Which organisation will **normally** be the registered shareholder of this investment?
- A. A bank.
 - B. Rachel's employer.
 - C. The pension scheme administrators.
 - D. The sponsoring broker for the ADRs.
22. A company has trade receivables totalling £86,000 within six months. In which section of the balance sheet will this **normally** appear?
- A. Current assets.
 - B. Current liabilities.
 - C. Non-current assets.
 - D. Non-current liabilities.
23. A foreign exchange dealer buys sterling based on a GBP:USD spot price of 1.6164/1.6169. He closes the position by selling it back based on a GBP:USD spot price of 1.6246/1.6252. How much profit or loss is therefore made on this trade?
- A. A loss of 77 pips.
 - B. A loss of 88 pips.
 - C. A profit of 77 pips.
 - D. A profit of 88 pips.
24. When comparing warrants with call options, warrants are **normally**
- A. issued for longer periods.
 - B. less dilutive for the underlying company.
 - C. less tax efficient.
 - D. more tax efficient.
25. The price of a warrant is 14p, the underlying share price is 112p and the exercise price is 146p. What is the warrant conversion premium?
- A. 13.70%
 - B. 17.86%
 - C. 32.88%
 - D. 42.86%
26. Two deposit accounts pay interest at an advertised rate of 2.40% per annum. However, account X credits interest annually whereas account Y credits interest half yearly. How much extra interest will a fund manager receive after a year if she invests £1,000,000 with account Y instead of account X?
- A. £14.40
 - B. £120.00
 - C. £144.00
 - D. £240.00
27. A warrant provides an investor with
- A. an obligation to buy shares at a set price at a predetermined date in the future, or within a specified period.
 - B. an obligation to sell shares at a set price at a predetermined date in the future, or within a specified period.
 - C. the right to sell shares at a set price at a predetermined date in the future, or within a specified period.
 - D. the right to buy shares at a set price at a predetermined date in the future, or within a specified period.

28. The price of a warrant is 60p and the associated share price is 170p. The exercise price is 130p. What is the warrant's gearing ratio?
- A. 76.47%
 - B. 130.76%
 - C. 216.67%
 - D. 283.33%
29. A trader invested £10,000 in a contract for difference, trading at a 10% margin, to gain exposure to shares in a particular company. He bought the shares when they were £8 and sold when they were £10. Ignoring charges, what was the profit on this transaction?
- A. £10,000
 - B. £20,000
 - C. £25,000
 - D. £35,000
30. What type of pricing structure is used by a unit trust?
- A. Dual pricing, as this is the only method permitted by the regulations.
 - B. Mainly dual pricing, but single pricing is used on occasions.
 - C. Mainly single pricing, but dual pricing is used on occasions.
 - D. Single pricing, as this is the only method permitted by the regulations.
31. If the unit price of a particular unit trust falls by 2.5% since the last valuation, what action is the manager obliged to take?
- A. Increase the width of the bid/offer spread.
 - B. Move to forward pricing if it is currently using historic pricing.
 - C. Move to historic pricing if it is currently using forward pricing.
 - D. Reduce the width of the bid/offer spread.
32. When purchasing shares in an open-ended investment company, the price paid by the purchaser will be based upon the
- A. bid price minus any transaction charges and dilution levy.
 - B. offer price minus any transaction charges and dilution levy.
 - C. single price determined by the proceeds that would be raised were the assets sold on that day.
 - D. single price using the mid market price of the underlying investments.
33. The zero dividend preference shares of a split-capital investment trust have recently moved to a negative hurdle rate. This means that the
- A. assets can fall annually until wind-up and may yet repay investors in full at redemption.
 - B. growth rate on the assets has fallen below the asset cover rate.
 - C. internal rate of return of the zeros is less than the internal rate of return of the ordinary shares.
 - D. share price of the zeros has fallen below their net asset value.
34. A company's share price is falling significantly due to continuing poor financial results. This is **likely** to appeal to a unit trust manager who uses which investment style?
- A. Contrarian.
 - B. Merger arbitrage.
 - C. Momentum.
 - D. Passive.

35. An investment manager is investing in collective investments that adopt a Growth At A Reasonable Price investment style. He should be aware that this style
- A. aims to capitalise on the continuance of existing trends in the market.
 - B. aims to identify businesses whose value is greater than the price placed on them by the market.
 - C. is found most often in hedge fund management.
 - D. is used mainly by active growth managers.
36. Two investment trust analysts are considering the merits of a particular share. Analyst X is looking at the quality of the management team, whereas analyst Y is studying the share prices' history. This means that
- A. both analysts are using fundamental analysis methods.
 - B. both analysts are using technical analysis methods.
 - C. only analyst X is using fundamental analysis methods.
 - D. only analyst Y is using fundamental analysis methods.
37. What is the **maximum** percentage of cash, if any, which may be held in a UCITS?
- A. 5%
 - B. 10%
 - C. 25%
 - D. Unlimited.
38. Which type of derivative product is **normally** used to achieve synthetic replication under an Exchange Traded Fund?
- A. Forwards.
 - B. Futures.
 - C. Options.
 - D. Swaps.
39. For which type of product is an optimisation modelling technique **likely** to be used?
- A. Emerging markets open-ended investment company.
 - B. Ethical unit trust.
 - C. Exchange Traded Fund.
 - D. Real Estate Investment Trust.
40. An execute and eliminate sale order has been placed in the equities market. If the price stated in the order is 220p and the best price in the market is 218p, what trading action, if any, will be carried out?
- A. A full sale will be undertaken on an 'at best' basis.
 - B. No sale will be undertaken.
 - C. A pro-rata sale will be undertaken and the balance of the order cancelled.
 - D. A pro-rata sale will be undertaken and the balance of the order deferred.
41. It is 3.30pm on a business day and a market participant wishes to trade on the Stock Exchange Electronic Trading System (SETS). How much time is left on that day for the trade to take place?
- A. 30 minutes.
 - B. 60 minutes.
 - C. 90 minutes.
 - D. 120 minutes.
42. In the UK gilt market, the **key** difference between gilt-edged market makers and inter-dealer brokers is that
- A. all secondary market trading has to take place through gilt-edged market makers.
 - B. gilt-edged market makers always have to deal through the Stock Exchange Automated Quotation system.
 - C. inter-dealer brokers act as intermediaries for anonymous trades between market makers.
 - D. market makers act as agents between inter-dealer brokers.

43. When considering which trading venue to use, an investment manager should be aware that
- dark pools can be used for anonymous trading between institutional investors.
 - the London Stock Exchange is regarded as a multilateral trading facility.
 - systematic internalisers are not permitted to compete directly with stock exchanges.
 - under a multilateral trading facility, non-matched orders will always proceed to execution.
44. What type of trading **typically** occurs under a multilateral trading facility?
- Large individual values, high frequency.
 - Large individual values, low frequency.
 - Small individual values, high frequency.
 - Small individual values, low frequency.
45. A Debt Management Office gilt auction was held for £5,000,000 of £100 nominal stock. Bids were received from three Gilt-Edged Market Makers (GEMM)
- | |
|--|
| GEMM X offered to buy £3,500,000 nominal and was willing to pay £101.75. |
| GEMM Y offered to buy £1,500,000 nominal and was willing to pay £101.25. |
| GEMM Z offered to buy £3,500,000 nominal and was willing to pay £101.50. |
- Consequently, the gilts were awarded to
- GEMM X only.
 - GEMM Z only.
 - GEMMs Y and Z only.
 - GEMMs X and Z only.
46. Companies X and Y are seeking premium and standard stock market listings respectively. When considering the differences between the requirements for each company
- only company X must provide a 25% free float.
 - only company X must provide 10 years' audited financial information.
 - only company Y is permitted to show evidence of control over its assets for up to 6 months rather than 3 years.
 - only company Y may provide fewer than 3 years' audited historical financial information.
47. A financial instrument has been traded over-the-counter rather than through an exchange. This benefited the parties concerned because
- both pre and post-trade information was fully transparent.
 - the instrument should now be easily tradable in the secondary market.
 - risk of failure of the transaction could be minimised.
 - standard contract terms could be revised as negotiated by the parties concerned.
48. A company is applying for admission to the Alternative Investment Market (AIM). To satisfy AIM's rules, the company appointed an organisation to guide them on the preparation of the prospectus. In this role the organisation will be acting as the
- appointed registrar.
 - nominated adviser.
 - nominated broker.
 - secondary registrar.
49. A financial services firm reinforced its Chinese Walls procedures as part of an overhaul of its internal activities. One of the **main** reasons for taking this action was to
- dampen the potential volatility of its investment holdings.
 - improve its capital solvency position.
 - minimise the risk of any front running.
 - speed up its trade execution capabilities.

50. An investment manager has received a limit order from a client to sell a security that **CANNOT** be executed immediately. He should be aware that
- A. if no time limit is placed on the order, it will expire on the last working day of the week that it is entered.
 - B. a limit order does not have to be executed immediately and can remain displayed on the Stock Exchange Electronic Trading System (SETS) for up to 90 calendar days.
 - C. limit orders that cannot be filled are cancelled after 60 minutes.
 - D. limit orders unfulfilled at the end of the trading day are automatically converted to 'at best' orders.
51. An investment manager is seeking to gain exposure to shares in US companies. When comparing the composition of the **main** US stock market indices, he should be aware that the
- A. Dow Jones Index consists of 2,000 shares.
 - B. Dow Jones Index is a price-weighted index.
 - C. S&P 500 Index is a price-weighted index.
 - D. S&P 500 Index requires a free float of at least 75%.
52. Shares were transferred via the CREST system. At what stage in the settlement process will legal title to the shares change?
- A. Cash settlement.
 - B. Register update.
 - C. Stock settlement.
 - D. Trade matching.
53. How much Stamp Duty Reserve Tax would be levied on a transaction for £4,260 of ordinary equities?
- A. £21.00
 - B. £21.30
 - C. £22.00
 - D. £25.00
54. Under the Disclosure and Transparency Rules (DTR), an investment manager should be aware that
- A. the 3% rule applies, in aggregate, to both shares held by an individual and his spouse.
 - B. the 3% rule applies only to shares held by that individual.
 - C. only holdings accrued as a result of purchases on the London Stock Exchange need to be notified.
 - D. where total holdings exceed £10,000, all holdings must be notified.
55. A **principal** reason why a pension fund may engage in stock lending of shares with a third party would be to
- A. allow it to diversify its investments.
 - B. increase its income through the receipt of a manufactured payment from the borrower.
 - C. prevent delivery of an open derivatives position that is out of the money.
 - D. reduce its equity market exposure by substituting the stock lent for the collateral received.
56. A fund manager has acquired some price sensitive information on a company takeover from a trader. If the fund manager trades on the basis of that information, he will
- A. be guilty of insider dealing if the information is widely available in the market.
 - B. be guilty of insider dealing if the information is not widely available in the market.
 - C. not be guilty of insider dealing but the trader could be.
 - D. not be guilty of insider dealing if the company is not quoted on the London Stock Exchange.

57. When considering the share trade reporting of non-Stock Exchange Electronic Trading Systems (SETS) transactions, an investment manager should be aware that
- A. different timescales apply for the reporting of gilt-edged securities when compared with equity securities.
 - B. if the two parties to a trade are of the same seniority, the buyer should report the trade.
 - C. off-order book trades must be reported within 24 hours by the member firm to the relevant exchange.
 - D. where a trade is made between 7.15am and 8.00am on the London Stock Exchange, the latest time that it can be reported is 8.03am.
58. Three out of four investors are obliged to disclose the change in the value of their voting rights in respect of a listed company. Which investor is the **exception**?
- A. Adam, whose stake of 3.6% fell to 2.9%.
 - B. Brian, whose stake of 3.8% rose to 4.1%.
 - C. Colin, whose stake of 4.2% rose to 4.9%.
 - D. David, whose stake of 4.9% rose to 5.1%.
59. When considering the influences on the price of a quoted share, a significant degree of systematic risk was identified. This type of risk
- A. can be almost totally eliminated given sufficient liquidity.
 - B. cannot be eliminated.
 - C. is a sub-category of specific risk.
 - D. will vary primarily in line with interest rates.
60. When comparing quote-driven and order-driven markets, an investment manager should be aware that in an order-driven market
- A. the aim is to match buyers and sellers automatically.
 - B. buyers and sellers have to be manually matched.
 - C. settlement takes longer.
 - D. the spread between bid and offer prices is wider.

SECTION B

Stuart, a retail client, invested £400,000 into a portfolio 13 months ago and the first annual review meeting has just been undertaken with Louise, his investment adviser. The portfolio consists of 40 quoted UK equities and a gilt, held on an equally-weighted basis, and is managed under a discretionary investment management mandate.

Stuart's objective is to generate capital growth over the medium to long term and he has a balanced to adventurous attitude to risk. Over the first year, the portfolio has returned 12% net of all charges. Stuart is considering adding another £50,000 to the portfolio and is interested in commodities and the Alternative Investment Market (AIM).

61. Stuart's portfolio is now worth £451,000 and shares X, Y and Z in his portfolio are currently valued at £9,000, £12,000 and £11,000 respectively. In rebalancing his 41 holdings to an equally-weighted basis, Louise should make Stuart aware that
- A. share X should have its weighting reduced by 10%.
 - B. share Y should have its weighting increased by 10%.
 - C. share Z does not have to have its weighting changed.
 - D. the combined value of shares X, Y and Z will not require any further funds to rebalance.
62. When considering potential investment in commodities, Louise is **likely** to
- A. invest in Exchange Traded Commodities that can directly track the performance of a given commodity.
 - B. invest in a physical copper Exchange Traded Commodity as a hedge against a slowdown in emerging markets economies.
 - C. invest only in collective funds in order to reduce the portfolio's overall systematic risk.
 - D. purchase both oil and mining equities, as their long-term historic correlation is less than 0.1.
63. When considering the dealing costs within Stuart's portfolio, Louise should be aware that
- A. any new gilts purchased using the CREST system will be subject to Stamp Duty Reserve Tax at 0.5%.
 - B. the purchase of any overseas Exchange Traded Commodities will not be subject to Stamp Duty Reserve Tax.
 - C. market makers levy an additional liquidity charge of 1.85% on all transactions on the AIM.
 - D. if the proposed £50,000 is invested into six AIM stocks on an equally-weighted basis, the total Panel on Takeovers and Mergers levy would be £6.00.
64. When considering taxation issues relating to the portfolio, Stuart should be aware that
- A. any disposal proceeds that are re-invested into AIM shares will qualify for holdover relief for Capital Gains Tax purposes.
 - B. capital losses can be carried forward for a maximum of three tax years.
 - C. if Stuart invests in shares quoted on AIM, he could benefit from business property relief after two years.
 - D. the Value Added Tax component of the discretionary managed service costs can be offset against any Capital Gains Tax liability.
65. As part of any rebalancing consideration carried out in the review meeting, Stuart should be aware that
- A. if the scope of the discretionary management agreement is followed, it may result in no changes being made to the equity weightings.
 - B. the portfolio will only have been rebalanced if Louise had adopted a strategic asset allocation approach from inception.
 - C. rebalancing should only take place for disposals up to the value of his annual exemption for Capital Gains Tax.
 - D. the rebalancing will have automatically made provision for the introduction of £50,000 of new money into the portfolio.

Horatio, aged 67 and an additional-rate taxpayer, has no other investments apart from emergency funds of £50,000.

The following information represents a portfolio of assets purchased by Horatio one year ago:

	Corporate Bond W	Gilt X	Share Y	Share Z
Initial investment	£10,000	£10,000	£10,000	£10,000
Expected return	n/a	n/a	6%	9%
Standard deviation	n/a	n/a	3.1%	5.1%
Price at purchase	£90	£100	250p	200p
Nominal price	£100	£100	n/a	n/a
Current price	£105	£102	420p	190p
Coupon	9%	4%	n/a	n/a
Period to redemption	3 years	2 years	n/a	n/a

66. If Horatio was to sell all of his holdings in shares Y and Z now, ignoring transaction costs, how much Capital Gains Tax (CGT) would he pay, assuming his CGT annual exemption has already been used?
- £1,134
 - £1,764
 - £2,520
 - £2,835
67. Assuming a normal distribution, it can be reasonably inferred that
- at one standard deviation, both shares will have positive returns.
 - at two standard deviations, the returns for share Z cover a maximum range of 10.2%.
 - share Y will outperform share Z.
 - share Z will be less volatile than share Y in normal circumstances.
68. If the Bank of England announces further quantitative easing, what would be the **most likely** affect on Horatio's portfolio, if any, assuming all other factors remain unchanged?
- The beta value for the shares is likely to increase.
 - The corporate bond would fall in value.
 - The gilt would increase in value.
 - The portfolio's value would be unaffected.
69. If Horatio was to hold the gilt until redemption, what would be his total income over the period of ownership before taxation?
- £976
 - £1,176
 - £1,200
 - £1,400
70. Which component of Horatio's portfolio is subject to the highest level of credit risk?
- Corporate Bond W.
 - Gilt X.
 - Share Y.
 - Share Z.

Andre, aged 47, an additional-rate taxpayer, has a portfolio of investments as follows:

20,000 ordinary shares in Company X

Purchase price 7p

Current price 84p

1,000 preference shares in Company Y

Purchase price 50p

Current price 51p

£500 nominal convertible bonds in Company Z

Purchase price £500

Convertible at 20 ordinary shares per £100 nominal

Andre is considering his investments and is consulting with his financial adviser, Richard.

71. Andre has been offered the opportunity to convert his bonds in company Z to ordinary shares. If Andre goes ahead and converts those bonds, how many ordinary shares would he receive?
- A. 20
 - B. 50
 - C. 100
 - D. 500
72. If Andre were to sell his ordinary shares in company X at the current price, assuming that he has **NOT** utilised any of his Capital Gains Tax (CGT) exemption in the current tax year, how much CGT would he pay?
- A. £810
 - B. £1,260
 - C. £1,800
 - D. £2,025
73. In respect of his shares in company Y, Andre should be aware that
- A. any gains made are chargeable to Income Tax rather than Capital Gains Tax.
 - B. dividends are paid net of a 20% tax credit.
 - C. in the event of company liquidation, this share class is always repaid before any settlement of debt.
 - D. this share class may carry voting rights if specified in the company's articles of association.
74. Company Y has declared a net dividend of 18p per share. How much is Andre's total Income Tax liability for this dividend payment?
- A. £75
 - B. £81
 - C. £85
 - D. £90

75. In respect of his holding in company Z, Andre should be aware that
- A. the bonds will never carry the right to any interest payments.
 - B. he may not sell the holding prior to conversion without the permission of the company's registrar.
 - C. if he does not exercise the right to convert, then it becomes a conventional bond that repays on a fixed date.
 - D. only the bond issuer can implement the conversion option.

INCOME TAX

RATES OF TAX	2013/2014
Starting rate for savings*	10%
Basic rate	20%
Higher rate	40%
Additional rate	45%
Starting-rate limit	£2,790*
Threshold of taxable income above which higher rate applies	£32,010
Threshold of taxable income above which additional rate applies	£150,000
Child benefit charge from 7 January 2013:	
1% of benefit for every £100 of income over	£50,000

*restricted to savings income only and not available if taxable non-savings income exceeds starting rate band.

MAIN PERSONAL ALLOWANCES AND RELIEFS	
Income limit for Personal Allowance §	£100,000
Personal Allowance (basic) (if born after 5 April 1948) §	£9,440
Personal Allowance (if born between 6 April 1938 and 5 April 1948) §	£10,500
Personal Allowance (if born before 6 April 1938) §	£10,660
Married/civil partners (minimum) at 10% †	£3,040
Married/civil partners (if born before 6 April 1938) at 10%	£7,915
Income limit for age-related allowances	£26,100
Blind Person's Allowance	£2,160
Enterprise Investment Scheme relief limit on £1,000,000 max	30%
Seed Enterprise Investment relief limit on £100,000	50%
Venture Capital Trust relief limit on £200,000 max	30%
§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).	
† where at least one spouse/civil partner was born before 6 April 1935.	
Child Tax Credit (CTC)	
- Child element per child (maximum)	£2,720
- family element	£545
Threshold for tapered withdrawal of CTC	£15,910

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly	Monthly	Yearly
Lower Earnings Limit (LEL)	£109	£473	£5,668
Primary threshold	£149	£646	£7,755
Upper Accrual Point	£770	£3,337	£40,040
Upper Earnings Limit (UEL)	£797	£3,454	£41,450

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS	
	Contracted-in rate/contracted-out (money purchase)	Contracted-out rate (final salary)
Up to 149.00*	Nil	Nil
149.01 – 770.00	12%	10.6%
770.01 – 797.00	12%	12%
Above 797.00	2%	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £109 per week. This £109 to £149 band is a zero rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. Basic State Pension.*

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS		
	Contracted-in rate	Contracted-out rate	
		<i>Final salary</i>	<i>Money purchase</i>
Below 148.00**	Nil	Nil	Nil
148.01 – 770.00	13.8%	10.4%	13.8%
770.01 – 797.00	13.8%	13.8%	13.8%
Excess over 797.00	13.8%	13.8%	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £2.70 where earnings exceed £5,725 per annum.
Class 3 (voluntary)	Flat rate per week £13.55.
Class 4 (self-employed)	9% on profits between £7,755 - £41,450. 2% on profits above £41,450.

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE	ANNUAL ALLOWANCE
2006/2007	£1,500,000	£215,000
2007/2008	£1,600,000	£225,000
2008/2009	£1,650,000	£235,000
2009/2010	£1,750,000	£245,000
2010/2011	£1,800,000	£255,000
2011/2012	£1,800,000	£50,000
2012/2013	£1,500,000	£50,000
2013/2014	£1,500,000	£50,000

ANNUAL ALLOWANCE CHARGE

20% - 45% member's tax charge on the amount of total pension input in excess of the annual allowance.

LIFETIME ALLOWANCE CHARGE

55% of excess over lifetime allowance if taken as a lump sum.

25% of excess over lifetime allowance if taken in the form of income, which is subsequently taxed under PAYE.

INHERITANCE TAX

RATES OF TAX ON DEATH TRANSFERS

2013/2014

Transfers made after 5 April 2013

- | | |
|---|-----|
| - Up to £325,000 | Nil |
| - Excess over £325,000 | 40% |
| - Lifetime transfers to and from certain trusts | 20% |

**For deaths after 5 April 2013, a lower rate of 36% applies where at least 10% of deceased's net estate is left to charity.*

MAIN EXEMPTIONS

Transfers to

- | | |
|--|----------|
| - UK-domiciled spouse/civil partner | No limit |
| - non-UK-domiciled spouse/civil partner (from UK-domiciled spouse) | £325,000 |
| - UK-registered charities | No limit |

Lifetime transfers

- | | |
|------------------------------|--------|
| - Annual exemption per donor | £3,000 |
| - Small gifts exemption | £250 |

Wedding/civil partnership gifts by

- | | |
|----------------|--------|
| - parent | £5,000 |
| - grandparent | £2,500 |
| - other person | £1,000 |

100% relief: businesses, unlisted/AIM companies, certain farmland/building

50% relief: certain other business assets

Reduced tax charge on gifts within 7 years of death:

- Years before death	0-3	3-4	4-5	5-6	6-7
- Inheritance Tax payable	100%	80%	60%	40%	20%

CAR BENEFIT FOR EMPLOYEES

The charge for company car benefits is based on the carbon dioxide (CO₂) emissions. There is no reduction for high business mileage users.

For 2013/2014:

- Cars that cannot emit CO₂ have a 0% charge.
- The percentage charge is 5% of the car's list price for CO₂ emissions of 75g/km or less.
- For cars with CO₂ emissions of 76g/km to 94g/km the percentage is 10%.
- For cars with CO₂ emissions of 95g/km to 99g/km the percentage is 11%.
- Cars with CO₂ emissions of 100g/km have a percentage charge of 12% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 35% (emissions of 215g/km and above).

There is an additional 3% supplement for diesel cars not meeting Euro IV emission standards. However, the maximum charge remains 35% of the car's list price.

Car fuel The benefit is calculated as the CO₂ emissions % relevant to the car and that % applied to a set figure (£21,100 for 2013/2014) e.g. car emission 100g/km = 12% on car benefit scale. 12% of £21,100 = £2,532.

1. **Accessories** are, in most cases, included in the list price on which the benefit is calculated.
2. **List price** is reduced for capital contributions made by the employee up to £5,000.
3. **Car benefit** is reduced by the amount of employee's contributions towards running costs.
4. **Fuel scale** is reduced only if the employee makes good **all** the fuel used for private journeys.
5. **All car and fuel benefits** are subject to employers National Insurance Contributions (Class 1A) of 13.8%.

PRIVATE VEHICLES USED FOR WORK

2013/2014 Rates

Cars

On the first 10,000 business miles in tax year 45p per mile
 Each business mile above 10,000 business miles 25p per mile

Motor Cycles 24p per mile

Bicycles 20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

2013/2014

Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£250,000
Plant & machinery (reducing balance) per annum	18%
Patent rights & know-how (reducing balance) per annum	25%
Certain long-life assets, integral features of buildings (reducing balance) per annum	8%
Energy & water-efficient equipment	100%
Zero emission goods vehicles (new)	100%
Qualifying flat conversions, business premises & renovations	100%

Motor cars: Expenditure on or after 1 April 2013 (Corporation Tax) or 6 April 2013 (Income Tax)

CO ₂ emissions of g/km:	95 or less*	96-130	131 or more
Capital allowance:	100%	18%	8%
	first year	reducing balance	reducing balance

*If new

Research & Development:	Capital expenditure	100%
-------------------------	---------------------	------

MAIN SOCIAL SECURITY BENEFITS

2013/2014

		£
Child Benefit	First child	20.30
	Subsequent children	13.40
	Guardian's allowance	15.90
Employment and Support Allowance	Assessment Phase	
	Age 16 – 24	Up to 56.80
	Aged 25 or over	Up to 71.70
	Main Phase	
	Work Related Activity Group	Up to 100.15
	Support Group	Up to 106.50
Attendance Allowance	Lower rate	53.00
	Higher rate	79.15
Retirement Pension	Single	110.15
	Married	176.15
Pension Credit	Single person standard minimum guarantee	145.40
	Married couple standard minimum guarantee	222.05
	Maximum savings ignored in calculating income	10,000.00
Bereavement Payment (lump sum)		2,000.00
Widowed Parent's allowance		108.30
Jobseekers Allowance	Age 16 - 24	56.80
	Age 25 or over	71.70
Statutory Maternity, Paternity and Adoption Pay		136.78

CAPITAL GAINS TAX

EXEMPTIONS

2013/2014

Individuals, estates etc	£10,900
Trusts generally	£5,450
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000

TAX RATES

Individuals:	
Up to basic rate limit	18%
Above basic rate limit	28%

Trustees and Personal Representatives	28%
---------------------------------------	-----

Entrepreneurs' Relief* – Gains taxed at:	10%
Lifetime limit	£10,000,000

*For trading businesses and companies (minimum 5% employee or director shareholding) held for at least one year.

CORPORATION TAX

2013/2014

Full rate	23%
Small companies rate	20%
Small companies limit	£300,000
Effective marginal rate	23.75%
Upper marginal limit	£1,500,000

VALUE ADDED TAX

2013/2014

Standard rate	20%
Annual registration threshold	£79,000
Deregistration threshold	£77,000

Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
STANDARD FORMAT						SCENARIO FORMAT		
Learning Outcome 1			Learning Outcome 2			Learning Outcome 6		
1	A	1.3	40	B	2.1	61	C	6.1
2	A	1.3	41	B	2.1	62	A	6.2
3	A	1.1	42	C	2.1	63	B	6.2
4	B	1.1	43	A	2.1	64	C	6.2
5	D	1.1	44	C	2.1	65	A	6.2
6	C	1.1	45	D	2.1	66	B	6.1
7	D	1.1	46	D	2.2	67	A	6.1
8	A	1.1	47	D	2.2	68	C	6.1
9	D	1.1	48	B	2.2	69	C	6.2
10	C	1.2	9 Questions			70	A	6.1
11	A	1.1				71	C	6.1
12	D	1.1	Learning Outcome 3			72	B	6.1
13	D	1.1	49	C	3.1	73	D	6.1
14	A	1.1	50	B	3.1	74	A	6.1
15	B	1.2	51	B	3.1	75	C	6.1
16	C	1.2	3 Questions			15 Questions		
17	A	1.2						
18	C	1.2	Learning Outcome 4					
19	C	1.2	52	B	4.1			
20	C	1.2	53	B	4.1			
21	A	1.2	54	A	4.1			
22	A	1.2	55	B	4.1			
23	C	1.3	4 Questions					
24	A	1.3						
25	D	1.3	Learning Outcome 5					
26	C	1.3	56	B	5.1			
27	D	1.3	57	D	5.1			
28	D	1.3	58	C	5.1			
29	C	1.3	59	B	5.1			
30	B	1.3	60	A	5.1			
31	B	1.3	5 Questions					
32	D	1.3						
33	A	1.3						
34	A	1.3						
35	D	1.3						
36	C	1.3						
37	D	1.3						
38	D	1.3						
39	C	1.3						
39 Questions								